



**FOR OFFICIAL USE ONLY**

**COMMERCIAL AUDIT MANUAL**

**PART II**

**OFFICE OF THE DIRECTOR GENERAL OF COMMERCIAL AUDIT  
AND EX-OFFICIO MEMBER AUDIT BOARD-I,**

**MUMBAI**

**(Finance Sector - Other than Insurance)**

**2019**

## PREFACE

The first edition of the Commercial Audit Manual/procedure dealing with general principles to be followed in the audit of Government Companies under the audit jurisdiction of this Office was issued in December 1987. It contained information about 12 Companies. A second volume of the Manual was issued in November 1989 incorporating information pertaining to 7 more Companies. Since then, reorganizations have taken place several times and a complete revision and updating of the Manual was carried out in 1999. Subsequently, Manual was updated in the year 2004 covering 40 Auditee Units. The present updation has been done to incorporate the changes occurred thereafter, covering 72 Companies/Bodies.

In the meanwhile, the transaction audit was substituted by compliance audit and theme audits utilising computerized environment and audit tools to identify specific set of data for selection and scrutiny.

This Office is the lead Auditor for a wide spectrum of Government Companies including deemed Government Companies and Autonomous Bodies, covering diverse sectors such as Insurance, Finance including Securities and Capital Markets, Regulatory Bodies of Securities Markets like Securities and Exchange Board of India (SEBI), Other Autonomous Bodies like National Export Insurance Accounts Trust, Stressed Assets Stabilization Fund and Khadi & Village Industries Commission, besides Metro Railways Companies. In addition, this Office is also a lead Auditor for Port and Shipping Companies, Port Trusts, Textile Companies etc. This Office thus audits a total of 107 Companies/Bodies as the Principal Auditor.

To continue to tread on the path of progress an endeavour is made to revise the existing audit manual for Finance Companies (Other than Insurance) to synchronize with the environmental and the Regulatory changes. The objective of this audit manual for Finance Companies is to provide an overview of the Financial and Capital Markets functioning in the new environment, including *inter alia*, Mutual Funds Asset Management Companies and Trustees, Debenture Trustees, Credit Rating Agencies, Asset Reconstruction Companies, Primary Dealers, Factors, Depository Participants Companies, Merchant Bankers, Alternative Investment Funds, Micro Finance Institutions, Non-Banking Finance Companies, Capital Markets and Securities Market Companies, Pension Funds etc and identify key areas for audit and provide a checklist of items for review during such audits.

The first part of the revised Commercial Audit Manual in respect of Insurance Companies (Life and Non Life Insurance) has been finalized on 31 May 2019

The present Manual is the second part of the Commercial Audit Manual for Finance Sector Companies, Securities Market Regulatory Authority SEBI, and Autonomous Bodies NEIA Trust and Stressed Assets Stabilization Fund. This Part of Manual contains 72 Companies/Bodies divided into 17 Chapters. Every effort is made to include essential information needed for conducting audit but this Manual is not intended to be a substitute for any textbook or manual or literature published on financial and capital markets. The manual has been prepared based on the data for the year 31 March 2018 as the approved audited accounts for the year ended 31 March 2019 are not yet fully available.

The checks suggested in this manual are indicative in nature and not exhaustive. The user of this manual may exercise adequate care to comply with all the instructions issued by the office from time to time. Due care and diligence may be exercised while conducting audit and reporting.

(Roop Rashi)  
Director General of Commercial Audit &  
*ex-officio* Member Audit Board-I, Mumbai.

30 September 2019.

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## **Audit Mandate of the Comptroller & Auditor General of India**

### **Introduction**

The audits conducted can generally be categorised into one or more of the three main types – Financial audits, Compliance audits and Performance audits and are explained below:

**1. Financial Audit** Financial Audit focuses on determining whether an entity's financial information is presented in accordance with the applicable financial reporting and regulatory framework. This is accomplished by obtaining sufficient and appropriate audit evidence to enable the auditor to express an opinion as to whether the financial information is free from material misstatement due to fraud or error.

In respect of **Government Companies (Audit u/s 19 (1) of the C& AG DPC Act 1971)**, the Statutory Auditor appointed by the Comptroller & Auditor General of India under Section 139 (5) of the Companies Act 2013 is responsible for expressing an opinion on the financial statements. **The Comptroller & Auditor General conducts a supplementary audit under Section 143 (6) (a) of the Companies Act 2013, of the Financial Statements of the Company and shall comment upon or supplement such report within sixty days from the date of receipt of audit report.** The significant and material observations made in the supplementary audit shall be issued as Comments of the Comptroller & Auditor General under the Companies Act 2013, after due consideration of the views, if any, of the statutory auditor and the Management of the Company.

In respect of **Audit of Accounts of the Corporations** (not being Companies) established by or under law made by the Parliament (or the State Legislature), where C&AG is the statutory auditors, CAG issues a **Separate Audit Report** containing the comments of the Comptroller & Auditor General on the accounting treatment only with regard to classification, conformity with the best accounting practices, accounting standards, disclosure norms etc. Audit observations on financial transactions with regard to compliance with the Law, Rules and Regulations (Propriety and Regularity) and efficiency cum performance aspects etc, if any, are reported through Inspection Reports/CAG's Audit Reports separately.

The audit observations, which are not brought out in the Separate Audit Report, are brought to the notice of the Management by way of Management Letter for remedial action and corrective action to plug the deficiencies.

The Certification/Accounts Audit is conducted by the C & AG in accordance with CAG's Auditing Standards, 2017, and also in accordance with Generally Accounting Standards/Auditing Standards issued by the Institute of Chartered Accountants of India/Indian Accounting Standards as applicable, as notified under the provisions of Companies Act 2013 and the Companies (Audit and Accounts) Rules, as amended from time to time. Hqrs has prescribed the checklist for Accounting Standards (vide Hqrs letter no. 153-CA-IV/74-2006 dated 14 March 2007) and Ind AS (vide Hqrs letter no. CA-II/Trng/Ind AS/05-2016/Vol.IV/38 dated 27 May 2019), which are also used during the course of certification audit.

Hqrs revised (January 2011) the criteria for selection of CPSU for supplementary audit of annual accounts whereby all companies with turnover of Rs.5000 crore or more or with paid



capital of Rs.500 crore are to be compulsorily selected each year and other CPSUs to be taken up at least once in five years. However, this office selects these accounts once in three years.

In order to complete the certification of accounts of the companies within 60 days from the date of receipt of audited accounts as provided under Companies Act 2013, in the month of February every year, D.O. letters are issued by Director General to the Chief Executive Officers of each of the auditee Companies under the audit jurisdiction of this Office, containing proposed time schedule for submission of Company's audited financial statements along with statutory auditors' report, so as to plan and manage the limited human resources of this office for effective deployment in the financial attest audit and to ensure adherence to timeline.

**2. Compliance Audit** Compliance Audit which includes thematic audits<sup>1</sup> focuses on whether a particular subject matter is in compliance with the criteria. Compliance auditing is performed by assessing whether activities, financial transactions and information are, in all material aspects, in compliance with the applicable authorities which include the Constitution, Acts, Laws, rules and regulations, budgetary resolutions, policy, contracts, agreements, established codes, sanctions, supply orders, agreed terms or the general principles governing sound public sector financial management and the conduct of public officials. Compliance Audit is conducted in accordance with CAG's Compliance Audit Guidelines of 2016 and Regulations on Audit and Accounts, 2007. The quantum of Contracts to be audited, Audit Design Matrix and Check List for Audit of Contracts, as prescribed by Head Quarters, are given in the Annexure-1.

**3. Performance Audit** Performance Audit is an independent, objective and reliable examination on whether government undertakings, programmes, systems, activities or organizations are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement. Performance is examined against suitable criteria, as accepted also by the Entity and the causes of deviations from those criteria or other problems are analysed. The aim is to answer key audit questions and to provide recommendations for improvement. Performance Audit is conducted in accordance with CAG's Performance Audit Guidelines, 2014.

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<sup>1</sup>This is the terminology which is being used for audits which may have both compliance and performance audit objectives. The objectives of such audits are to focus on a particular audit objective across sectors or audited entities.

## CHAPTER I

### FINANCE- REGULATORY and AUTONOMOUS Bodies

#### 1.1 SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI)

##### 1.1.1 Introduction

The Securities and Exchange Board of India (SEBI) was constituted on April 12, 1988 by Government of India through an executive resolution, as an interim administrative body under the overall administrative control of the Ministry of Finance (MoF), by a notification published in the Gazette of India Extraordinary. The objective of establishing SEBI was investor protection and promotion of the orderly and healthy growth of the securities market. SEBI was accorded statutory status and was upgraded as a fully autonomous body, a statutory Board, with the passing of the Securities and Exchange Board of India Act 1992 effective from 30<sup>th</sup> January 1992. SEBI was thus formally established on 12 April 1992 in accordance with the provisions of the SEBI Act, 1992. The Preamble of the Securities and Exchange Board of India describes its basic functions as “to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected therewith or incidental thereto”.

The Head office of the Board is located at SEBI Bhavan, Bandra Kurla Complex (BKC), Mumbai. SEBI has four regional offices which are located at New Delhi, Kolkata, Chennai and Ahmedabad. Further, there are 16 local offices of the Board at Bangalore, Guwahati, Jaipur, Chandigarh, Indore, Patna, Bhubaneswar, Hyderabad, Lucknow, Cochin, Raipur, Shimla, Dehradun, Panaji, Jammu and Vijayawada.

##### 1.1.2 Objectives

The primary objectives of the Board are as follows:

1. To protect the interest of investors, so that, there is a steady flow of savings into the capital market.
2. To regulate the securities market and ensure fair practices.
3. To promote efficient services by brokers, merchant bankers and other intermediaries, so that they become competitive and professional

The policies and programmes of SEBI are categorized under eight major heads such as Primary Securities Market, Secondary Securities Market, Commodity Derivatives Market, Mutual Funds, Intermediaries associated with the Securities Market, Foreign Portfolio Investors, Corporate Debt Market and Other Policies and Programmes. All of these have a bearing on the working of the securities market

### 1.1.3 Activities

#### 1.1.3.1 Major Functions

The major functions of SEBI can be classified into Developmental and Regulatory functions .

**Developmental Functions:** The developmental functions include promotion of investor's education, training of intermediaries, conducting research and publishing information useful to all market participants, promotion of fair practices and promotion of self-regulatory organizations .

**Regulatory Functions:** The regulatory functions of the Board include *inter-alia* regulation of stock exchange and self-regulatory organizations, registration and regulation of stock brokers, sub-brokers, registrars to all issues, merchant bankers, underwriters, portfolio managers etc., registration and regulation of collective investment schemes including Mutual Funds, prohibition of fraudulent and unfair trade practices relating to securities market, prohibition of insider trading and regulation of substantial acquisition of shares and takeover of companies.

The main activities of SEBI included *inter-alia*, enhancing investor trust by strengthening governance norms, maintaining market integrity through effective supervision and enforcement actions, promoting ease of doing business and financial education, developing the commodity derivatives market by strengthening risk management norms and introducing the framework for options and framework for the operationalization of the International Financial Services Centre (IFSC)

#### 1.1.4 Departments

The following nineteenth departments operate in SEBI

1) Market Intermediaries Regulation and Supervision Department (MIRSD)	11) Human Resources Department (HRD)
2) Investment Management Department (IMD)	12) Investigations Department (IVD)
3) Legal Affairs Department (LAD)	13) Office of Investor Assistance & Education (OIAE)
4) Department of Economic & Policy Analysis (DEPA)	14) Information Technology Department (ITD)
5) Commodity Derivatives Market Regulation Department (CDMRD)	15) Corporation Finance Department (CFD)
6) Integrated Surveillance Department (ISD)	16) Enforcement Department-1 and Enforcement Department-2
7) Enquiries & Adjudication Department (EAD)	17) General Services Department (GSD)

8) Office of The Chairman (OCH)	18) Market Regulation Department (MRD)
9) Department of Debt & Hybrid Securities (DDHS)	19) Regional Offices (ROs)
10) Office of International Affairs (OIA)	

The activities and functions of various Departments are described below

#### **1.1.4.1 Market Intermediaries Regulation and Supervision Department (MIRSD):**

The Market Intermediaries Regulation and Supervision Department is responsible for the registration, supervision, compliance monitoring and inspections of all market intermediaries in respect of all segments of the markets viz. equity, equity derivatives, currency derivatives, debt and debt related derivatives and commodity derivative. The Department also handles the work related to registration, supervision, compliance monitoring, inspections, investor grievances and policy related issues as well as fees of various intermediaries. The Department also handles the work related to action against the intermediaries for regulatory violations. Recently, MIRSD has started to monitor intermediaries based on risk-based supervision. The new supervisory approach is based upon overall risk assessment of the intermediary rather than on individual factors such as turnover, complaints, penalties, etc. MIRSD handles the following intermediaries –

Registered Stock Brokers in (i) in equity segment, (ii) in Equity Derivative Segment (iii) in Currency Derivative Segment, (iv) Interest Rate Derivative Segment (v) in Debt Segment, and (vi) in Commodity Derivative Segment and the intermediaries viz. i) Banker to an Issue, ii) Credit Rating Agency, iii) Debentures Trustee, iv) Designated Depository Participant, v) KYC - Know Your Client Registration Agency registered with SEBI, vi) Merchant Bankers, vii) Registrars to an issue and share Transfer Agents, viii) Registered Sub-Brokers in equity segment and ix) Underwriters.

#### **1.1.4.2 Investment Management Department (IMD):**

The Investment Management Department is responsible for registering and regulating mutual funds, venture capital funds, foreign venture capital investors, and collective investment schemes, including plantation schemes, Foreign Institutional Investors, Portfolio Managers and Custodians. The following Divisions perform the functions of the Department:

- Division of Funds (Portfolio Managers, Venture Capital, Alternative Investment Funds, etc.), Mutual Funds (Policy and Inspections), Mutual Funds (Registration of Mutual Fund, Operations and Investor complaints)
- Division of Foreign Portfolio Investors and Custodians
- Division of Collective Investment Schemes
- Investor Complaints Cell

#### **1.1.4.3 Legal Affairs Department (LAD):**

The Department of Legal Affairs is responsible to provide legal counsel to the Board and to its other departments, and to handle non-enforcement litigation. The following Divisions handle the functions of the Department.

- Divisions of Policy- General
- Division of Policy and Regulatory Affairs for Commodity Derivatives.
- Division of Regulatory Assistance - General
- Division of Regulatory Assistance for Commodity Derivatives

#### **1.1.4.4 Department Economic and Policy Analysis (DEPA):**

The Department handles its functions through the following Divisions

- Statistics Division
- Publication Division
- Regulatory Research Division
- History Cell
- Policy Research Division
- Systematic Stability Unit
- Division of Commodity Research – Agriculture and Non Agriculture

#### **1.1.4.5 Commodity Derivatives Market Regulation Department (CDMRD):**

The Commodity Derivatives Market Regulation Department is responsible for supervising the functioning and operations of Commodity Derivative exchanges.

The division performs following functions:

- Division of Market Policy.
- Division of Exchange Administration.
- Division of Exchange Inspection.
- Division of Risk Management and Products.
- Division of Complaints against Exchanges.

#### **1.1.4.6 Integrated Surveillance Department (ISD):**

The Integrated Surveillance Department is responsible for market surveillance of all segments of Securities market.

#### **1.1.4.7 Enquiries and Adjudication Department (EAD):**

The Enquiries and Adjudication Department is handling quasi-judicial matters and provide timely hearings and initiates adjudication brought by the other Departments against alleged violators who are within SEBI's disciplinary jurisdiction

#### **1.1.4.8 Office of the Chairman :**

The Office of the Chairman consists *inter alia* of the following two sub-Departments:

- i) Communication Division, and
- ii) Office of the Executive Assistant to the Chairman.

The Communications Division is responsible for all the communications of SEBI. These include Media releases and other forms of communication including the publication of SEBI Materials, and also includes News Conferences and responding to inquiries from the press.

The Office of the Executive Assistant to Chairman is responsible to provide such administrative and other support as the Chairman may require. The functions would include strategic planning and managing new initiatives.

#### **1.1.4.9 Department of Debt and Hybrid Securities (DDHS):**

The Department of Debt and Hybrid Securities is responsible for matters related to Corporate Bonds, listed debt securities, Real Estate Investment Trust, Infrastructure Investment Trust, deemed public issues of debt securities and complaints in respect of aforementioned areas of work. The following Divisions perform the functions of the Department

- Primary Issuance and Policy
- Post Issuance, Compliance and Monitoring

#### **1.1.4.10 Office of International Affairs (OIA):**

SEBI has emerged as a key member of international standard setting bodies and global forums, where it is making effective contribution to their ongoing work programs. With the ever-evolving and dynamic nature of capital markets, it is important to be abreast of global developments while introducing and implementing regulatory measures domestically. The Office of International Affairs (OIA), in pursuit of SEBI's regulatory objectives, is responsible for engaging with a range of foreign regulators, standard setting bodies and law enforcement agencies to promote international regulatory and enforcement cooperation. OIA's roles and responsibilities broadly include:

- Regulation of securities markets by engaging with international setting bodies and contributing to rule making
- Investor protection by cooperating with foreign regulators on enforcement matters
- Capacity Building by developing and imparting technical assistance programs
- OIA's expertise in international market practices, regulations and ongoing international regulatory issues supports SEBI with advice and assistance in international enforcement and regulatory matters.

#### **1.1.4.11 Human Resources Department (HRD):**

The Human Resources Division performs all the functions in its role as the principal personnel and human resources authority in SEBI.

#### **1.1.4.12 Investigations Department (IVD):**

The Investigations Department is responsible for:

- Conducting investigations on potentially illegal market activities.
- Providing referrals to the enforcement department.
- Assisting the enforcement department in enforcing SEBI action against violators.

As regards action, the current practice of issuing show cause notices, appointment of Enquiry / Adjudication officers and consequential action up to serving of Chairman's order and maintenance of database is with the Department.

#### **1.1.4.13 Office of Investor Assistance and Education (OIAE):**

The Office supports SEBI's operations by handling investor complaints centrally and be the focal point of SEBI's investor education effort. The Office would be the single point interface with investors and would receive complaints relating to all departments, forward to the concerned departments, follow up and respond to investors. The office shall set up necessary systems and procedures to handle his function.

The Office also receives complaints relating to issues, transfer of shares, dividends, compliance with listing conditions, corporate governance issues under the purview of the Corporation Finance department (Division of Issues and Listing) and takes follow up action.

#### **1.1.4.14 Information Technology Department (ITD):**

This Department functions as the technical support group for SEBI.

#### **1.1.4.15 Corporation Finance Department (CFD):**

The Corporation Finance Department deals with matters relating to

- Issuance and listing of securities, including initial and continuous listing requirements
- Scheme of arrangements involving merger /demerger, amalgamation, reduction in capital
- Corporate governance and accounting/auditing standards
- Corporate restructuring through Takeovers /buy backs
- Delisting, etc.

#### **1.1.4.16 Enforcement Department - (EFD)**

There are two Enforcement Departments;

- Enforcement Department - 1
- Enforcement Department - 2

Enforcement Department -1 (EFD-1) comprises of the following three divisions:

- Division of Regulatory Action:

This Division enforces action against market misdemeanors through SEBI administrative proceedings. The role of the Division shall commence from the time the

hearing before Chairman/Board is proposed. The Division assists the Chairman/Board in its proceedings, prepares the Orders, handles all matters relating to Securities Appellate Tribunal (SAT), appeals against SAT Orders and Court cases relating to Regulatory action. The Division also frames the procedures relating to the above matters.

- File and Database Management Division
- Recovery Divisions

Enforcement Department - 2 (EFD-2) is responsible for handling Appeals against SEBI orders filed before the Honorable Securities Appellate Tribunal (SAT), Appeals filed against the SAT order in the Honorable Supreme Court, Criminal Complaints filed by SEBI in appropriate Courts and Settlement Proceedings. EFD-2 Comprises of three divisions, namely

- SAT Litigation Division
- Prosecution Division
- Settlement Division

#### **1.1.4.17 General Services Department (GSD)**

This department supports all the internal operations of SEBI. The Department is having the following divisions

- Treasury and Accounts Division
- Facilities Management Division
- Official Language Division
- Office of the Secretary to the Board
- Protocol and Security Division

#### **1.1.4.18 Market Regulation Department (MRD)**

The Market Regulation Department (MRD) is responsible for formulation of policy and supervision of functioning and operations of Market Infrastructure Institutions (MIIs) such as, Stock Exchanges, Depositories and Clearing Corporations. MRD consists of the following divisions

- Division of Policy (DoP)
- Division of SRO Administration (DSA)
- Division of Risk Management and New Products (DRMNP)
- Division of Market supervision (DMS)
- Investor Complaints Cell (ICC)

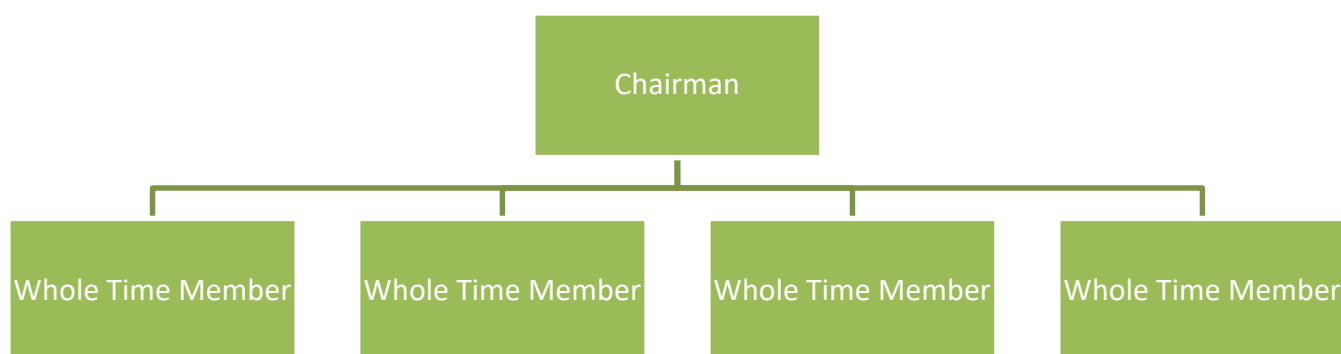
### **1.1.5 Regional Offices**



The Regional Offices handle work as per existing delegation and continue to report to functional heads for specific departmental functions while reporting administratively to SEBI Executive Directors.

### **1.1.6 Organizational Set up**

The Board is headed by a Chairman, who is supported by four Whole Time Members. The Chairman supervises the Communications Division, Vigilance cell and Internal Inspection Department. Each Whole Time Member is responsible for a host of departments and is assisted by the Executive Directors and the Heads of the respective departments .



### **1.1.7 Capital Structure**

SEBI had received Rs 2.5 crore each from Industrial Development Bank of India (IDBI), Industrial Credit and Investment Corporation of India (ICICI) and Industrial Financial Corporation of India (IFCI) towards initial corpus while setting up of SEBI. The amount so received from the said Institutions was shown as ‘Corpus Fund’. However, in view of CAG Observation, the SEBI Board in its Meeting held on 28 March 2018 approved the proposal to transfer the amount of Rs 7.5 crore lying in Corpus Fund to General Fund.

As on 31.03.2018, SEBI had General Fund amounting to Rs 3606.24 crore and Earmarked Fund of Rs 131.80 crore. The Earmarked Fund consists of Investor Education and Protection Fund amounting to Rs 121.30 crore and Disgorgement Fund amounting to Rs 10.50 crore. Income of SEBI consists of various types of Regulatory Fees levied by SEBI, Income from Investments, Interest Earned and Other Income (Profit on Sale of Assets, Rent received, miscellaneous income etc).

Recurring fees are fees received on annual/3-yearly/5-yearly basis (includes Fee/ Service Fee/ annual fee/ Listing Fees from exchanges/ Regulatory Fees from stock exchanges).

Non-recurring fees are Fees received on one time basis. The same includes fee for Offer Documents Filed/ Registration Fee/Application Fee/ Takeover Fees/ Informal Guidance Scheme/ FII Registration and FII Sub –Accounts Registration.

Stock brokers and sub-brokers fee includes annual fees and turnover fees. Stock brokers and derivatives fees are of recurring nature and depend on the trading turnover of the stock brokers and members of derivatives segment.

SEBI was not in receipt of any Government Grants as on 31.03.2018.

### 1.1.8 Budget and Planning

Under the provisions of Section 14 of the SEBI Act 1992, there shall be constituted a Fund to be called the Securities and Exchange Board of India General Fund and there shall be credited thereto

- a) All the Grants, Fees and charges received by the Board under the SEBI Act
- b) All sums received by the Board from such other sources as may be decided upon by the Central Government.

Under Section 14 (2) of the SEBI Act 1992, the Fund shall be applied for meeting-

- a) The salaries, allowances and other remuneration of the members, officers and other employees of the Board
- b) The expenses of the Board in the discharge of its functions u/s 11 of the SEBI Act 1992
- c) The expenses on objects and for purposes authorized by the Act

The following table indicates the revenue and expenditure of SEBI during the period 2015-16 to 2017-18

(Rs. in crore)

Sl. No.	Particulars	2015-16		2016-17		2017-18	
		Budget	Actual	Budget	Actual	Budget	Actual
1	Income from Fees /Subscriptions	349.86	391.15	444.38	518.75	575.09	624.44
2	Income from Investments	172.00	203.19	167.14	226.22	204.31	220.45
3	Miscellaneous Income	14.88	7.33	30.17	7.51	15.34	9.88
4	<b>Total Income</b>	<b>536.00</b>	<b>601.67</b>	<b>641.69</b>	<b>752.22</b>	<b>794.74</b>	<b>854.77</b>
5	Establishment Expenses	254.81	264.00	252.37	252.98	251.61	243.67
6	Other Administrative Expenses	102.58	77.79	111.48	103.16	142.86	121.43
7	Depreciation	0.00	31.84	0.00	31.23	0.00	49.36
8	<b>Total Revenue Expenditure</b>	<b>357.39</b>	<b>373.88</b>	<b>363.85</b>	<b>387.11</b>	<b>394.47</b>	<b>414.46</b>
9	<b>Surplus/(-deficit) on Revenue Account (4-8)</b>	<b>179.35</b>	<b>227.79</b>	<b>277.84</b>	<b>365.11</b>	<b>400.27</b>	<b>440.31</b>
10	Capital Expenditure	170.17	85.46	167.04	38.11	219.48	250.45

### **1.1.9 Accounting System**

The Financial Statements of SEBI are prepared under historical cost convention on Accrual basis, in accordance with the applicable Accounting Standards issued by the Institute of Chartered Accountants of India and generally accepted Accounting Principles.

### **1.1.10 Manpower Analysis**

As on March 31, 2018 SEBI had 794 employees (including employees on Deputation/Contract) in various grades comprising of 698 officers (Grades A,B,C,D,E,F and Executive Director and 96 non officers cadre. Of these 103 staff (around 14 *percent*) in various grades were posted in the regional/ local offices of SEBI in different States.

### **1.1.11 MOU Targets and Achievements**

Not Applicable since SEBI is a Statutory Regulatory Body established under an Act of Parliament.

### **1.1.12 Computerization**

A new Enterprise SEBI Portal (SHARE) is being implemented in SEBI to digitally transform the organization. The main components of the SHARE Portal that were implemented during the year 2016-17 are :

- a. Electronic workflows pertaining to registration, litigation cases, employee reimbursements etc. and maintaining relevant audit trails.
- b. Customization and integration of the Enterprise Resource Planning (ERP) suite including HRMS, finance, budget, reimbursements, procurements and employee self-service.
- c. Collaboration tools like connections, open meetings and survey forms on the SHARE Portal to provide a platform for SEBI employees for collaboration and knowledge management. E-registration of Merchant Bankers, Underwriters, Registrars and Share Transfer Agents, Debenture Trustees, Bankers to the issues, Investment Advisors and Research Analysts was initiated on SHARE Portal to accept applications for registration in electronic form and also to provide post registration activities digitally.
- d. E-payment of fees from intermediaries to SEBI's account through NEFT and RTGS.
- e. Submitting of periodic compliance reports electronically for the above mentioned intermediaries.

To further improve connectivity with local offices, all local offices were connected with the SEBI network through MPLS links.

The following steps are also being taken in IT/ERP with a view of further strengthen the IT/ERP systems in SEBI

- a. Implementing e-registration for all the remaining intermediaries such as Broker, Sub-Broker, Credit Rating Agencies, Depositories, Depository Participants, Clearing Corporation, Stock Exchanges, Alternative Investment Funds, Venture Capital Funds, Foreign Venture Capital Funds, Mutual Funds, Foreign Portfolio Investors and Custodians of Securities etc.
- b. Implementation of the Case Management System for end-to-end management and tracking of all cases in SEBI right from inception till the closure of a case.
- c. Integration of SEBI's Complaint Redressal System (SCORES) along with its mobile app. with SEBI work flow for speedy resolution and tracking of investor complaints.
- d. Implementation of the Security Operations Centre and the Network Operations Centre to safeguard SEBI's IT.

The main components of the SHARE Portal that were implemented during the year were a. Electronic workflows pertaining to registration, litigation cases, employee reimbursements etc. and maintaining relevant audit trails. b. Customization and integration of the Enterprise Resource Planning (ERP) suite including HRMS, finance, budget, reimbursements, procurements and employee self-service.

During 2017-18, SEBI has implemented SHARE Portal (Shared Hub for all resources) to digitally transform the organization. The main components of SHARE Portal that were implemented during 2017-18 were:

- a. SEBI's Complaint Redressal System (SCORES), which enables market intermediaries and listed companies to receive complaints online from investors, redress such complaints and report redressal online.
- b. E-Registration- Online Registration of intermediaries is initiated on SHARE Portal to accept applications for registration in electronic form and also to provide post registration activities digitally.
- c. Electronic workflows – An online system for filings related to public issues, rights issues, institutional placement programmes/schemes of arrangements, takeovers and buybacks was implemented.
- d. Case Management System- Electronic workflow with information pertaining to investigation, enforcement, litigation, adjudication etc with relevant audit trails.
- e. Enterprise Resource Planning (ERP) – Customisation and integration of the Enterprise Resource Planning (ERP) suite including HRMS, Finance, Budget, Reimbursements, procurements and employee self service was also carried out for internal use by SEBI.

### **1.1.13 Internal Audit**

A Professional Firm of Chartered Accountants has been carrying out the internal audit of SEBI regularly at HO on quarterly basis and of the ROs on Annual Basis. The internal audit has been completed up to 31.03.2018.

#### **1.1.14 Act, Rules, Documents**

1. SEBI Act 1992 , as amended from time to time.
2. SEBI Regulations.
3. Securities Contracts Regulations Act

#### **1.1.15 Audit Mandate and Audit Checks**

##### **Audit Mandate**

The Office of the Director General of Commercial Audit & *ex-officio* Member Audit Board-I, Mumbai, conducts the Audit of the Accounts of SEBI under Section 19 (2) of the Comptroller & Auditor General's (Duties, Powers & Conditions of Service) Act, 1971, read with section 15 (2) of the SEBI Act, 1992. Chapter VI of the SEBI Act 1992 lays down the provisions relating to Finance, Accounts and Audit.

Under the provisions of Section 15 (2) of the SEBI Act 1992, **the Accounts of the Board** shall be audited by the Comptroller & Auditor General of India at such intervals as may be specified by him and expenditure incurred in connection with such audit shall be payable by the Board to the C & AG.

Section 15 (3) of the SEBI Act 1992 stipulates that the Comptroller and Auditor General of India and any other person appointed by him in connection with the audit of the accounts of the Board shall have the same rights and privileges and authority in connection with such audit as the Comptroller and Auditor -General generally has in connection with the audit of the Government accounts and, in particular, shall have the right to demand the production of books, accounts, connected vouchers and other documents and papers and to inspect any of the offices of the Board.

Section 15 (4) of the SEBI Act 1992 stipulates that the accounts of the Board as certified by the Comptroller and Auditor General of India or any other person appointed by him in this behalf together with the audit report thereon shall be forwarded annually to the Central Government and that Government shall cause the same to be laid before each House of Parliament.

##### **Audit Checks**

**Based on the above Audit Mandate to Audit the Accounts of SEBI, the following Audit Checks may be exercised while auditing the Books of Accounts of SEBI**

- i) To examine the efficacy of Investor Grievance Redressal mechanism.
- ii) To examine whether the Actuarial Report in respect of Provident Fund has been obtained before closure of Accounts for 2018-19 and adequate provision has been made in Accounts.

- iii) Whether the Bank Accounts of Regional Offices have been reconciled.
- iv) To examine whether appropriate disclosure on non obtaining title deeds in respect of assets transferred in the name of SEBI have been disclosed, wherever title deeds are pending.
- v) Whether Fees from all the Intermediaries are recognized as Income in the manner prescribed in the respective Regulations, unless otherwise stated. To test check the levy and collection of various regulatory Fees by SEBI from various Market Intermediaries.
- vi) To examine whether Registration/Renewal Fees received from all intermediaries are properly accounted in the first year of Registration/Renewal irrespective of validity of the Registration/Renewal period.
- vii) To examine whether Filing Fees for Primary Market Offer Documents are properly accounted as income on receipt basis.
- viii) To examine whether Refund of excess filing fees or collection of additional fees arising due to change in the size of the issue is accounted as and when determined as payable or receivable, as the case may be.
- ix) To examine whether the levy of Fees from Brokers of cash and derivative segments under Schedule IIIA, IV and IVA of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992, as amended during 2006, are accounted on accrual basis.
- x) To examine whether Fees from Sub Brokers are accounted on Receipt basis due to uncertainty about Recovery of Fees.
- xi) To examine records relating to Acquisition of Software, whether the Software is outright purchased from the market in accordance with the Purchase Procedure and General Financial Rule 2017 provisions.
- xii) If the Software is developed in a phase wise manner, Audit to examine the development and implementation of software, 'Go-Live' Date, User Acceptance etc.
- xiii) To examine levy of Liquidated Damages on account of delay in implementation of Software Phase-I and Phase-II of SEBI Enterprises Portal Project.
- xiv) Fees payable by Brokers of the Cash segments of the Exchanges have been contested by some of the Brokers on the grounds of SEBI's Competence to levy Fees, the basis of Fees, definition of Turnover, Computation methodology etc before various Courts. Despite Supreme Court Judgement in February 2001, which upheld SEBI's Powers to levy Fees and ratified the basis of levy of Fees, there are still a large number of cases pending before the Securities Appellate Tribunal (SAT), High Courts and the Supreme Court relating to the different aspects of the Fees. However, to provide a one time opportunity, to enable the Stock Brokers to regularize the default, SEBI came out with SEBI (Interest Liability Regularization) Scheme 2004. To examine as to how many Brokers have availed of the Scheme and made payments and to also examine the outcome of the various sub-judice matters in respect of above matter.

xv) To examine amounts collected by SEBI towards Recovery proceedings, Disgorgement Fund and SAT Orders, which are kept in SEBI's Savings Flexi Account.

xvi) SEBI has established National Institute of Securities Market (NISM) as a Public Trust under Bombay Public Trust Act 1950, as a Not for Profit Educational Institute, with a view to undertake a variety of educational, training, research activities and to promote research initiatives in the securities markets in India. SEBI has till 31 March 2018 contributed Rs 315.54 crore towards Construction of NISM Patalganga Campus and Rs 21 crore as an Endowment Contribution towards Endowment for Six Chair Professorships. During the FY 2018-19, Land and Building of NISM Patalganga Project have been transferred in the name of SEBI. The said land is on long term lease of 95 years from Maharashtra Industrial Development Corporation (MIDC). The lease deed between MIDC and SEBI with NISM as confirming party has been executed on 8 February 2019, followed by Registration on 13 February 2019. To examine whether there are adequate safeguards while releasing the Public Money from SEBI to NISM, and to examine whether the following conditions for releasing funds have been complied :

- a) Whether amount has been spent for construction of NISM Patalganga Project only.
- b) Whether SEBI has conducted Special Audit of NISM Books of Account so as to ascertain the utilization of fund released to NISM.
- c) Whether specific NISM Project Management Cell has been constituted at SEBI to ensure the proper monitoring of fund utilization.
- d) Whether separate Audit of Patalganga Project has been undertaken by SEBI before the next installment is released by SEBI.
- e) To examine the Quarterly Progress Report of Utilization of Fund submitted by NISM to SEBI.
- f) To examine whether NISM has submitted a Progress Review Report every quarter to SEBI indicating the progress of work carried out in the quarter, planned for next quarter, whether the progress is as scheduled etc.
- g) To examine time and cost overruns in respect of execution of NISM Patalganga Project.

A MOU (Memorandum of Understanding) has been signed on 22 March 2016 between SEBI and NISM for taking over the Land and Buildings of NISM in the Books of SEBI. To examine compliance with the terms and conditions of the said MOU entered into between SEBI and NISM. Audit Check for SEBI in so far as NISM is associated would include the following:

- i) To examine Capitalization of Land and Building of NISM Patalganga in the Books of SEBI.
- ii) To examine recovery of Rent by SEBI from NISM as per MOU entered into between SEBI and NISM.

- iii) To examine whether any expenditure has been incurred by SEBI for providing security of unutilized land of NISM.
  - h) To examine the findings and compliance of Special Audit of NISM conducted by SEBI, in respect of utilization of SEBI funds by NISM.
  - i) Till 31 March 2018, SEBI has capitalized an amount of Rs 339.77 crore in respect of NISM Patalganga Project. To examine the booking and capitalization thereof in Audit.
  - j) To examine whether SEBI has recovered Rent from NISM as per MOU towards Utilization of Building from the date of occupation, at the rate of Rs 1 per square feet per month.
  - k) To examine SEBI Sahara Refund Account as per Hon'ble Supreme Court Orders.
- xvii) To examine the sub-judice matter relating to Service Tax Demand and the Duty demanded amounting to Rs 13.03 crore from SEBI by Service Tax Authorities, in respect of Adjudication proceedings initiated against SEBI by Commissioner, CGST, Mumbai, for payment of Service Tax for FY 2012-2015 and 2015-16.
- xviii) To examine the Settlement Agreement dated 5 May 2010 with Municipal Authorities towards Indemnity for Municipal Taxes, wherein SEBI has provided an Indemnity Bond with a maximum liability of Rs 0.31 crore towards payment of additional municipal taxes. Audit to examine whether excess liability above the cap on maximum liability towards Municipal Taxes has arisen.
- xix) To examine whether SEBI has initiated timely Recovery Proceedings under Section 28 A of SEBI Act 1992, Section 23 JB of the Securities Contract Regulation Act, 1956 and Section 19 1B of the Depositories Act 1996 to recover various amounts due from the Defaulters, under different heads such as Recovery disgorgement, recovery penalty, recovery fees etc.
- xx) To examine the Recovery of Payments made by SEBI on behalf of Investor Protection and Education Fund (IPEF) recoverable from IPEF, which stood at Rs 6.47 crore as on 31.03.2018.
- xxi) To examine Recovery of various Sundry Debtors comprising of following
  - a) Listing Fees Contribution receivable from various Stock Exchanges
  - b) Regulatory Fee receivable from various Stock Exchanges
  - c) Annual Custody Charges and Receivables from Depositories
  - d) Annual Fees receivable from Custodian of Securities
  - e) Broker Fees- Cash Segment
  - f) Derivatives- Equity (Futures & Options)
  - g) Derivatives- Currency



- h) Regulation Fees Receivable – FVCI (Foreign Venture Capital Investors) and FPI (Foreign Portfolio Investor)
  - i) Regulatory Fees from Commodity Derivative- Stock Exchanges and Derivative Brokers
  - j) Fees Receivable- Interest Rate Derivatives
  - k) Fees Receivable- KYC (Know Your Customer) Registration Fees
  - l) Regulatory Fees- Private Placement- Debt
- xxii) Securities and Exchange Board of India Act 1992, (SEBI) vide chapter VIA- under Penalties and Adjudication section 15A to 15H empowers the Board to impose penalties on various entities for failure to observe rules and regulation stipulated therein. All sum realized by way of such penalties shall be credited to the Consolidated Fund of India, as provided under section 15JA of the SEBI Act. Audit to check whether the Penalties have been timely levied, realized and credited to the Consolidated Fund of India. Instances of delays in levies of Penalty and credit to the Consolidated Fund of India to be examined in Audit.
- xxiii) To study the Remittances to Consolidated Fund of India, procedure prepared by the Board, as per the provision of SEBI Act 2002 and Ministry of Finance instructions on the subject and see whether the procedure is properly followed.
- xxiv) To ensure that all registration charges on IPO issues are as per Board guidelines.
- xxv) To verify the system of payment of penalty and account are maintained separately, dues are remitted on the completion of each transaction.
- xxvi) Whether leasing of SEBI owned flats to PSU/Others are as per formulated policy of the Board.
- xxvii) To verify the Investments made are with prior approval of the sanctioning authority and confirmation letter on the balances is obtained from Banks/
- xxviii) To ensure the receipt of fees and subscriptions as per predetermined rates by the Board.
- xxix) To verify the correctness of Investor Protection & Education Fund and its utilization.
- xxx) To check the settlement charges payable as per the determined amount.
- xxxi) To ensure the recovery of dues as per Court's order/ settlement.
- xxxii) To study the tender procedure prepared by the Board and to see whether it is followed properly.
- xxxiii) To examine the projects taken up by the Board and the proper utilization of funds towards the same.
- xxxiv) To review the work orders issued by various departments of the Board as per the delegation of powers.

## 1.2 NATIONAL EXPORT INSURANCE ACCOUNT (NEIA) TRUST

### 1.2.1 Introduction

National Export Insurance Account (NEIA) Trust was set up in the year 2006 as a Public Trust by the Ministry of Commerce and Industry, Government of India to promote project exports from India.

The NEIA Trust has been registered as a Public Trust with the Public Trust Registration Office, Greater Mumbai Region, Mumbai on 8 May 2006, *vide* Trust Deed dated 21 March 2006 and modified Trust Deed dated 29 March 2006 entered into between the President of India, acting through the Joint Secretary, Department of Commerce, Ministry of Commerce & Industry, Government of India and the ECGC Ltd. The Trust has its Office at the Registered Office of Export Credit Guarantee Corporation Ltd (ECGC Ltd) at Mumbai.

NEIA supports exports of projects of large value. It supports overseas projects in the national interest. NEIA also supports projects exports which have long credit period for repayment and which are beyond the underwriting capacity of the Export Credit Guarantee Corporation (ECGC).

### 1.2.2 Objectives

The main objectives of the NEIA Trust are as under

- i) To implement the NEIA Scheme through ECGC for the benefit of medium and long term exporters
- ii) To implement such other schemes and programmes for the benefit of medium and long term exporters as the Government of India (GOI) may frame from time to time and direct the Trust to implement.

The Trust is formed with the objective to ensure the availability of credit risk cover for the medium and long term high value projects which are commercially viable and desirable from the point of view of national interest where reinsurance cover is not available or its cost is very high and also for the benefit of short term exports.

As per the Trust Deed, the Trust is also required to follow any other instructions as given by the Government of India from time to time. Accordingly, the Government of India (GOI) had, *vide* Resolution No. 616/2009-E&MDA dated 12.02.2009 added one more object as per which (a) additional cover of 5 *per cent* to be provided to Micro, Small and Medium Enterprises (MSME) exporters and also Non-MSME exporters of certain specified trades like Textiles, Jewellery etc underwritten by ECGC, (b) Additional cover of 10 *per cent* to Banks who are covered under Export Credit Insurance for Banks (ECIB) underwritten by ECGC of India Ltd.

The NEIA Trust has been thus established with the objective of ensuring availability of credit risk cover for medium to long term duration (MLT) high value projects which are desirable from the point of view of national interest. The Trust has an underwriting corpus of Rs 2685.26 crore as of 31 March 2018. The underwriting capacity of the

Trust is Rs 53705 crore of which 25 *per cent* amounting to Rs 13,426 crore has been earmarked for supporting MLT covers issued by ECGC Ltd. Risk in respect of 177 covers issued supporting 75 projects in force has been shared with NEIA to the extent of Rs 7843 crore.

### **1.2.3 Activities**

The activities undertaken by NEIA Trust are aimed at increasing exports from India through credit risk insurance cover at nominal cost.

The following are export transactions eligible for inclusion under NEIA covers

- i) Only such medium and long term export projects which are viable and for which reinsurance is not available to ECGC. Medium and long term project exports involving civil constructions, turnkey projects, supply of equipment and services would come under these contracts
- ii) Exports to countries which are not likely to be covered on purely commercial considerations or are beyond country exposure limits, acceptable credit terms/period prescribed by ECGC or countries currently facing economic/political difficulties, but where Indian presence is required to be maintained as a part of the long term strategy of the Government.

### **1.2.4 Organizational Set up**

The Government of India has set up a High Powered Committee, viz, the Committee of Directors (COD) chaired by the Commerce Secretary under the Ministry of Commerce & Industry to ensure proper and effective utilization of NEIA Scheme, that is, to accord necessary approvals for the projects to be brought under the scheme, to monitor its operations and to provide guidance and overall supervision. The Composition of Committee of Directors is as follows:

- i) Commerce Secretary- Chairman
- ii) Secretary, Economic Affairs- Member
- iii) Secretary, Ministry of External Affairs- Member
- iv) Additional Secretary and Financial Advisor, Department of Commerce- Member
- v) Chairman & Managing Director ECGC- Member
- vi) Chairman & Managing Director EXIM Bank – Member
- vii) Deputy Governor/Executive Director RBI- Member
- viii) Joint Secretary, E&MDA Division , Department of Commerce- Member Secretary

The functions of COD are

- i) To formulate programmes and activities to be implemented from time to time in furtherance of the objects of the Trust

- ii) To consider proposals brought from time to time by the Operating Agent, viz., ECGC and to accord approval under eligible activities
- iii) To regularly and effectively monitor implementation of the various programmes/activities of the Trust
- iv) To put in place risk exposure caps for the Trust on countries, project exporter, exporter group, type of project, buyer/importer etc and review and revise such caps from time to time
- v) To review, modify and revise from time to time any or all of the parameters, guidelines, criteria etc, relating to indemnification of loss under programmes/activities and/or to specific proposals
- vi) To exercise general power of superintendence in matters of management of the fund, administration of affairs, implementation and operation of the various programmes/activities in furtherance of the objectives of the Trust and the scheme.

### **1.2.5 Capital Structure**

The Authorized Corpus of NEIA is Rs 2000 crore by way of Budgetary Contribution of the Government of India.

The Board of Trustees, vide Resolution dated 10.08.2018, has resolved that a sum of Rs.89.17 crore be accumulated and set apart upto 31.03.2023 out of the income of the NEIA Trust for the year ended 31 March 2018 for the following purpose

- i) To implement the NEIA Scheme for the benefit of Medium and Long Term Exporters in National Interest
- ii) To implement such other Schemes for the benefit of Medium and Long Term Exporters as the Government of India may frame from time to time and direct the Trust to implement
- iii) To implement such other Schemes for the benefit of Short Term Exporters as the Government of India may frame from time to time and direct the Trust to implement

The Government of India, Department of Commerce, E&MDA Division, Udyog Bhavan, New Delhi, vide letter no. 6/20/2003-E&MDA dated 16.07.2018, has sanctioned payment of sum of Rs 300 crore to NEIA Trust Fund, Mumbai.

### **1.2.6 Budget and Planning**

All the proposals for providing cover under NEIA shall be referred to the Committee of Directors for its consideration which would also periodically review the progress of the exports covered under NEIA and decide on the budgetary requirements as well as annual ceiling with regard to maximum cap, cap on country/project etc.

### 1.2.7 Accounting System

Since NEIA Account is administered by a Trust, separate Accounts with regard to the affairs of the Trust shall be maintained. The annual financial reports of the Trust shall be published separately and will not form part of the Annual Accounts of ECGC.

The Financial Statements are prepared on Accrual basis on historical cost convention and comply in all material aspects with the accounting principles accepted in India.

The administrative and establishment costs of the Trust and cost of administering the scheme is borne by ECGC Ltd against which it is entitled for service charges at 5 *per cent* of the gross guarantee fees. The said charges paid to ECGC Ltd are recognized over the period of the covers.

All the initial set up costs including setting up of the trust office, computer hardware and software and other related infrastructure are provided and borne by ECGC Ltd.

Previously, the Accounts of the NEIA Trust were handled by HO (Accounts). However, since November 2018, the handling of accounts of NEIA Trust is now being done by Project Exports Branch. As the NEIA Trust does not have any module in the current intranet system, the writing of accounts of the NEIA Trust is being outsourced to a qualified Chartered Accountant.

The balance lying to the credit of the Trust Fund upto 31.03.2018 represents the amount received from Central Government representing refundable grants in aid/corpus donation, and surplus of the income over expenditure of the financial year.

The revenue stream of the Trust Fund is represented by

- i) Insurance Premium charged on Insurance coverage issued in furtherance of the objects of the Trust
- ii) Interest income earned on Fixed Deposit maintained with Scheduled Bank representing unspent balances of the Trust Fund and revenue income
- iii) As per Clause 26 of the NEIA Trust Deed, the Trust may invest the funds available in its corpus and in any other accounts of the Trust in securities/instruments of investment in such manner as may be decided by the Board of Trustees from time to time acting on principles of financial prudence.
- iv) As per Operational Guidelines of NEIA Trust (Ministry of Commerce and Industry, Department of Commerce, Government of India), the Trust shall invest Funds available in its Corpus and in any other Accounts of the Trust as per the guidelines for Investment of Surplus Funds by Public Sector Enterprises issued by the Department of Public Enterprises. The Trust may invest the Funds available in its Corpus and in any other Accounts of the Trust in securities/instruments of Investment in any such manner as may be decided by the Board of Trustees within these guidelines.

### **1.2.8 Manpower Analysis**

NEIA Trust is a Public Trust formed by the Government of India. The Export Credit Guarantee Corporation (ECGC) Ltd is administering the Trust. The Executive Director (Policy Matters) of ECGC Ltd is the Managing Trustee and the Chairman & Managing Director (CMD) of ECGC Ltd is the Chairman of the Trust. ECGC Ltd is entitled for 5 *per cent* of Premium Income to meet administrative expenditure. ECGC Ltd is managing the Trust since the year 2006.

The administrative and establishment costs of the Trust and the cost of administering its scheme is borne by ECGC Ltd against which ECGC is entitled for service charges at the rate of 5 *per cent* of the gross guarantee fees.

Further, as per Scheme dated 8 March 2010 for National Export Insurance Account Trust settled by Charity Commissioner, Mumbai, Clause 33 of the said Scheme *inter alia* states that the Trust shall be serviced and managed by ECGC. However, at any time in future, if the Board of Trustees finds it necessary to have separate staff for the Trust, the Board of Trustees may appoint/engage personnel for the Trust.

However, for the year ended 31.03.2018, no Establishment Cost has been booked in the Accounts of NEIA Trust. ECGC Ltd receives 5 *per cent* of Premium Income earned by the Trust as management fee and during the year 2017-18, ECGC Ltd earned Rs 2.06 crore as the said Fee from NEIA Trust

### **1.2.9 MOU Targets and Achievements**

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

### **1.2.10 Computerization**

NEIA Trust is being managed by ECGC Ltd., which has launched a revamped client portal in November 2017 for servicing the needs of its exporters and bank clients on the digital front. ECGC Ltd also plans to offer additional functionalities through the said portal on a continuous basis by improving and adding new features to it. ECGC Ltd has migrated its Data Centre to a Tier III Data Centre provided by BSNL (Bharat Sanchar Nigam Ltd) as a managed hosting solution and is in the final stages of implementing the Disaster Recovery Centre. ECGC Ltd has also engaged C-DAC for complete revamp of its ERP Software.

### **1.2.11 Internal Audit**

The Accounts of the Trust are audited every year by a Chartered Accountant or a firm of Chartered Accountants who will be appointed by the Board of Trustees on the recommendation of the C&AG of India.

### **1.2.12 Act, Rules, Documents**

- i) Bombay Public Trust Act 1950
- ii) Rules/Regulations issued by Insurance Regulatory & Development Authority of India (IRDA)

- iii) Rules/Regulations pertaining to External Commercial Borrowings and other relevant guidelines issued by Reserve Bank of India (RBI)

### 1.2.13 Operational Results

The total insurance covers issued by the Trust (being the object of the Trust) was Rs 9227.85 crore as of 31.03.2016, Rs 17395.86 crore as of 31.03.2017, and Rs 24028.94 crore as on 31.03.2018.

### 1.2.14 Financial Working Results

(Rs in crore)

Particulars	2017-18	2016-17
<b>Income</b>		
Interest	194.05	194.18
Premium Received	49.32	20.82
Guarantee Fees	3.59	2.83
Claim Recovery	0.54	0.01
Reversal of Provisions for Claims	32.70	1.53
Sundry Balances written back	-	--
Total Income	280.22	219.39
<b>Expenditure</b>		
Consultancy charges	0.12	-
Administration charges	3.41	2.39
Contribution to Public Trust Admn Fund	5.56	4.34
Claim	145.46	32.70
Audit Fees	0.01	0.01
Bank charges		
General charges		
Total Expenditure	154.57	33.46
Surplus carried over to Balance Sheet	125.64	179.93

### 1.2.15 Disinvestment (Upto 2017-18)

Not Applicable

### 1.2.16 Environment Management

Not Applicable

### 1.2.17 Audit Mandate

The Audit of NEIA Trust is conducted by this Office (Office of The Director General of Commercial Audit- MAB-I Mumbai) u/s 14 (1) of CAG (DPC) Act, 1971.

### 1.2.18 Audit Checks

The Trust Deed dated 08.03.2010, governing the NEIA Trust, is registered with the Office of the Charity Commissioner, Mumbai. The provisions pertaining to Books of Accounts and Audit of NEIA Trust have been laid down in Clause 36 and Clause 37 respectively of the Trust Deed.

As per the provisions contained in Clause No. 36, the Funds belonging to the Trust will be invested by ECGC as per the investment norms laid down by the Committee of

Directors (COD). ECGC shall maintain separate books of accounts with regard to the affairs of the Trust and will get audited on an annual basis. The Financial Results of the Trust and that of ECGC shall be distinctly shown in the Annual Accounts of ECGC.

As per the provisions contained in Clause No. 37, the Accounts of the NEIA Trust shall be audited every year by a Chartered Accountant or a firm of Chartered Accountants, who will be appointed by the Board of Trustees on the recommendation of the Comptroller & Auditor General of India. The remuneration and tenure of such auditor shall be determined by the Board of Trustees.

The Audited Accounts of the Trust shall be adopted at a Meeting of the Board of Trustees called for the purposes and a copy together with auditors' report shall be furnished to the Settlers (being Department of Commerce, Ministry of Commerce & Industry, Government of India) within a period of one month of such adoption.

As per Operational Guidelines of NEIA Trust (Ministry of Commerce and Industry, Department of Commerce, Government of India), the Books of Accounts and related records of NEIA Trust would be subject to the annual audit by the C & AG of India.

**The following are the Audit checks to be exercised while auditing NEIA Trust Accounts**

- 1) To check Insurance Premium set aside as Reserve towards Unexpired Risks
- 2) To check applicability of Registration of Trust with Insurance Regulatory Development Authority (IRDA)
- 3) To check compliance with Section 58 of Bombay Public Trust Act 1950 towards contribution to Public Trust Administration Fund @ *2 per cent* of the Income shown under Schedule IXC of the Act
- 4) To check credit Risk cover for medium and long term high value projects which are commercially viable and desirable from the point of view of national interest where reinsurance cover is not available or its cost is very high and also for the benefit of short term exports.
- 5) Whether Income of the Trust has been utilized towards the specific objects of the Trust, to implement the NEIA Scheme for the benefit of Medium and Long Term Exporters in National Interest
- 6) To check Guarantee Fee received from ECGC and EXIM Bank and whether it was as per the agreements and also as per the guidelines decided, if any.



## **1.3 STRESSED ASSETS STABILIZATION FUND (SASF)**

### **1.3.1 Introduction**

The Stressed Assets Stabilization Fund (SASF) was constituted by the Government of India pursuant to a provision in the Union Budget 2004-05, as a Special Purpose Vehicle (SPV) Trust for acquiring stressed and non-performing assets of the erstwhile Industrial Development Bank of India (IDBI). SASF has been accorded the status of Financial Institution to take advantage of provision of the Recovery of Debts due to Banks and Financial Institutions, 1993 by approaching Debt Recovery Tribunal (DRT) as well as Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act 2002, Corporate Debt Restructuring (CDR) mechanism for resolution of the assets acquired.

The SASF Trust has been incorporated/constituted on 24 September 2004. SASF is a Trust constituted by the Central Government under Trust Deed dated 24 September 2004 and a Financial Institution under Section 2 (h) (ii) of the Recovery of debts Due to Banks and Financial Institutions Act, 1993.

SASF is under the Administrative Control of Ministry of Finance, Department of Financial Services, Government of India.

### **1.3.2 Objectives**

The Trust Deed forming SASF Fund was executed on 24.09.2004, and the Trust was formed for the purpose of acquiring by transfer from Industrial Development Bank of India (IDBI), the Stressed Assets of IDBI.

IDBI, a statutory corporation established under the Industrial Development Bank of India Act, 1964, is an apex institution to provide long term finance to industrial enterprises, both in public and private sectors, and it co-ordinates and supplements the activities of other financial institutions by providing refinance facilities and subscribing to their debentures.

During the four decades of its existence, IDBI has accumulated Non Performing Assets (NPAs) and the Net Non Performing Assets (NPAs) stood at Rs 9000 crore approximately as on 31 March 2004.

The Government, as a Settlor, decided to set up a Special Purpose Vehicle (SPV) in the form of a Trust for acquiring by transfer, the Stressed Assets of IDBI, for administering and managing the Stressed Assets with a view to recover the amounts due thereunder and for the purpose created a 'Stressed Assets Stabilization Fund' (SASF) for IDBI.

'Stressed Assets' shall mean the assets financed by IDBI in the form of loans and advances, (i) in rupee or in foreign currency, including subscription to shares, stocks and debentures of industrial concerns, (ii) pursuant to underwriting, rights issue, private subscription, or exercise of conversion option contained in loan documentation, which have become Non Performing Assets (NPAs) or have the potential of becoming NPAs in the Books of IDBI.

The Government made a Provision of Rs 9000 crore in the Budget for FY 2004-05 for extending a Loan to the Trust. As per the Trust Deed, the Trustees shall invest the loan in twenty year non interest bearing special securities to be issued by the Government and authorize the Government and utilize the special securities for the purpose of acquiring by transfer, the stressed assets from IDBI.

The Trustees shall realize the Stressed Assets by restructuring, arriving at settlement with the borrowers, taking legal measures, or adopting such measures as they may deem fit, including but not limited to their recovery as arrears of land revenue.

SASF has adopted a three pronged resolution strategy

- Debt Restructuring in respect of units, which are potentially viable under and outside CDR mechanism.
- Compromise settlement viz. one time / negotiated settlement of dues where units have lost viability
- Legal measures by way of filing recovery suit against the promoter/ companies in DRT and taking over the units under the provisions of SARFAESI Act 2002 / NCLT.

### **1.3.3 Activities**

Industrial Development Bank of India (IDBI) was an apex institution to provide long term finance to industrial enterprises, both in public and private sectors. IDBI ceased to exist with effect from 1 October 2004 and in its place IDBI Bank came into being as an entity registered under the Companies Act 1956. As of March 2004, IDBI accumulated Non Performing Assets (NPA) which stood approximately at Rs 9000 crore.

In order to acquire by transfer the Stressed Assets of IDBI and for managing these assets with a view to recovering the amounts due, the Government, as settlor, decided to set up a Special Purpose Vehicle (SPV) in the form of a Trust. It created a Stressed Assets Stabilization Fund (SASF) for the Stressed Assets of IDBI and the SASF Trust Deed was executed in September 2004.

The Government provided Rs 9000 crore in the budget for the Financial Year 2004-05 for extending the Loan to the Trust. The Transaction effected by the Government of India in acquiring these Assets did not involve any immediate cash outgo. GOI provided a loan of Rs 9000 crore to the Trust who in turn invested the amount in zero interest Government Special Securities floated by Government of India and redeemable in 20 years. The Trust assigned these special securities amounting to Rs 9000 crore to IDBI (or its successor IDBI Bank) and in return, acquired 636 NPS/Stressed Loan Assets with a Net loan Outstanding of Rs 9004 crore.

As per clause 22 (a) to (c) of SASF Deed executed (September 2004) between the Government of India and SASF, SASF shall stand terminated either on recovery of all the stressed assets or on expiry of the period of 20 years (September 2024) or on non recoverability of remaining stressed assets.

Out of the total Government Securities of Rs 9000 crore, amount remitted by SASF to Government as on 31 March 2017 was Rs 4654 crore, leaving a balance of Rs 4436 crore.

### 1.3.4 Organisational set up

SASF is managed by a Board of Trustees consisting of Chairman and four members.

The Trust created in the Deed of Trust shall have a Board of Trustees consisting of not less than three and not more than five Trustees as may be determined by the Government. The Board of Trustees is assisted by one Chief General Manager, one General Manager and 22 other officials.

The Managing Director of IDBI Bank Ltd shall be the Chairman of the Board of Trustees. Both the Deputy Managing Directors of IDBI Bank Ltd shall be Trustees. IDBI Bank Ltd shall depute, with the approval of Central Government, a Chief General Manager/General Manager to work on full time basis as the Executive Trustee.

### 1.3.5 Capital Structure

In March 2004, the Non Performing Assets of IDBI stood at Rs 9000 crore. These stressed assets were transferred to SASF. The Government of India provided a loan of Rs 9000 crore to the Trust who in turn invested the amount in zero interest Government Special Securities floated by the Government of India and redeemable in 20 years. The Government of India will have to redeem the Special Securities in 2024 to the extent of the value of the Assets remaining unrecovered.

The Trust assigned these special securities amounting to Rs 9000 crore to IDBI and in return, acquired 636 NPS/stressed loan assets with a net loan outstanding of Rs 9004 crore. SASF has to recover these stressed loan assets and has to transfer the amount to Government of India (GOI). Loan taken from GOI is reduced to the extent of amount remitted to GOI by SASF

The Corpus/Capital Fund as on 31.03.2018 was Rs 109.33 crore. The Corpus Fund comprises mainly of expenses incurred by the Trust that were subsequently reimbursed to IDBI Bank. During CAG Audit conducted in May 2013, it was directed to recover expenses incurred by the Trust that were subsequently reimbursed to IDBI Bank, since, as per the Trust Deed, all the administrative expenses of the Trust were to be borne by IDBI. Hence, during FY 2014, the said amount has been transferred /credited to corpus fund by debiting amount recoverable from IDBI Account.

### 1.3.6 Budget and Planning

Rs in crore

Item	2015-16		2016-17		2017-18	
	Budget	Actual	Budget	Actual	Budget	Actual
Total Revenue/Turnover	--	13.36	---	13.74	---	10.12
Operational Results	150	100	200	140*	150	120*

\*Out of the total achievement, Rs 73 crore and Rs 34 crore was received from IDBI by way of re-imburement of expenses

### 1.3.7 Accounting System

The Accounting System of SASF is Centralized. As per the SASF Trust Deed, the Accounts of the Fund shall be maintained and audited by the Comptroller & Auditor General of India. The Trustees shall keep all books of Accounts showing the receipts and disposal of amounts received or accrued to the Fund from time to time and investments or payments made out of the Fund in respect of the Trust Property.

The Accounts of SASF are prepared under historic cost convention on receipt basis except interest on fixed deposit.

The Balance Sheet, Income and Expenditure Account and Receipts and Payments Account of SASF are audited by the C& AG of India under Section 20 (1) of the C & AG (DPC) Act, 1971, read with Clause 17 (a) of the Trust Deed dated 24 September 2004,

### **1.3.8 Manpower details**

As per Clause 18 (a) of the Trust Deed, IDBI, at the request of SASF, would make available adequate number of staff with requisite skill for administering the Trust towards the fulfilment of the purpose for which it was created. The salary and other perquisites are to be borne by IDBI. During 2016-17, the Actual Manpower deployed at SASF was 24.

As on 31 March 2018, the number of employees of SASF were 18 Managerial and 2 Non Managerial.

As per the Trust Deed, IDBI may, at the request of the Trust, make available adequate number of staff with requisite skill for administering the Trust towards fulfillment of the purpose for which it is created. All the costs of administering the Trust shall be borne by IDBI or its successor.

### **1.3.9 MOU Targets and Achievements**

There were no MOU targets and achievements since it is an autonomous body and not a CPSE

### **1.3.10 Computerisation**

ERP/IT System at SASF is Informix. IT System has not been audited during 2015-16 to 2017-18.

### **1.3.11 Internal Audit**

Internal Audit system and Internal Control systems of SASF Trust were commensurate with the size and nature of the Trust, as per the Separate Audit Report of C & AG of India, on the Accounts of the Trust for year ended 31 March 2018.

SASF has appointed (December 2018) an outside professional Firm of Chartered Accountants for undertaking Internal Audit for overall operation of SASF as well as, preparation and audit of Annual Accounts (Balance Sheet of SASF Trust, Receipts and Payments and Income and Expenditure) from FY 2018-19 onwards. The internal audit of overall operations of SASF is to be conducted on Half Yearly basis and preparation of financial statements on Annual basis.

### **1.3.12 Acts Rules , Policies , Other Documents**

- SARFESAI Act

- SASF Trust Deed dated 24 September 2004
- Recovery of Debts Due to Banks and Financial Institutions Act, 1993

### 1.3.13 Financial working results

(Rs in crore)

Particulars	2015-16	2016-17	2017-18
Interest Earned	9.94	4.35	2.60
Other Income	3.42	9.39	7.52
Total Income	13.36	13.74	10.12
Total Expenditure	---	--	--
Excess of Income over Expenditure Before Transfer to Special Reserve/General Reserve	13.36	13.74	10.12
Transfer to Special Reserve	--	--	--
Transfer to/from General Reserve	---	--	--
Surplus/ (Deficit) carried to Corpus/Capital Fund	13.36	13.74	10.12

### 1.3.14 Disinvestment (Upto 2017-18)

SASF is a Trust constituted by the Central Government under Trust Deed dated 24 September 2004 and a Financial Institution under Section 2 (h) (ii) of the Recovery of debts Due to Banks and Financial Institutions Act, 1993. Hence, Disinvestment is not applicable

### 1.3.15 Performance Audit and Draft Paragraphs approved during the last three years(2015-16 to 2017-18)

Performance Audit on Stressed Assets Stabilisation Fund SASF of Union Government, Ministry of Finance Department of Financial Services was prepared by this office and was printed as C&AG Report No. 5 of 2014 and the report was tabled on 18 July 2014.

### 1.3.16 Environment Management

Not Applicable

### 1.3.17 Audit Mandate

The audit of SASF was entrusted to the C & AG of India by the President of India for a period of ten years from 2004-05 to 2013-14, vide Ministry of Finance letter dated 21 May 2013. This was communicated to the Office of the Director General of Commercial Audit & ex-Officio Member, Audit Board-I, Mumbai, vide Head Quarters Office letter dated 28 May 2013. The entrustment was further extended upto 2018-19 vide Head Quarters letter dated 15 December 2017. The audit of SASF is conducted u/s 20 (1) of the C & AG (DPC) Act, 1971, read with Clause 17 (a) of the SASF Trust Deed dated 24 September 2004.

### 1.3.18 Audit checks

- Whether the SASF Board had established fair and transparent procedure for recovery of stressed assets
- Whether the Trust remitted the amount recovered to the Government as per the Trust Deed and whether Special Securities equal to amount so transferred have been liquidated and the loan amount reduced accordingly

- Whether the Trust took steps to recover stressed assets as per the established procedures
- In case of liquidation of stressed assets, whether proper valuation was done to ensure optimum realization of the Assets
- Whether the Trust was on track to achieve the stated objective of realizing stressed Assets
- Where the Personal Guarantees from Promoters were available in records with the details of personal assets, whether the Trust had been collecting copies of the Income Tax return from them and in the event of failure of other measures, whether the final measure of invoking the personal guarantees/attaching and liquidating the stressed assets had been promptly taken.

## CHAPTER II

### Mutual Funds Asset Management Companies

The Office of the Director General of Audit & Ex-Officio Member Audit Board-I, Mumbai, conducts the Audit of the following seven Mutual Funds Asset Management Companies

- i) BOI Axa Investment Managers (P) Ltd
- ii) UTI AMC Ltd
- iii) IDBI AMC Ltd
- iv) SBI Funds Management Ltd
- v) Union AMC Co. (P) Ltd
- vi) CanaraRobeco AMC Ltd
- vii) Baroda Asset Management India Ltd

The Asset Management Company (AMC) is appointed to manage the Mutual Fund and operate the scheme of such funds in accordance with the provisions of these SEBI (Mutual Funds) Regulations, 1996. A note on the Mutual Fund is given in Annexure I.

The Mutual Fund (MF) sponsor has to contribute at least 40 *per cent* to the net worth of the AMC as per SEBI MF Regulation 7 (c). The AMC should have a net worth of not less than Rs 50 crore. (Rs 500 million)

The AMC charges the MF scheme with investment and advisory fees which has to be fully disclosed in the scheme offer document.

In addition to investment and advisory fees, the Asset Management Company may charge the scheme with the following recurring expenses, including

- a) Marketing and selling expenses including Agents' commission, if any;
- b) Brokerage and transaction cost;
- c) Registrar services for transfer of units sold or redeemed;
- d) Fees and expenses of Trustees;
- e) Audit fees;
- f) Custodian fees;
- g) Costs related to investor communication;
- h) Costs of fund transfer from location to location;
- i) Costs of providing account statements and dividend/redemption cheques and warrants;
- j) Insurance premium paid by the fund;
- k) Winding up costs for terminating a fund or a scheme;
- l) Costs of statutory advertisements;

- m) In case of a gold exchange traded fund scheme, recurring expenses incurred towards storage and handling of gold;
- n) In case of a capital oriented scheme, rating fees;
- o) In case of a real estate MF scheme, insurance premia and costs of maintenance of the real estate assets (excluding costs of development of such assets) over and above the expenses specified in regulation 52 to the extent disclosed in the offer document;
- p) Listing fees, in case of schemes listed on a recognised stock exchange;
- q) Such other costs as may be approved by the Board

The AMC has to ensure that any potential conflicts between other business activities and the Mutual Fund will be adequately addressed by

- (a) compliance with the requirements under Regulation 24(b) of the SEBI (Mutual Funds) Regulations, 1996 which require that the AMC cannot undertake any activity which is in conflict with the activities of the Mutual Fund;
- (b) ensuring that the fund manager(s) of each scheme of the Mutual Fund, will not play any role in the day-to-day operations of the other business activities, and the key investment team of the other business activities is not involved with the activities of the Mutual Fund; and
- (c) ensuring that there is no inter-se transfer of assets between the Mutual Fund and any account of investor under Portfolio Management Scheme.

The AMC and Trustee have to review the performance of the scheme in their Board meetings. The performance would be compared with the performance of the benchmark index and with peer group in the industry.

### **Duties and Obligations of the AMC**

The duties and obligation of the AMC as specified in the SEBI (MF) Regulations, Trust Deed and the Investment Management Agreement areas are as follows:

- (1) The AMC shall take all reasonable steps and exercise due diligence to ensure that the investment of funds pertaining to any scheme is not contrary to the provisions of SEBI (MF) Regulations and the Trust Deed.
- (2) The AMC shall exercise due diligence and care in all its investment decisions as would be exercised by other persons engaged in the same business.
- (3) The AMC shall obtain, wherever required under these regulations, prior in principle approval from the recognized stock exchange(s) where units are proposed to be listed.
- (4) The AMC shall be responsible for the acts of commission or omission by its employees or the persons whose services have been procured by the Asset Management Company.
- (5) The AMC shall submit to the Trustees quarterly reports of each year on its activities and the compliance with the Regulations.



(6) The Trustees at the request of the AMC may terminate the assignment of the AMC at any time provided that such termination shall become effective only after the Trustees have accepted the termination of assignment and communicated their decision in writing to the AMC.

(7) Notwithstanding anything contained in any contract or agreement or termination, the AMC or its directors or other officers shall not be absolved of any liability to the Mutual Fund for their acts of commission or omission, while holding such position or office.

(8) The Chief Executive Officer (whatever his designation may be) of the AMC shall ensure that the Mutual Fund complies with all the provisions of these regulations and the guidelines or circulars issued in relation thereto from time to time and that the investments made by the Fund Managers are in the interest of the unit holders and shall also be responsible for the overall risk management function of the Mutual Fund.

(9) The Fund Managers (whatever the designation may be) shall ensure that the funds of the schemes are invested to achieve the objectives of the scheme and in the interest of the unit holders.

(10) a. The AMC shall not through any broker associated with the sponsor, purchase or sell securities, which is average of 5 *per cent* or more of the aggregate purchases and sale of securities made by the Mutual Fund in all its schemes. For the purpose of this sub-regulation, the aggregate purchase and sale of securities shall exclude sale and distribution of units issued by the Mutual Fund. The aforesaid limit of 5 *per cent* shall apply for a block of any three months.

b. The AMC shall not purchase or sell securities through any broker [other than a broker referred to in point (10 a)] which is average of 5 *per cent* or more of the aggregate purchases and sale of securities made by the Mutual Fund in all its schemes, unless the AMC has recorded in writing the justification for exceeding the limit of 5 *per cent* and reports of all such investments are sent to the Trustees on a quarterly basis. The aforesaid limit shall apply for a block of three months.

(11) The AMC shall not utilize the services of the sponsor or any of its associates, employees or their relatives, for the purpose of any securities transaction and distribution and sale of securities. However, the AMC may utilize such services if disclosure to that effect is made to the Unit holders and the brokerage or commission paid is also disclosed in the half-yearly annual accounts of the Mutual Fund. Provided further that the Mutual Funds shall disclose at the time of declaring half yearly and yearly results

(i) Any underwriting obligations undertaken by the schemes of the Mutual Funds with respect to issue of securities associate companies,

(ii) Devolvement, if any,

(iii) Subscription by the schemes in the issues lead managed by associate companies, and

(iv) Subscription to any issue of equity or debt on private placement basis where the sponsor or its associate companies have acted as arranger or manager.

(12) The AMC shall file with the Trustees the details of transactions in securities by the key personnel of the AMC in their own name or on behalf of the AMC and shall also report to the SEBI, as and when required by the SEBI.

(13) In case the AMC enters into any securities transactions with any of its associates a report to that effect shall be sent to the Trustees at its next meeting.

(14) In case any company has invested more than 5 *per cent* of the net asset value of a scheme, the investment made by that scheme or by any other scheme of the same Mutual Fund in that company or its subsidiaries shall be brought to the notice of the Trustees by the AMC and be disclosed in the half-yearly and annual accounts of the respective schemes with justification for such investment provided that the latter investment has been made within one year of the date of the former investment calculated on either side.

(15) The AMC shall file with the Trustees and the SEBI—

a. Detailed bio-data of all its directors along with their interest in other companies within fifteen days of their appointment;

b. Any change in the interests of directors every six months; and

c. A quarterly report to the Trustees giving details and adequate justification about the purchase and sale of the securities of the group companies of the sponsor or the AMC, as the case may be, by the Mutual Fund during the said quarter.

(16) Each director of the AMC shall file the details of his transactions of dealing in securities with the Trustees on a quarterly basis in accordance with guidelines issued by the SEBI.

(17) The AMC shall not appoint any person as key personnel who has been found guilty of any economic offence or involved in violation of securities laws.

(18) The AMC shall appoint Registrars and Transfer Agents (RTA) who are registered with the SEBI. Provided if the work relating to the transfer of units is processed in-house, the charges at competitive market rates may be debited to the scheme and for rates higher than the competitive market rates, prior approval of the Trustees shall be obtained and reasons for charging higher rates shall be disclosed in the annual accounts.

(19) The Asset Management Company shall—

i. Not act as a Trustee of any Mutual Fund;

ii. Not undertake any other business activities except activities in the nature of portfolio management services, management and advisory services to offshore funds, pension funds, provident funds, venture capital funds, management of insurance funds, financial consultancy and exchange of research on commercial basis, if any, of such activities are not in conflict with the activities of the Mutual Fund. Provided that the AMC may itself or through its subsidiaries undertake such activities if it satisfies the SEBI that the key personnel of the AMC, the systems, back office, bank and securities accounts are segregated activity-wise and there exist systems to prohibit access to inside information of various activities. Provided further that the AMC shall meet capital adequacy requirements, if any, separately for each such activity and obtain separate approval, if necessary under the relevant regulations.

iii. The AMC shall not invest in any of its schemes unless full disclosure of its intention to invest has been made in the Scheme Information Documents in case of schemes launched after the notification of these regulations. Provided that the AMC shall not be entitled to charge any fees on its investment in that scheme.

20. The AMC shall abide by the Code of Conduct as specified in the Fifth Schedule of the SEBI Regulations.

21. The AMC for each scheme shall keep and maintain proper books of account, records and documents, for each scheme so as to explain its transactions and to disclose at any point of time the financial position of each scheme and in particular give a true and fair view of the state of affairs of the Fund and intimate to the SEBI the place where such books of account, records and documents are maintained.

22. The AMC shall maintain and preserve for a period of eight years its books of account, records and documents.

23. The AMC shall adopt transparency of valuation norms

#### **Procedures to be followed for investment decisions**

The AMC appoints an Investment Committee, which is headed by the Chief Executive Officer of the AMC. The other members of the Committee are Deputy CEO, Executive Directors, Head Risk, Head Equity, Head Debt and Compliance Officer.

The main function of the investment committee is to finalize the Investment policy and philosophy for each scheme within the above frame work, set industry-wise sector-wise and counterparty-wise exposure limit, monitor performance of the schemes, review rating of instruments, review credit information on all counterparties and issuers etc. **However, the day to day investment management decisions will solely be of Managers of the respective Schemes.** The Fund Manager of the Scheme is responsible for making buy / sell decisions for the Scheme's portfolio and seeks to develop a well-diversified portfolio taking into account the asset allocation patterns of various schemes along with risks that are associated with such investments.

The investment decisions are made on an ongoing basis keeping in view the market conditions and other regulatory aspects

All investment decisions, relating to the Schemes, has to be undertaken by the AMC in accordance with the Regulations, the investment objectives specified in the SID and the Investment Policy manual of the AMC. All investment making decisions taken by the AMC in relation to the Schemes have to be recorded. All investment decisions shall be recorded in terms of SEBI Circular No. MFD/CIR/6/73/2000, dated July 27, 2000 as amended from time to time.

Performance of the Schemes is tabled before the boards of the AMC and the Trustee respectively at periodic intervals as specified under the Regulations. Performance of the Schemes vis-à-vis their respective benchmark indices is periodically monitored by the boards of the Trustee and the AMC. Tracking error risk is monitored by the board. Further, the Boards of the Trustee and the AMC also reviews the performance of the Schemes in the light of performance of the Mutual Fund industry.

The Chief Executive Officer of the AMC shall inter-alia ensure that the investments made by the fund managers are in the interest of the Unit-holders. The Fund Manager shall ensure that the funds of the Scheme(s) are invested in line with the investment objective of the Scheme(s) and in the interest of the Unit holders.

**It is the responsibility of the AMC to seek to ensure that the investments are made as per the Regulatory guidelines, the investment objective of the Scheme and in the interest of the Unit holders of the Scheme.**

The AMC has to keep a record of all investment decisions in accordance with the guidelines issued by SEBI.

#### **Act, Rules, Documents applicable to AMCs**

- i) Companies Act 2013 and the Rules there-under
- ii) Income Tax Act 1961 and the Rules there-under
- iii) SEBI (Mutual Fund) Regulations, 1996, as amended from time to time
- iv) Investment Management Agreement entered into with the Mutual Fund
- v) The Securities Contract (Regulation) Act, 1956 and the rules made thereunder.
- vi) The Depositories Act, 1996 and the regulations and the bye-laws framed thereunder.
- vii) Foreign Exchange Management Act, 1999 and the rules & regulations made thereunder.

#### **Provisions of SEBI (MF) Regulations, 1996 for Accounts and Audit**

The Regulation 50 lays down the provisions relating to maintenance of Books of Accounts by MF AMC Company.

The relevant provisions are as follows:

(1) Every Asset Management Company shall keep and maintain proper books of account, records and documents, for each scheme so as to explain its transactions and to disclose at any point of time the financial position of each scheme and in particular give a true and fair view of the state of affairs of the fund and intimate to the Board the place where such books of account, records and documents are maintained.

(2) Every Asset Management Company shall maintain and preserve for a period of eight years its books of account, records and documents.

(3) The Asset Management Company shall follow the accounting policies and standards as specified in the Ninth Schedule so as to provide appropriate details of the scheme-wise disposition of the assets of the fund at the relevant accounting date and the performance during that period together with information regarding distribution or accumulation of income accruing to the unitholder in a fair and true manner

The Regulation 61 lays down the provisions relating to Board's (SEBI) right to inspect and investigate the affairs of a Mutual Fund, the Trustees and Asset Management Company.

The relevant provisions are as follows:

(1) The Board may appoint one or more persons as inspecting officer to undertake the inspection of the books of account, records, documents and infrastructure, systems and procedures or to investigate the affairs of a Mutual Fund, the Trustees and Asset Management Company for any of the following purposes, namely

a) to ensure that the books of account are being maintained by the mutual fund, the Trustees and Asset Management Company in the manner specified in SEBI regulations;

b) to ascertain whether the provisions of the Act and SEBI regulations are being complied with by the Mutual Fund, the Trustees and Asset Management Company;

c) to ascertain whether the systems, procedures and safeguards followed by the Mutual Fund are adequate;

d) to ascertain whether the provisions of the Act or any rules or regulations made there-under have been violated;

e) to investigate into the complaints received from the investors or any other person on any matter having a bearing on the activities of the Mutual Funds, Trustee and Asset Management Company;

f) to *suo-moo*-ensure that the affairs of the Mutual Fund, Trustee or Asset Management Company are being conducted in a manner which is in the interest of the investors or the securities market

SEBI exercises its Regulatory functions over Mutual Funds including Asset Management Companies under Chapter IV of the SEBI Act 1992, which lays down the Power and Functions of the Board.

Further, SEBI's Regulatory functions are also laid down in SEBI's Master Circular for Mutual Funds, which lays down various provisions in respect of Offer Document for Schemes, Consolidation of Schemes, New Products, Risk Management Systems, Disclosure Reporting, Governance norms, Net Asset Value, Valuation, Investment by Schemes, Investor Rights & Obligations, Secondary Market issues, Dividend Distribution procedure, Transaction in Mutual Fund units, Certification and Registration of Intermediaries etc.

The Audit Checks to be exercised by the C & AG of India thus do not transgress into the areas which is within the Regulatory domain of SEBI, in so far as oversight functions of Mutual Funds AMCs, to be exercised by SEBI, are associated.

**The Audit Checks for Mutual Fund AMC Companies, to be exercised by this Office, have been broadly devised based on the following :**

1. Whether the MF AMC Company is complying with the Duties and Obligations of MF AMCs as per SEBI (MF) Regulations
2. Whether the MF AMC Company is complying with the Accounting Policies of MF AMCs

Whereas, SEBI's Oversight (under Regulation 61) as Regulator is as per the provisions of SEBI (MF) Regulations, 1996,

**Thus, our Role as Auditor of Mutual Fund AMC Companies does not overlap with SEBI's Regulatory functions since the scope of the two are different as can be seen from above**

A brief write up on Mutual Funds, including *inter alia*, the meaning of Mutual Fund, types of Mutual Fund schemes, Total Expense Ratio, Registration of Mutual Fund with SEBI, Tripartite relation between Sponsor, Trustee and Asset Management Company, focus areas of Internal Audit of Mutual fund including Compliances and Risk Management etc has also been included in this Chapter after Mutual Fund Asset Management Companies being audited by this Office.

### **General Audit Checks in respect of Mutual Funds Asset Management Companies**

The Assets Under Management through various schemes managed by Mutual Fund Asset Management Companies (AMCs) are not reflected in its Balance Sheet since these Assets do not form part of the Mutual Fund AMCs. Therefore, the C&AG Audit does not look into the operation of these schemes including decision making regarding acquisition, management and disposal of the assets managed by the AMC and expresses no opinion on the soundness of the investments.

Subject to above Disclaimer, the following are the general audit checks in respect of MF AMCs:

- i) To examine whether all investment decisions, relating to the Schemes, have been undertaken by the AMC in accordance with the SEBI Regulations, the investment objectives specified in the Scheme Information Document (SID) and the Investment Policy Manual of the AMC. Further, Audit to examine whether all investment making decisions taken by the AMC in relation to the Schemes have been duly recorded.
- ii) To examine whether the Performance of the Mutual Fund Schemes has been tabled before the board of the AMC at periodic intervals as specified under the SEBI Regulations, and has been periodically monitored by the board of the AMC vis-à-vis their respective benchmark indices, in the light of performance of the Mutual Fund industry.
- iii) Whether the AMC appointed Registrar and Transfer agents (RTA) who are registered with the SEBI.
- iv) If the work (of RTA) relating to the transfer of units has been processed in-house, whether the AMC debited to the scheme, the charges at competitive market rates, and for rates higher than the competitive market rates, whether prior approval of the Trustees was obtained and reasons for charging higher rates was disclosed in the annual accounts
- v) To examine whether Management Fee is recognized at specified rates agreed with the relevant schemes applied on daily net assets of each scheme on accrual basis as per SEBI Regulations.

- vi) Whether the AMC abided by the Code of Conduct as specified in the Fifth Schedule of the SEBI Regulations
- vii) Whether the AMC submitted to the Trustees quarterly reports of each year on its activities and the compliance with the SEBI Regulations
- viii) Whether the AMC ensured not to appoint any person as key personnel who has been found guilty of any economic offence or involved in violation of securities laws
- ix) Under SEBI (Mutual Funds) Regulations, 1996, Mutual Funds are permitted to incur / charge certain operating expenses for managing a Mutual Fund scheme – such as sales & marketing / advertising expenses, administrative expenses, transaction costs, investment management fees, registrar fees, custodian fees, audit fees – as a percentage of the fund's daily net assets. This is commonly referred to as 'Expense Ratio'. In short, Expense ratio is the cost of running and managing a Mutual Fund which is charged to the scheme. To examine whether all expenses incurred by a Mutual Fund Asset Management Company (AMC) are within the limits specified under Regulation 52 of SEBI Mutual Fund Regulations.
- x) To examine booking of Scheme Expenses in the Books of AMC. Expenses of the schemes of Mutual Fund in excess of the limits prescribed by the Regulations are required to be borne by the Company and as such are charged to the Profit and Loss Account
- xi) To examine the booking of Investment Management Fees in Accounts. Investment Management Fees are recognized net off service tax/GST on accrual basis as a percentage of the average daily net assets of the schemes of Mutual Fund, so that it does not exceed the rates prescribed by the SEBI (Mutual Fund) Regulations, 1996, as amended.
- xii) To examine whether Investment Advisory Fees are recognized on accrual basis in accordance with the terms of the contract with the customer
- xiii) To examine whether Upfront Brokerage paid in case of Open Ended Equity Linked Tax Saving Schemes are amortized over the period of 36 months, and in case of any other open ended scheme, over the claw back period. In case of close ended schemes, upfront brokerage is to be amortized over the tenure of the scheme.
- xiv) To examine whether the Launch expenses relating to New Fund Offer (NFO) are to be charged to the Statement of Profit and Loss in the year in which they are incurred and for close ended scheme it is to be charged to the Statement of Profit and Loss over the tenure of the Scheme
- xv) To examine whether all recurring expenses of the schemes of the Mutual Fund including the amounts in excess of the limits prescribed by the SEBI (Mutual Fund) Regulations Act 1996, as amended, or in excess of limits and as given in

the Scheme Information Document that are required to be borne by the Asset Management Company as per the said Regulations, are charged to the Statement of Profit and Loss as Scheme related expenses.

- xxvi) To examine whether Profit/Loss on Sale of investments is accounted on trade date basis. The Profit/Loss on sale of investments is calculated on weighted average basis. As per the Accounting Policy on booking of 'Other Income', Purchase and Sale of Investments is recognized in the Statement of Profit and Loss on Trade Date. Investments are classified as Long Term or Current based on the intention of the Management at the time of purchase. Long Term Investments are carried at carrying cost less diminution in value other than temporary in nature, determined separately for each individual investment. Current Investments are carried at lower of cost and market value. Any reduction in carrying amount and any reversals of such reductions are charged or credited to the Statement of Profit and Loss.
- xxvii) To examine whether Expenses incurred on behalf of schemes of the Mutual Fund are recognized in the statement of profit & loss unless considered recoverable from the schemes in accordance with the provision of SEBI (Mutual Fund) regulations, 1996
- xxviii) To examine whether all other Scheme expenses like rating Fees, initial issue expenses, license fees etc are charged to Statement of Profit & Loss, as per the approval of the Board of Directors and norms of the industry
- xix) To examine the Portfolio Management fees charged as per the Agreements.
- xx) The methodology and correctness of the accounting of securities may be verified in audit. To examine that the securities are physically verified at fixed intervals.
- xxi) To examine that the Company undertakes investment activities of its own surplus funds. To ensure that the financial interest of Mutual Fund holders are adequately safeguarded while investing the surplus funds also
- xxii) To examine the norms for empanelment of brokers and marketing agents
- xxiii) To examine the compliance report sent to SEBI and Internal audit reports for suitable comment if any
- xxiv) To examine the adequacy of Provision in Audit, and similar other cases of default of investments made by the Company in Debt Securities.
- xxv) To examine whether Upfront Brokerage/Commission/Incentives paid to the distributors and expenses incurred for selling Equity Linked Saving Schemes/close ended schemes of Mutual Fund are treated as prepaid expenses incurred for the year and such amounts are expensed out over a period of three year/tenure of the Schemes



- xxvi) To examine whether any other Brokerage/Commission/Incentive is expensed in the year in which they are incurred
- xxvii) To examine whether the AMCs have conducted the Systems Audit on an annual basis by an independent CISA/CISM qualified or equivalent auditor to check compliance with the requirements contained in SEBI Circular dated 11 April 2019 in respect of mandatory Systems Audit.
- xxviii) To examine instances of Defaults of Investments made by the Company in Debt Securities, any default in meeting the obligations in respect of Debt Securities, and the provisions made in respect thereof. To cite an example, IDBI Mutual Fund had made Investment in Debt Securities issued by Bilt Graphic and Paper Products Ltd, which had not been paid by BGPPL (31.03.2018). IDBI AMC had advanced a sum of Rs 26.75 crore considering long term and larger interests of the scheme investors. Considering the scenario, a sum of Rs 13.725 crore had been provided in the Books as on 31.03.2018 by IDBI AMC as on 31.03.2018. Audit check involved here is to examine the prudence of investment decisions made by the AMC Companies and whether the investment decisions were made as per the investment policies of the AMCs, the Regulatory requirements, credit rating of the securities, the market conditions prevailing at the time of investments etc

## **2.1 BOI AXA INVESTMENT MANAGERS PRIVATE LIMITED**

### **2.1.1 Introduction**

BOI Axa Investment Managers Private Limited (formerly known as Bharti AXA Investment Managers Private Ltd) has been incorporated on 13 August 2007. The Company is under the Administrative Control of Ministry of Corporate Affairs. The Company has been formed as a Joint Venture between Bank of India with 51 *per cent* Equity Holding and AXA Investment Managers Asia Holdings Pvt Ltd with 49 *per cent* Equity Holding in the Company as on 31 March 2018.

The Company functions as the Asset Management Company to BOI AXA Mutual Fund. The Company has 13 Branches.

The following are the Fellow Subsidiary Companies of the Company

- i) BOI AXA Trustees Services (P) Ltd
- ii) BOI Merchant Bankers Ltd
- iii) BOI Shareholding Ltd

### **2.1.2 Objectives**

The Company has been appointed as the **Asset Management Company** to provide management and administrative services to BOI AXA Mutual Fund and to deploy the funds raised by the Mutual Fund under the schemes in accordance with the Investment Management Agreement (IMA) dated 16 November 2007, as amended by Agreement (IMA) dated 24 May 2012 between BOI AXA Trustee Services Private Limited and the Company.

### **2.1.3 Activities**

The source of Revenue for the Company is by way of Management Fees from the schemes of Mutual Fund in accordance with the Investment Management Agreement and are dependent on the Net Asset Value as recorded by the schemes of BOI AXA Mutual Fund.

During the period from April 1, 2013 to March 31, 2018, the Assets Under Management (AUM) of BOI AXA Mutual Fund have grown from Rs. 430 crores to Rs 4,858 crores, an increase of 62.4 *per cent* CAGR.

During the financial year ended March 31, 2018, the AUM for BOI AXA Mutual Fund ("Mutual Fund") grew to Rs. 4,858 crores as on March 31, 2018 as against Rs. 3,622 crores as at the end of previous year. The AMC managed ten open-ended schemes and four close ended schemes during this year for the Mutual Fund. There were 92825 accounts under all the schemes of the Fund as at March 31, 2018. Investor Service is extended through 13 branches of the AMC and 56 branches of the Fund's registrars, Karvy Computershare Pvt. Ltd, where the transactions of the investors are accepted.

### **2.1.4 Organizational Set up**

The Company has a Board of Directors and the Chief Executive Officer of the Company is responsible for the overall operations. As on 31 March 2018, the Board of Directors of the Company consisted of six Directors, out of which four were Independent Directors and two were nominated by AXA Investment Managers (IM). All the Directors of the Company are Non Executive Directors. The Company also has a Board constituted Audit and Compliance Committee, Nomination and Remuneration Committee and Risk Management Committee.

The following report to CEO:

- i) Chief Investment Officer – Fixed Income, Equity, Research
- ii) Head- Human Resources, Learning, Organizational Development
- iii) Head- Products, Risk Management IT & Finance
- iv) Head- Sales, Business Development & Marketing
- v) Company Secretary and Head- Compliance & Legal

The following are the Functional Departments :

- i) Operations
- ii) Risk
- iii) Finance
- iv) IT
- v) Legal, Compliance & Secretarial
- vi) Institutional Sales
- vii) Retail Sales
- viii) Customer Service
- ix) Marketing & Communication
- x) Administration
- xi) Fund Management
- xii) Research

### **2.1.5 Capital Structure**

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 21,50,00,000 equity shares of Rs 10 each aggregating to Rs 215 crore. The Issued, Subscribed, and Paid Up Equity Share Capital as on 31 March 2018 is Rs 214,60,35,840 comprising of 21,46,03,584 equity shares of Rs 10 each fully paid up.

As on 31 March 2018, Bank of India is holding 10,94,47,828 equity shares of Rs 10 each in the Company (51 *per cent* Equity Holding) and AXA Investment Managers Asia Holdings (P) Ltd is holding 10,51,55,756 equity shares of Rs 10 each in the Company (49 *per cent* Equity Holding).

## 2.1.6 Budget and Planning

(Rs in crore)

Years	2015-16		2016-17		2017-18	
Particulars	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	--	0.27	--	0.85	--	0.77
Revenue Expenditure	45.77	40.98	48.04	47.62	57.55	64.54
Revenue/Turnover	32.46	23.44	34.63	34.95	48.97	59.54
Profit/(Loss) for the year	(13.30)	(17.54)	(13.40)	(12.66)	(8.57)	(4.99)

## 2.1.7 Accounting System

The Company has Centralized System of Accounting. The Company prepares the financial statements on accrual basis of Accounting in accordance with the historical cost convention. The Company follows the applicable Accounting Standards issued by the Institute of Chartered Accountants of India and relevant provisions of the Companies Act 2013 to the extent applicable.

## 2.1.8 Manpower Analysis

As on 31 March 2018, the Company had 63 Employees, of whom 46 were Managerial and 17 were Non Managerial employees.

## 2.1.9 MOU Targets and Achievements

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

## 2.1.10 Computerization

The Company had the following IT systems

- i) SUNGL
- ii) NDS-OM
- iii) Treps
- iv) Crows & Bloomberg

As per SEBI Regulations, 1996, the IT System Audit is required to be conducted once every two years by an independent CISA/CISM qualified or an equivalent auditor. The Systems Audit has been conducted for the period April 2014 to March 2016 and April 2016 to March 2018.

## 2.1.11 Internal Audit

The Internal Audit of the Company is conducted by a professional firm of Chartered Accountants on a Half Yearly basis. The Manual of Internal Audit is available with the Company.

## 2.1.12 Act, Rules, Documents

- i) Companies Act 2013

- ii) SEBI (Mutual Fund) Regulations 1996
- iii) IMA Investment Management Agreement) dated 16 November 2007, as amended by Agreement (IMA) dated 24 May 2012 between BOI AXA Trustee Services Private Limited and The Company.

### 2.1.13 Operational Results

During the year 2017-18, Revenues increased from Rs 35 crores to Rs 60 crores and the Company saw a big drop in Net losses to Rs 5 crores from Rs 13 crores in the previous year 2016-17.

Revenue from Operations was as follows:

(Rs. in crore)

Particulars	2017-18	2016-17
Investment Management Fees – Gross	55.86	30.63
PMS Service Fees	--	0.05
<b>Total Revenue from Operations</b>	<b>55.86</b>	<b>30.69</b>

### 2.1.14 Financial Working Results

(Rs. in crore )

Particulars	2017-18	2016-17
Revenue from Operations	55.86	30.69
Other Income	3.68	4.26
<b>Total Income</b>	<b>59.54</b>	<b>34.95</b>
Total Expenses	64.54	47.62
Profit / (Loss) Before Exceptional items	(4.99)	(12.66)
Exceptional items	--	--
<b>Profit (Loss) Before Tax</b>	<b>(4.99)</b>	<b>(12.66)</b>
Tax	--	--
<b>Profit (Loss)After Tax</b>	<b>(4.99)</b>	<b>(12.66)</b>

### 2.1.15 Audit Checks:

The General Audit Checks for Mutual Fund Asset Management Companies which have already been specified previously in this Chapter may be referred to.

## 2.2 UTI ASSET MANAGEMENT COMPANY LIMITED

### 2.2.1 Introduction

In terms of the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002, all the Schemes/Plans of the erstwhile Unit Trust of India stood transferred to and vested in UTI Trustee Company Private Ltd, the Trustee Company of UTI Mutual Fund and the Administrator of the Specified Undertaking of the Unit Trust of India with effect from the appointed day, i.e., 1 February 2003.

In accordance with the SEBI (Mutual Fund Regulations) 1996, UTI Mutual Fund has been structured comprising a three tier structure, namely, UTI Mutual Fund, UTI Trustee Company (P) Ltd (the Trustee Company to UTI Mutual Fund) and UTI Asset Management Company Ltd (the Investment Managers to UTI Mutual Fund). UTI Mutual Fund has been constituted as a Trust on 9 December 2002, in accordance with the provisions of the Indian Trusts Act, 1882 (2 of 1882) with Bank of Baroda, Punjab National Bank, State Bank of India and Life Insurance Corporation of India as the Sponsors and UTI Trustee Company Private Ltd as the Trustee.

**UTI Asset Management Company Private Ltd (UTI AMC)** was incorporated on 14 November 2002 under the Companies Act 1956. Subsequently, the status was changed to a Public Limited Company and the name of the Company was accordingly changed to UTI Asset Management Company Ltd by a Special Resolution passed at the Annual General Meeting of the Company on 18 September 2007. A fresh Certificate of Incorporation, consequent to the change of name, was granted on 14 November 2007, by the Registrar of Companies, Maharashtra, Mumbai. UTI AMC was approved by SEBI to act as the Asset Management Company for UTI Mutual Fund vide letter dated 14 January 2003.

UTI AMC manages the schemes of the UTI Mutual Fund in accordance with the provisions of the Investment Management Agreement dated 9 December 2002, (executed between UTI Trustee Company Private Ltd and UTI AMC), the Trust Deed, the SEBI (Mutual Funds) Regulations and the objectives of the scheme. The Company's Registered Office is at Mumbai. The Company has 150 UFCs (UTI Financial Centres) all over India.

The Company (UTI AMC) has four subsidiary companies, which are as follows:

- i) UTI International Ltd., a 100 *per cent* subsidiary of UTI AMC, registered in Guernsey, Channel Islands, acts as a Manager to Offshore Funds and markets these Offshore Funds abroad
- ii) UTI Venture Funds Management Co. Ltd., a 100 *per cent* subsidiary of UTI AMC, acts as a venture capital manager to venture capital schemes
- iii) UTI Retirement Solutions Ltd., a 100 *per cent* subsidiary of UTI AMC, acts as a Pension Fund Manager under PFRDA Regulations

- iv) UTI Capital Private Ltd., a 100 *per cent* subsidiary of UTI AMC acts as a Fund Manager to private equity business and other alternate asset funds

Of the above four Subsidiary Companies of UTI AMC, the Office of Director General of Commercial Audit and ex-officio Member, Audit Board-I Mumbai conducts the Audit of two Subsidiary Companies of UTI AMC, viz., UTI Capital (P) Ltd and UTI Retirement Solutions Ltd. Of the balance two Companies, UTI International Ltd is a Foreign Company and UTI Venture Fund Management Co Ltd is having its Registered Office at Bangalore.

### **2.2.2 Objectives**

UTI AMC manages the schemes of the UTI Mutual Fund in accordance with the provisions of the Investment Management Agreement dated 9 December 2002, (executed between UTI Trustee Company Private Ltd and UTI AMC), the Trust Deed, the SEBI (Mutual Funds) Regulations and the objectives of the scheme.

The objective of the fund management in UTI Mutual Fund is to deliver stable and consistent returns in the medium to long term, with a fairly lower level of volatility compared to the broader market.

### **2.2.3 Activities**

The Company (UTI AMC) carries on the activities of raising funds for and to render investment management services to the schemes of UTI Mutual Fund.

The Company (UTI AMC) is also undertaking Portfolio Management Services to clients under SEBI (Portfolio Managers) Regulations, 1993, pursuant to a certificate granted by the SEBI.

The Company is registered with SEBI under the SEBI (Mutual Fund) Regulations, 1996. The Company has received a Certificate from SEBI to act as a Portfolio Manager.

As on 31.03.2018, UTI Mutual Fund had 231 schemes in operation with Average Asset Under Management (AAUM) of Rs 1,54,939 crore as against Rs 1,36,810 crore in FY 2016-17.

As on 31.03.2018, there were 231 Schemes/Plans offered by the UTI-MF, out of which 33 were equity funds, 190 were income funds, 2 were liquid funds and 6 were balanced/hybrid funds. During the period, 6 equity schemes and 34 debt schemes were launched and the total funds mobilized were Rs 2061.46 crore and Rs 3638.75 crore respectively. On the other hand, 38 debt schemes and 1 equity scheme were closed or matured. UTI MF had 1.08 crore investor folios as on 31 March 2018.

### **2.2.4 Organizational Set up**

The Board of Directors of the Company (UTI AMC) is responsible for the overall management, superintendence and control over the affairs of the Company in accordance with the provisions of the Companies Act 2013. As on 31 March 2018, the Board of Directors of the Company consisted of Managing Director and 8 Non Executive Directors.

The Company has various Board constituted Committees such as Audit Committee, Nomination and Remuneration Committee, Risk Management and Scheme Performance Review Committee, CSR Committee, Stakeholders Relationship Committee cum Share Allotment Committee etc.

The appointment of Directors in the Company (UTI AMC Ltd) is made in accordance with the provisions of Companies Act, 2013, and the Rules made thereunder, the Articles of Association, the Shareholders Agreement and also the regulations prescribed under SEBI (Mutual Fund) Regulations.

As per SEBI (Mutual Fund) Regulations, the Board of UTI AMC Ltd shall have 50 *per cent* Independent Directors, who qualify as independent Directors in accordance with the Regulations.

As per the Companies Act, 2013, and the Rules made thereunder, the Board of UTI AMC shall have at least two independent Directors.

The appointment of the Directors is based on the recommendations received from the Institutional shareholders in accordance with the Shareholders Agreement.

The appointment of the proposed Director is pre-approved by the Trustees. Thereafter, the Board of Directors approves the appointment as an additional Director and this appointment is approved by the shareholders in the next General Meeting as a regular appointment.

### **2.2.5 Capital Structure**

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 20 crore equity shares of Rs 10 each aggregating to Rs 200 crore.

The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 12.679 crore equity shares of Rs 10 each aggregating to Rs 126.79 crore.

With effect from 20 January 2010, the Sponsors, viz., State Bank of India, Bank of Baroda, Punjab National Bank and Life Insurance Corporation of India, which are also the shareholders of UTI AMC, have sold 26 *per cent* of their respective shareholdings in UTI AMC in equal proportion to T Rowe Price International Ltd, UK, a wholly owned subsidiary of T Rowe Price Group Inc (a NASDAQ listed company founded in 1937), as a strategic investor.

The following was the equity holding pattern in UTI AMC Ltd as on 31.03.2018

Name of Shareholder	No. of Equity Shares of Rs 10 each held in UTI 7 saAMC Ltd (in crore)	Percentage of Equity Holding as on 31.03.2018
State Bank of India	2.3125	18.24 %
LIC of India	2.3125	18.24 %
Bank of Baroda	2.3125	18.24 %
Punjab National Bank	2.3125	18.24 %
T Rowe Price International	3.2965	26.00 %
Total	12.5465	



## 2.2.6 Budget and Planning

(Rs in crore)

Years	2015-16		2016-17		2017-18	
Particulars	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	32	7	27	6	35	9
Revenue Expenditure	416	407	426	453	491	520
Revenue/Turnover	682	687	751	758	865	876
Profit for the year After Tax	230	232	271	291	356	376

### 2.2.7 Accounting System

The Company has a Centralized system of Accounting. The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in India (Indian GAAP). The Company prepares the Financial Statements to comply in all material respects with the Accounting Standards as notified by the Companies (Accounting Standards) Rules, 2006 (as amended), referred to in Section 133 of the Companies Act 2013, read with Rule 7 of the Companies (Accounts) Rules, 2014. The Company prepares the Financial statements on accrual basis under the historical cost convention.

### 2.2.8 Manpower Analysis

As on 31 March 2018, the Company had 834 Managerial and 419 Non Managerial Employees.

### 2.2.9 Computerization

The Company has SAP ERP/IT System. The said SAP system was audited during the period 2015-16 to 2017-18.

### 2.2.10 Internal Audit

The Internal Audit of the Company has been conducted by an Outside Agency on Quarterly basis, during the period 2015-16 to 2017-18. The Company also has an Audit Committee of the Board constituted in accordance with the provisions of the Companies Act 2013.

The terms of reference of the Audit Committee include approving and implementing the audit procedures and techniques, reviewing the financial reporting system, internal control systems and procedures.

The Audit Committee also reviews the status of Non Performing Assets of UTI Mutual Fund, reports of Internal Auditors and Statutory Auditors, along with the comments and action taken by the Management.

### 2.2.11 Operational Results

During the year 2017-18, the segment wise income earned is given below

(Rs in crore)

Sr	Particulars	Audited 2017-18	Budget 2017-18	Audited 2016-17
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A	AMC Fees from the schemes of UTI MF	847	835	729
B	AMC Fees from the offshore schemes	6	8	8
C	Fees from PMS division	9	9	8
D	Fees from Spectrum Fund, Milltrust, NPS Point of Presence	1	0	0
E	Support fees from the schemes of SUUTI	13	13	13

Note – 0 indicates figure is less than Rs 50 lakh

The category wise AMC Fees received from UTI Mutual Fund is given below

(Rs in crore)

Sr	Particulars- Funds	Avg AUM 2017-18	AMC Fees 2017-18	Avg AUM 2016-17	AMC Fees 2016-17	AMC Fees % change
	Equity	48,897	486	38,174	448	+8.48 %
	Balance/Hybrid	17,080	194	11,935	151	+28.47 %
	Income	50,588	164	52,363	122	+ 34.42 %
	Liquid	38,374	3	34,338	8	-66.66 %
A	UTI MF	1,54,939	847	1,36,810	729	+ 16.18 %
B	Offshore Schemes/Funds	8,420	7	8,147	8	-12.5 %
C	PMS	1,18,954	9	1,01,522	8	+12.5 %
D	SUUTI <sup>@</sup>	45,427	13	56,026	13	--
	Total	3,27,740	876	3,02,505	758	+15.56 %

<sup>@</sup>SUUTI was formed by the restructuring of the erstwhile Unit Trust of India (UTI) into UTI Trustee Company Private Ltd, acting through SEBI registered UTI Mutual Fund, UTI Asset Management Co. Ltd as the Investment Manager and the SUUTI. It came into effect with effect from 1 February 2003 on the passing of the Unit Trust of India (Transfer of Undertaking and Repeal) Act 2002 (Repeal Act), which was gazetted on 18 December 2002. SUUTI has been entrusted with the responsibility of managing the schemes mentioned in Schedule I of the Repeal Act.

Management Fees are accounted for by UTI AMC on accrual basis in accordance with the Investment Management and Advisory Agreement with the UTI Trustee Co. (P) Ltd, Services Agreement with the Administrator of the Specified Undertaking of Unit Trust of India (SUUTI) and agreements with the clients of the Wealth Management Division of UTI Asset Management Co Ltd. It is based on the audited net asset value as recorded by the Schemes of the UTI Mutual Fund. Fees from SUUTI are charged based on mutual agreement.

The AUM (Assets Under Management) of Funds Management by UTI International Ltd (100 *per cent* subsidiary of UTI AMC) were Rs 18791 crore as on 31 March 2018 as compared to Rs 21753.5 crore

The Consolidated financials of UTI AMC are prepared based on the 100 *per cent* ownership interest (as on 31 March 2018) in the following subsidiaries of UTI AMC

1. UTI Venture Funds Management Co. (P) Ltd
2. UTI International Ltd
3. UTI Retirement Solutions Ltd
4. UTI Capital (P) Ltd
5. UTI International (Singapore) Pvt Ltd., a subsidiary of UTI International Ltd, Guernsey

6. UTI Investment Management Company (Mauritius) Ltd., a subsidiary of UTI International Ltd., Guernsey
7. UTI Private Equity Advisors, a Subsidiary of UTI Venture Funds Management Co (P) Ltd

The Revenue from Operations were as follows:

(Rs.in crore)

Particulars	2017-18	2016-17
Revenue from Operations		
Sale of Services		
Management Fees	875.42	757.42
Advisory Fees	0.23	0.09
Total from Sale of Services	875.65	757.51
Other Operating Revenue		
Fees relating to Point of Presence under New Pension Scheme	0.30	0.26
Total Other Operating Revenue	0.30	0.26
Total Revenue from Operations	875.95	757.77

### 2.2.12 Financial Working Results

(Rs. in crore )

Particulars	2017-18	2016-17
Revenue from Operations	875.95	757.77
Other Income	181.62	95.41
Total Income	1057.57	853.18
Total Expenses	520.02	452.65
Profit Before Exceptional items	537.55	400.53
Exceptional items/Prior Period items	0.58	2.01
Profit Before Tax	536.97	398.52
Tax	161.18	107.71
Profit After Tax	375.79	290.81

### 2.2.13 Audit Checks:

The General Audit Checks for Mutual Fund Asset Management Companies which have already been specified previously in this Chapter may be referred to.

### 2.2.14 Additional Audit Checks for UTI AMC LIMITED

- i) To examine whether the Management Fees are accounted for on accrual basis in accordance with the Investment Management and Advisory Agreement with the UTI Trustee Company Private Ltd., Services Agreement with the Administrator of the Specified Undertaking of Unit Trust of India (SUUTI) and the Agreements with the clients of the Wealth Management division of UTI AMC Ltd. It is based on the audited net asset value as recorded by the Schemes of UTI Mutual Fund. Fees from SUUTI is charged based on the mutual agreement. Management Fees from Portfolio Management Services is charged on the basis of agreements with the clients based on the audited portfolio values recorded by the Wealth Management Division of UTI AMC Ltd. Management Fees recognized should be in line with the SEBI (Mutual

Fund) Regulations, 1996 (SEBI Regulations), as amended from time to time, based on daily Net Asset Value.

- ii) To examine whether Non Performing Assets (NPA) Management Fees are charged for the services rendered towards recoveries of NPA Assets transferred from erstwhile UTI to schemes as per rate approved for the AMC fee on the basis of appropriation of recoveries made in the NPA Accounts.

## **2.3 IDBI ASSET MANAGEMENT LIMITED**

### **2.3.1 Introduction**

IDBI Asset Management Limited was incorporated under the Companies Act, 1956 on January 25, 2010. The Trustee Company has appointed IDBI Asset Management Limited as the investment manager to IDBI Mutual Fund.

IDBI Bank Limited and IDBI Capital Markets and Securities Limited are the shareholders of IDBI Asset Management Limited, holding 66.67 *per cent* and 33.33 *per cent* of equity shares of IDBI Asset Management Limited respectively as on March 31, 2018. IDBI Bank Ltd is the Holding Company. IDBI Capital Markets and Securities Ltd is the Company's Associate Company.

The Company (IDBI AMC) is having its Registered Office at IDBI Tower, WTC Complex, Cuffe Parade, Mumbai and its corporate office at Mafatlal Centre, Nariman Point, Mumbai. The Company has 12 Branches all over India.

IDBI Mutual Fund ("IDBIMF") was set up as a Trust by the settlor, IDBI Bank Limited on February 19, 2010 with IDBI MF Trustee Company Limited ("the Trustee Company") as the Trustees in accordance with the provisions of the Indian Trust Act, 1882 and is duly registered under the Indian Registration Act, 1908. The Trustee has entered into an Investment Management Agreement dated February 20, 2010 with IDBI Asset Management Limited ("the AMC") to function as the Investment Manager for all the Schemes of IDBI MF. IDBIMF was registered with SEBI on March 29, 2010 under Registration No.MF/064/10/01.

### **2.3.2 Objectives**

The main objective and the principal activity of the Company is to act as an Investment Manager and Advisor to IDBI Mutual Fund for all the schemes of IDBI Mutual Fund.

### **2.3.3 Activities**

IDBI Asset Management Ltd. has been appointed as the Asset Management Company of the IDBI Mutual Fund by the Trustee vide Investment Management Agreement (IMA) dated 20th February 2010, and executed between IDBI MF Trustee Company and IDBI AMC. IDBI Asset Management Limited is a subsidiary of IDBI Bank Limited. The AMC is currently not undertaking any other business activity except being acting as Investment Manager for the schemes of IDBI Mutual Fund. AMC had submitted an application for commencement of additional business as permitted u/s 24 (b) of SEBI (MF) Regulations, 1996, to SEBI undertaking to comply with the clauses of the aforesaid regulation which stipulates absence of any material conflict of interest. SEBI has conveyed their no objection for commencement of additional business as mentioned above, vide their letter dated April 10, 2013. As on 31.03.2018, the total Assets Under Management (AUM) of IDBI Mutual Fund has grown to Rs 7241.43 crore as against Rs 4697.51 crore as on 31.03.2017.

### 2.3.4 Organizational Set up

The Board of Directors of the Company is responsible for the overall management, superintendence and control over the affairs of the Company, under the provisions of the Companies Act 2013.

### 2.3.5 Capital Structure

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 25 crore equity shares of Rs 10 each aggregating to Rs. 250 crore. The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 20 crore equity shares of Rs 10 each aggregating to Rs 200 crore.

As on 31 March 2018, the Holding Company IDBI Bank Ltd held 13,33,40,000 number of Equity Shares of Rs 10 each constituting 66.67 *per cent* Equity Holding in the Company. IDBI Capital Market Services Ltd held 6,66,60,000 number of Equity Shares of Rs 10 each constituting 33.33 *per cent* Equity Holding in the Company.

### 2.3.6 Budget and Planning

(Rs in crore)

Years	2015-16		2016-17		2017-18	
Particulars	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	--	0.07	--	0.83	--	0.56
Revenue Expenditure	55.05	52.91	65.67	63.50	84.87	74.48
Revenue/Turnover	44.63	39.37	61.23	59.28	85.65	80.04
Profit/(Loss) for the year	(10.42)	(13.53)	(4.44)	(4.22)	1.19	5.56

### 2.3.7 Accounting System

The Company has Centralized system of Accounting. The Company prepares the financial statements under historical cost convention on the accrual basis of accounting and in accordance with the provisions of the Companies Act 2013, and the accounting principles generally accepted in India and comply with the Accounting Standards prescribed in the Companies (Accounting Standards) Rules, 2006, to the extent applicable.

### 2.3.8 Manpower Analysis

As on 31.03.2018, the Company had 49 Managerial and 83 Non Managerial Employees.

### 2.3.9 Computerization

The ERP/IT system in the Company is 'Sun System'. The IT system was audited in 2015-16.

### 2.3.10 Internal Audit

The Internal Audit of the Company is conducted by an Outside Agency on Quarterly basis. The Scope of Internal Audit and the Standard Operating Procedure (SOP) for Internal Audit is available with the Company.

### 2.3.11 Operational Results

The Revenue from Operations were as follows:

(Rs.in crore )

Particulars	2017-18	2016-17
Management Fees (Gross)	93.89	68.13
Less Service Tax/GST	13.86	8.85
<b>Management Fees (Net)</b>	<b>80.03</b>	<b>59.28</b>
<b>Total Revenue from Operations</b>	<b>80.03</b>	<b>59.28</b>

### 2.3.12 Financial Working Results

(Rs in crore)

Particulars	2017-18	2016-17
Revenue from Operations	80.03	59.28
Other Income	3.35	5.77
<b>Total Income</b>	<b>83.39</b>	<b>65.06</b>
Total Expenses	74.48	63.50
Profit Before Exceptional items	8.90	1.56
Exceptional items/Extraordinary items	13.72	--
<b>Profit/ (Loss) Before Tax</b>	<b>(4.81)</b>	<b>1.56</b>
Tax(Deferred Tax)	12.82	5.69
<b>Profit/ (Loss) After Tax</b>	<b>8.01</b>	<b>7.25</b>

### 2.3.13 Audit Checks:

The General Audit Checks for Mutual Fund Asset Management Companies which have already been specified previously in this Chapter may be referred to.

## **2.4 SBI FUNDS MANAGEMENT PRIVATE LIMITED**

### **2.4.1 Introduction**

SBI Funds Management Private Limited was incorporated on 7th February 1992 under the Companies Act, 1956 as a wholly owned subsidiary of State Bank of India (SBI) and is presently a joint venture between SBI and AMUNDI.

The Company has a fully owned foreign subsidiary namely SBI Funds Management (International) Private Limited, which is based at Mauritius and manages an Off-shore Fund. The Company's Associate Company is SBI Pension Funds Private Ltd. The Company's Registered Office is at Mumbai. The Company has a total of 170 Branches.

The Company has set up a Trust, i.e, SBI Alternative Equity Fund which is registered as an Alternative Investment Fund (AIF) – Category III Fund with SEBI under SEBI AIF Regulations 2012. SBI Funds Management (P) Ltd has been appointed as an Investment Manager of the said AIF by the Trustee to the Fund.

### **2.4.2 Objectives**

The objective of the Company is to act as an Investment Manager of SBI Mutual Fund.

### **2.4.3 Activities**

The Company operates under the approval granted by Securities and Exchange Board of India (SEBI) to act as the Investment Manager of SBI Mutual Fund. The Company manages the Investment Portfolios of the scheme(s) launched by the Fund and provides various administrative services to the Fund as laid down in the Investment Management Agreement dated December 29, 2004. The Company is also registered under the SEBI (Portfolio Managers) Regulations, 1993 and provides Portfolio Management Services (PMS) to domestic and international clients.

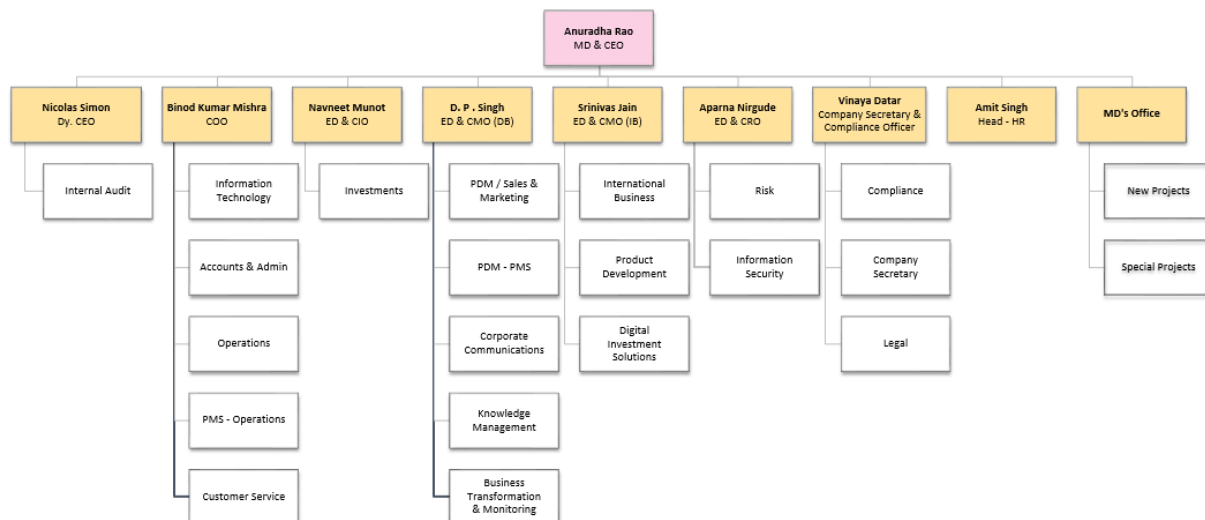
As on 31.03.2018, the Company's Average Assets Under Management (AAUM) were Rs 217649 crore as against Rs 157025 crore as on 31.03.2017.

### **2.4.4 Organizational Set up**

The Company has a Board of Directors that supervises the overall operation and activities of the Company. There are functional committees which include the Audit Committee, CSR Committee, Risk Management Committee and Share Allotment & HR Sub – Committee among others that report to the Board of Directors. The Company's Key Managerial Personnel (KMP) are Managing Director & CEO, and Deputy Chief Executive Officer.

In order to execute the day to day operations, the necessary powers are delegated by the Board to the Managing Director & Chief Executive Officer. The Organogram of the Company is attached herewith





## 2.4.5 Capital Structure

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 52,50,00,000 equity shares of Rs 1 each aggregating to Rs 52.50 crore. The Issued, Subscribed, and Paid Up Equity Share Capital as on 31 March 2018 is Rs 50 crore comprising of 50 crore equity shares of Rs 1 each fully paid up.

As on 31.03.2018, State Bank of India, the Holding Company held 31,50,00,000 equity shares of Rs 1 each in the Company aggregating to Rs 31.50 crore (63 per cent Equity Holding) and Amundi India Holding, a wholly owned subsidiary of Amundi held 18,50,00,000 equity shares of Rs 1 each in the Company aggregating to Rs 18.50 crore (37 per cent Equity Holding)

During the year 2017-18, the Authorized Capital of the Company has been increased to 52,50,00,000 Equity Shares from the previous year's (2016-17) 50,00,000 Equity Shares and has also changed the Face Value of Equity Shares from Rs 100 each to Rs 1 each. The Company has reserved 23,30,668 Equity Shares in FY 2017-18 of Rs 1 each for issuance towards outstanding Employee Share Option.

## 2.4.6 Budget and Planning

(Rs in crore)

Years	2015-16		2016-17		2017-18	
Particulars	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	16.74	16.10	19.74	11.35	14.90	14.17
Revenue Expenditure	355.14	300.94	376.76	447.97	532.00	768.81
Revenue/Turnover	635.79	552.40	649.75	777.87	929.19	1272.03
Profit for the year (PAT)	183.52	165.36	181.54	224.32	259.57	331.03

## 2.4.7 Accounting System

The Company has a centralized accounting system for upkeep of the accounts supplemented by SAP (System Application Product) for carrying out its operations. The Company prepares its financial statements in accordance with the Indian generally

accepted accounting principles (Indian GAAP) and the Accounting standards prescribed under Section 133 of the Companies Act 2013.

#### 2.4.8 Manpower Analysis

The Company had 952 employees as on 31 March 2018, which consisted 819 managerial employees and 133 non – managerial employees

#### 2.4.9 Computerization

The Company uses SAP (System Application Product) ERP/IT system. The Company has annual System Audit for all ERP/IT applications.

#### 2.4.10 Internal Audit

The internal audit function of the Company is under the functional operation of the Audit Committee. The internal audit is conducted by the Company on a quarterly basis by engaging the services of professional Chartered Accountant firms. Further, the Company maintains a manual of internal audit.

#### 2.4.11 Operational Results

Revenue from Operations was as follows:

(Rs. in crore)

Particulars	2017-18	2016-17
Management Fee	1216.77	721.74
Portfolio Management Fee and Other Advisory Services	19.95	14.60
<b>Total Revenue from Operations</b>	<b>1236.72</b>	<b>736.34</b>

The various business performance indicators of the Company in FY 2017-18 are as under

The Average Assets Under Management (AAUM) were Rs2,17,649 crore, Inflows / Purchase Rs15,08,069 crore, Redemptions/ Repurchase Rs14,67,667 crore, AAUM Market Share was 9.44 *per cent*, Ranking in terms of AAUM was 5, Systematic Investment Plan (SIPs) market share was 14.3 *per cent*

#### 2.4.12 Financial Working Results

(Rs. in crore)

Particulars	2017-18	2016-17
Revenue from Operations	1236.72	736.34
Other Income	35.29	41.53
<b>Total Income</b>	<b>1272.02</b>	<b>777.87</b>
Total Expenses	768.79	447.97
Profit Before Exceptional items	503.22	329.89
Exceptional items	--	--
<b>Profit Before Tax</b>	<b>503.22</b>	<b>329.89</b>
<b>Tax</b>	<b>172.19</b>	<b>105.58</b>
<b>Profit After Tax</b>	<b>331.03</b>	<b>224.31</b>

#### **2.4.13 Audit Checks:**

The General Audit Checks for Mutual Fund Asset Management Companies which have already been specified previously in this Chapter may be referred to.

#### **2.4.14 Audit Checks (specific to the Company)**

- i) Whether the Management Fees are recognized at specific rates agreed with the relevant schemes, applied on the average daily net assets of each scheme (excluding inter scheme investments, wherever applicable, investments made by the Company in the respective schemes and deposits with Banks) and are in limits specified under SEBI (Mutual Fund) Regulations, 1996
- ii) Whether Portfolio Advisory Services, Portfolio Management Services and Management Fees on Alternate Investment Fund (AIF) are recognized on accrual basis as per the terms of the Contract
- iii) Whether Recovery, if any, on realization of devolved investments of schemes acquired by the Company, in terms of the right of subrogation, is accounted on the basis of receipts.
- iv) Whether Recovery from funded guarantee schemes is recognized as income in the year of receipt
- v) Whether Expenses of Schemes of SBI Mutual Fund in excess of stipulated rates are required to be borne by the Company in accordance with the requirements of SEBI (MF) Regulations, 1996, and as such, are charged to the Statement of Profit & Loss.
- vi) Whether expenses relating to New Fund Offer of SBI Mutual Fund are charged to the Statement of Profit & Loss in the year in which they are incurred
- vii) Whether Brokerage and/or Incentive paid on Investments in Open Ended Equity Linked Tax Saving Schemes and Systematic Investment Plans (SIPs) are amortized over a period of 36 months and in case of other schemes, over the claw back period.
- viii) Whether in case of Close Ended Schemes, Brokerage is amortized over the tenure of Schemes

## **2.5 UNION ASSET MANAGEMENT COMPANY PRIVATE LIMITED**

### **2.5.1 Introduction**

Union Asset Management Company Private Ltd (formerly known as Union KBC Asset Management Company Private Limited) was incorporated on 30.12.2009. Union Bank of India is the Holding Company. As on 31 March 2018, Union Bank of India held all the equity holding in the Company. The Registered Office of the Company is situated at Mumbai. The Company has 18 Branches across India as on 31 December 2018. The Nature of Business of the Company is to act as an Investment Manager to the Schemes of Union Mutual Fund.

### **2.5.2 Objectives**

The Company has been appointed as the Asset Management Company of Union Mutual Fund by Union Trustee Company Private Ltd, vide Investment Management Agreement (IMA) dated 2 December 2010 and Amendment Agreement dated 20 January 2017 and 4 June 2018 respectively.

### **2.5.3 Activities**

Union Asset Management Company Private Ltd is an Investment Manager to Union Mutual Fund. As on 31 March 2018, Union Mutual Fund had nine Open ended schemes and three Close ended schemes, which were managed by Union Asset Management Company Private Ltd. As on 31.03.2018, Union Mutual Fund had 1,60,288 active investor accounts.

The Company's primary business segment is thus the administering of Mutual Fund Schemes of Union Mutual Fund.

### **2.5.4 Organizational Set up**

The Board of Directors of the Company are responsible for the overall management, supervision and control over the affairs of the Company. As on 31 March 2018, the Company had 6 Directors (2 nominated by Union Bank of India and 4 Independent Directors).

The Company has constituted the following two Committees of the Board of Directors

- i) Audit, Risk and Compliance Committee
- ii) Remuneration Committee

The Authorized Signatories to the Company's Financial Statements include *inter alia* two Directors of the Company, Chief Executive Officer, Chief Financial Officer and Company Secretary.

### **2.5.5 Capital Structure**

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 16 crore equity shares of Rs 10 each aggregating to Rs 160 crore. The Authorized Preference Share Capital of the Company as on 31.03.2018 is 6 crore Non Cumulative Non

Participating Optionally Redeemable Convertible Preference Shares of Rs 10 each aggregating to Rs 60 crore.

As on 31.03.2018, the Issued, Subscribed and Paid Up Equity Share Capital of the Company was 15,85,13,226 Equity Shares of Rs 10 each fully paid up aggregating to Rs 158,51,32,260. As on 31 March 2018, the Holding Company Union Bank of India held all the 15,85,13,226 number of Equity Shares of Rs 10 each constituting 100 *per cent* Equity Holding in the Company.

Further, the Issued, Subscribed and Paid Up Preference Share Capital of the Company as on 31.03.2018 was 2 crore Non-Cumulative Non-Participating Optionally Redeemable Convertible Preference Shares of Rs 10 each aggregating to Rs 20 crore. The said Preference Shares were issued to Union Bank of India on 23 January 2018 for a tenure of 367 days (Rs 10 crore) and on 14 July 2017 for a tenure of 367 days (Rs 10 crore). If the said Preference Shares are not redeemed on maturity by the Company, they shall get converted into 77,94,232 Equity Shares of Rs 10 each for each of the two tranches of Preference Share Capital held by the Company.

During the year 2017-18, Union Bank of India, the Holding Company, Dai-ichi Life Holdings Inc (Dai-ichi Life) and Union Asset Management Company Private Ltd entered into Investment and Subscription Agreement on 18 October 2017. In terms of the Agreement, Dai-ichi Life has on 17 May 2018 invested to the extent of 39.62 *per cent* of the post issue share capital in the Company (Union AMC) on a fully diluted basis, subject to the relevant terms and conditions.

Pursuant to the approval of the shareholders of the Company (Union AMC) at the Extra Ordinary General Meeting of the Company held on 3 May 2018 and pursuant to the receipt of subscription money from Dai-ichi Life Holdings Inc, the Company issued and allotted 10,40,03,544 Participatory Non-redeemable Compulsorily Convertible Preference Shares (CCPS) on Private Placement basis to Dai-ichi Life Holdings Inc., Tokyo, Japan, on 17 May 2018.

Pursuant to the said Investment, Dai-ichi holds more than 40 *per cent* of the Networth of the Company. Consequently, Union Bank of India and Dai-ichi Life Holdings Inc have become Co-sponsors of Union Mutual Fund under SEBI (Mutual Fund Regulations), 1996.

Dai-ichi Life is a stock company with limited liability, incorporated under the laws of Japan in 1902 and listed on Tokyo Stock Exchange. It is a financial services holding company engaged in carrying out both insurance and non-insurance (including asset management) businesses through various subsidiaries and affiliated companies.

As per the agreed terms of issue, the Board of Directors of the Company (Union AMC), at its Meeting held on 17 May 2018, had approved to redeem 2 crore Non Cumulative Non Participating Optionally Redeemable Convertible Preference Shares held by Union Bank of India.

## 2.5.6 Budget and Planning

(Rs in crore)

Years	2015-16	2016-17	2017-18
Particulars	Actual	Actual	Actual
Capital Expenditure (Fixed Assets Net of Accumulated Depreciation)	1.33	1.38	4.11
Revenue Expenditure	15.85	16.43	31.42
Revenue/Turnover	34.27	39.15	39.11
Profit/(Loss)for the year After Tax	(18.42)	(22.72)	(7.69)

## 2.5.7 Accounting System

The Company has Centralized system of Accounting. The Accounting Software used by the Company is Sun Accounting system. The Financial Statements of the Company are prepared under historical cost convention on accrual basis and are in accordance with the requirements of the Companies Act 2013, to the extent applicable to the Company.

## 2.5.8 Manpower Analysis

As on 31.03.2018, the Company had 146 on roll employees.

## 2.5.9 Computerization

The Company had the following ERP/IT systems

- i) Sun Accounting system
- ii) HRMS system
- iii) Moneyware Miles Front Office System

## 2.5.10 Internal Audit

The Company has an Internal Audit System, commensurate with the size, scale and complexity of its operations. The scope and authority of the Internal Audit function is defined in the engagement letter entered into with the Internal Auditors. To maintain its objectivity and independence, the Internal Audit function reports to the Audit, Risk and Compliance Committee of the board regularly.

The Internal Auditors monitor and evaluate the efficacy and adequacy of internal control system in the Company, its compliance with the operating systems, accounting procedures and policies. Based on the report of the internal auditors, the process owners undertake corrective action in their respective areas and thereby strengthen the controls.

The Internal Audit of the Company was entrusted to an Outside Professional Agency for FY 2017-18. The Internal Audit is carried out on Half Yearly basis. The Board approved Internal Audit scope documentation is available with the Company.

### 2.5.11 Financial Working Results

(Rs.in crore )

Particulars	2017-18	2016-17
Revenue from Operations (Management Fee)	28.29	14.06
Other Income		
Interest Income	1.77	1.42
Net Gain/Loss on Sale of Investments	1.35	0.94
Other Non Operating Income	---	0
<b>Total Income</b>	<b>31.42</b>	<b>16.43</b>
Total Expenses	39.10	39.15
Profit/(Loss) Before Exceptional items	(7.68)	(22.71)
Exceptional items	--	--
<b>Profit/ (Loss) Before Tax</b>	<b>(7.68)</b>	<b>(22.71)</b>
Tax	--	--
<b>Profit/ (Loss) After Tax</b>	<b>(7.68)</b>	<b>(22.71)</b>

### 2.5.12 Audit Checks:

The General Audit Checks for Mutual Fund Asset Management Companies which have already been specified previously in this Chapter may be referred to.

## **2.6 CANARA ROBECO ASSET MANAGEMENT COMPANY LIMITED**

### **2.6.1 Introduction**

Canara Robeco Asset Management Company Ltd has been incorporated on 2 March 1993. Canara Bank holds 51 *per cent* Equity in the Company and Robeco India Holding B.V., The Netherlands, holds 49 *per cent* Equity in the Company. The Company's Registered Office is at Mumbai. The Company has 20 Branches (Sales Offices) all over India.

Canara Robeco Asset Management Company Limited, the investment manager of Canara Robeco Mutual Fund, is a joint venture between Canara Bank and Robeco of the Netherlands, a global Asset Management Company. The joint venture brings together Canara Bank's experience in the Indian market and Robeco's global experience in asset management.

Canara Robeco Mutual Fund is the second oldest Mutual Fund in India, established in December 1987 as Canbank Mutual Fund. Subsequently, in 2007, Canara Bank partnered with Robeco (now a part of ORIX Corporation, Japan) and the Mutual Fund was renamed as Canara Robeco Mutual Fund. Since then, it has consistently been one of the fastest growing Mutual Funds in India in terms of Assets Under Management (AUM), including *inter alia*, a range of investment options, including diversified and thematic equity schemes, hybrid and monthly income funds and a wide range of debt and treasury products.

The Company manages the Assets of Canara Robeco Mutual Fund by virtue of an investment management agreement dated 16th June 1993 (as amended from time to time).

### **2.6.2 Objectives**

The Company's objective is to manage the assets of Canara Robeco Mutual Fund by virtue of an Investment Management Agreement dated 16 June 1993, as amended from time to time.

### **2.6.3 Activities**

The Company (AMC) has been appointed as the Asset Management Company of the Canara Robeco Mutual Fund by the Trustees vide Investment Management Agreement (IMA) dated 16th June, 1993 and executed between Canara Robeco Mutual Fund (formerly Canbank Mutual Fund) and Canara Robeco Asset Management Company Ltd (formerly known as Canbank Investment Management Services Ltd.)

The AMC was originally incorporated as Canbank Investment Management Services Ltd. under the Companies Act, 1956 on 2nd March, 1993 to manage the assets of Canbank Mutual Fund ("Fund"). Pursuant to the joint venture documents signed between Canara Bank and Orix Corporation Europe N.V. (formerly known as RobecoGroep N. V.), Robeco India Holding B. V. [100 *per cent* subsidiary of Orix



Corporation Europe N.V. (formerly known as RobecoGroep N. V.)], on 26.09.2007, acquired 49 *per cent* stake in the AMC and Canara Bank retained the remaining 51 *per cent*.

Consequent to this, the Fund was renamed as Canara Robeco Mutual Fund and the AMC was renamed as Canara Robeco Asset Management Company Ltd. The Schemes of the Mutual Fund have accordingly been renamed to reflect the joint venture. The AMC sub-advises Robeco, Hongkong for Indian Securities pursuant to No Objection issued by SEBI vide its letter dated 29th June, 2011.

The AMC is also the Portfolio Manager pursuant to Certificate of Registration INP000003740 dated 5th July, 2016 granted by SEBI.

Controls and safeguards prescribed under the Regulation for managing the other business activities of AMC as mentioned above are being adhered to and there is no conflict of interest in managing the Schemes of the Fund and the said business activities of AMC.

#### **2.6.4 Organizational Set up**

The Board of Directors of the Company is responsible for the overall management, superintendence and control over the affairs of the Company as per the provisions of the Companies Act 2013. The Authorized Signatories to the Company's Financial Statements are two Directors, Chief Financial Officer (CFO), Chief Executive Officer (CEO) and Company Secretary. The Key Managerial Personnel of the Company are CEO, CFO and Chief Operating Officer (COO).

#### **2.6.5 Capital Structure**

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 5 crore equity shares of Rs 10 each aggregating to Rs 50 crore.

The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 4,98,54,357 equity shares of Rs 10 each aggregating to Rs 49,85,43,570.

As on 31 March 2018, the Holding Company Canara Bank held 2,54,25,722 number of Equity Shares of Rs 10 each (aggregating to Rs 25,42,57,220) constituting 51 *per cent* Equity Holding in the Company. M/s Robeco India Holding B.V. and Associates held 2,44,28,635 number of Equity Shares of Rs 10 each (aggregating to Rs 24,42,86,350) constituting 49 *per cent* Equity Holding in the Company.

#### **2.6.6 Budget and Planning**

(Rs in crore)

Years	2015-16		2016-17		2017-18	
	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	--	--	--	--	--	--
Revenue Expenditure	79.35	65.85	75.51	69.46	77.78	76.75
Revenue/Turnover	87.47	84.35	92.09	92.25	100.85	109.15
Profit for the year Before Tax	8.12	18.50	16.58	22.79	23.07	32.40

### 2.6.7 Accounting System

The Company has a Centralized system of Accounting. The financial statements of the Company are prepared on accrual basis of accounting in accordance with historical cost convention, applicable Accounting Standards issued by the Institute of Chartered Accountants of India, and relevant provisions of the Companies Act 2013, in accordance with the Generally Accepted Accounting Principles (GAAP).

### 2.6.8 Manpower Analysis

As on 31 March 2018, the Company had a total of 208 Employees (Categorization as Managerial and Non Managerial not done by the Company).

### 2.6.9 Computerization

The Company has INFOR SUN systems (ERP/IT System)

### 2.6.10 Internal Audit

The Internal Audit is conducted by an Outside Agency on a Quarterly basis. The Company does not have Manual of Internal Audit.

### 2.6.11 Operational Results

The Revenue from Operations was as follows:

(Rs. in crore)

Particulars	2017-18	2016-17
Management Fee	98.71	83.69
Advisory Fee	3.95	2.89
<b>Total Revenue from Operations</b>	<b>102.66</b>	<b>86.59</b>

### 2.6.12 Financial Working Results

(Rs.in crore )

Particulars	2017-18	2016-17
Revenue from Operations	102.66	86.59
Other Income	6.49	5.66
<b>Total Income</b>	<b>109.15</b>	<b>92.25</b>
Total Expenses	76.74	69.46
Profit Before Exceptional items	32.40	22.79
Exceptional items	--	--
<b>Profit Before Tax</b>	<b>32.40</b>	<b>22.79</b>
Tax	9.70	6.58
<b>Profit After Tax</b>	<b>22.70</b>	<b>16.21</b>

### 2.6.13 Audit Checks:

The General Audit Checks for Mutual Fund Asset Management Companies which have already been specified previously in this Chapter may be referred to.

## 2.7 BARODA ASSET MANAGEMENT INDIA LIMITED

### 2.7.1 Introduction

Baroda Mutual Fund (the “Mutual Fund”), formerly known as BOB Mutual Fund, was constituted as a trust in accordance with the provisions of the Indian Trusts Act, 1882 (2 of 1882) on 30th October 1992, originally with Bank of Baroda (“BOB”) as the Sponsor and the Board of Trustees to the Mutual Fund as the Trustee. The Trust Deed has been registered under the Indian Registration Act, 1908. The Mutual Fund was registered with SEBI on November 21, 1994 under Registration Code MF/018/94/2. Baroda Pioneer Asset Management Company Ltd was incorporated on 5 November 1992, as a public limited Company.

On 27 June 2008, Pioneer Global Asset Management S.p.A (PGAM), a Company incorporated in Italy, acquired 51 *per cent* stake in the Company. Post the acquisition, the Company became a subsidiary of PGAM. Effective 1 November 2017, Pioneer Global Asset Management (PGAM) has been merged into its Controlling Company, UniCredit S.p.A. As a consequence, the shareholding of PGAM in the Company stands transferred to UniCredit S.p.A. Further, by virtue of the Share Purchase Agreement executed between Bank of Baroda and UniCredit on 28 December 2017, Bank of Baroda initiated the process of acquiring the shares held by UniCredit in the Company, subject to necessary regulatory approvals.

In December 2017, both Bank of Baroda and Uni Credit signed a Share Purchase Agreement, by virtue of which Bank of Baroda bought 51 *per cent* shareholding in Uni Credit, subject to Regulatory Approvals. Once the said transaction was concluded, the Company became 100 *per cent* owned by Bank of Baroda.

On September 28, 2018, Bank of Baroda acquired the entire shareholding of UniCredit S.p.A. (erstwhile PGAM, which merged into its holding company viz. UniCredit S.p.A. effective November 1, 2017) held in the AMC and Baroda Pioneer Trustee Company Private Limited (“Trustee”). Subsequently, the names of the AMC and Trustee have been changed to Baroda Asset Management India Limited and Baroda Trustee India Private Limited respectively, and the name of the Mutual Fund has been changed to Baroda Mutual Fund post receipt of approval from SEBI vide letter no. IMD/DOF3/31324/1/2018 dated November 13, 2018. of the Company. The Company’s Registered Office is at Mumbai. The Company has branches at Delhi, Chennai, Lucknow and Bangalore.

The joint venture had Rs. 30 crores in Average Assets Under Management (AAuM) in June 2008 which grew to Rs. 12,159 crores in November 2018. Baroda Asset Management India Limited (“AMC”), investment manager to Baroda Mutual Fund (“Mutual Fund”), is a wholly owned subsidiary of Bank of Baroda and is positioned to serve the varied asset management needs of investors in India through a range of equity, debt and money market offerings.

## **Asset Management Company (AMC)**

The AMC is a public limited company, which was incorporated under the Companies Act, 1956 on November 5, 1992 under the name, BOB Asset Management Company Limited. The AMC's registered office is situated at Mumbai and has its branch offices in Chennai, New Delhi, Bangalore and Lucknow. The AMC has been appointed as the Asset Management Company of the Mutual Fund by the Trustee vide Investment Management Agreement ("Old IMA") dated November 24, 1992. With a view to (i) replacing the four individual Trustees who were party to the Old IMA, with the Trustee, as a party to the Investment Management Agreement ("IMA"), (ii) changing the name of BOB Asset Management Company Limited to Baroda Pioneer Asset Management Company Limited and (iii) incorporating a number of regulatory changes since the date of entering into the IMA in 1992, a new IMA was executed on January 24, 2013. Subsequent to the acquisition of the entire shareholding of UniCredit in the AMC by BOB on September 28, 2018, the names of the AMC, Trustee and Mutual Fund were changed and a new IMA was executed on November 19, 2018 between the AMC and Trustee to inter alia delete references to "Pioneer" and reflect the new names of the AMC, Trustee and Mutual Fund.

The AMC manages the schemes of the Mutual Fund in accordance with the provisions of the IMA, the Trust Deed, the Regulations and the objectives of each of the schemes.

### **2.7.2 Objectives**

The main objects of the Company as per the Company's Memorandum of Association are as follows:

- i) To carry on the business as an Asset Management Company as per SEBI (Mutual Funds) Regulations, 1996, including,
- ii) To carry on the business as administrators or manager of investment funds, Mutual Funds (both local as well as offshore) , growth funds, income or capital funds, taxable or exempt funds, provident funds, pension funds, superannuation funds, charitable funds, trust funds, exchange traded funds, hedge funds, real estate funds, investment pool and other person or bodies of persons, whether incorporated or not, as part of Mutual Fund business for investment in equity and other securities to contribute to the development of capital market , and,
- iii) To provide facility for participation by subscribers, holders of units in the Mutual Funds and in the profits or income arising from the acquisition, holding floating alternative investment funds under SEBI (Alternative Investment Fund) Regulations, 2012, management and disposal of securities and other properties whatsoever and for that purpose,
- iv) To promote, establish, manage and carry on various schemes as may be sanctioned by all concerned authorities and conducive to the management of the Company concerning shares, stocks, debentures, debenture stocks, bonds, units, obligations, securitized debts, promissory notes, participation certificates, policies, money market investment securities of the policies of the Central and

the State Government Company, Corporation, Municipal, Local or other Body or Authority or obligations of other securities or investments of any kind or description whether in India or in any foreign country whether directly or for the benefit of any person or persons.

### **2.7.3 Activities**

The principal activity of the Company is to act as an Investment Manager to Baroda Pioneer Mutual Fund (the Fund). The Company manages the Investment Portfolio and provides various administrative services to the Fund. During FY 2011-12, pursuant to No Objection Certificate dated 29 June 2011 received from the Regulator, Securities and Exchange Board of India (SEBI), the Company commenced the activity of rendering non binding investment advisory services to Pioneer Investment Management Ltd (a wholly owned subsidiary of erstwhile PGAM), as per agreement dated 1 July 2011, signed between the two parties. The said advisory services have been discontinued effective 30 June 2017, as per letter received from Pioneer Investments.

As on 31 March 2018, the Principal Business Activity of the Company was Management of Mutual Funds, comprising 91.50 *per cent* of the total turnover of the Company. The Company's Average Assets Under Management (AAuM) was Rs.12,159 crores in November 2018. The Investment Management Agreement (IMA) dated November 19, 2018, has been entered into between the Trustee and the AMC, as amended from time to time.

### **2.7.4 Organizational Set up**

The Board of Directors of the Company is responsible for the overall management, superintendence and control over the affairs of the Company under the provisions of the Companies Act, 2013. The Company has four Directors including *inter alia* two Associate Directors (of whom one Director is the Chief Executive Officer and Whole Time Director and one Director is the Executive Director at Bank of Baroda), and two Independent Directors. The Company also has Chief Operating Officer & Chief Financial Officer and Head-Compliance & Company Secretary. As on 31.03.2018, the Company also had Board constituted Committees such as Audit Committee, Risk Management Committee and Nomination & Remuneration Committee.

### **2.7.5 Capital Structure**

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 10 crore equity shares of Rs 10 each aggregating to Rs 100 crore

The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 9,49,44,064 equity shares of Rs 10 each aggregating to Rs 94,94,40,640.

As on 31 March 2018, the Holding Company UniCreditSpA held 4,84,21,473 number of Equity Shares constituting 51 *per cent* Equity Holding in the Company. Bank of Baroda held 4,65,22,591 number of Equity Shares in the Company constituting 49 *per cent* Equity Holding in the Company. As on 31.01.2019, the Holding Company Bank of Baroda held 9,49,43,364 equity shares of Rs 10 each fully paid up aggregating to Rs

94,94,33,640 in the Company, out of total 9,49,44,064 equity shares of Rs 10 each fully paid up, issued and subscribed in the Company.

### 2.7.6 Budget and Planning

(Rs. in crore)

	2015-16	2016-17	2017-18
Particulars	Actual	Actual	Actual
Capital Expenditure	--	--	--
Revenue Expenditure	42.99	41.92	44.31
Revenue/Turnover	34.21	39.57	43.69
Profit for the year After Tax	(4.93)	1.07	3.17

### 2.7.7 Accounting System

The Company's Financial Statements for FY 2017-18 have been prepared in accordance with the Generally Accepted Accounting Principles (GAAP) in India (Indian GAAP), so as to comply with the Accounting Standards specified under Section 133 of the Companies Act 2013 read with Companies (Accounting Standard) Rules 2006, as amended. The Financial Statements of the Company have been prepared on accrual basis under historical cost convention.

### 2.7.8 MOU Targets and Achievements

Not Applicable since the Company is not a Central Public Sector Enterprise.

### 2.7.9 Internal Audit

The Company had in place a proper and adequate internal control systems commensurate with the nature of business and size of the operations. The statutory auditors of the Company have found no weakness in the internal control system of the Company and have mentioned the same in their audit report for the Financial Year ended 31 March 2018.

### 2.7.10 Act, Rules, Documents

- i) Companies Act 2013 and the Rules framed thereunder
- ii) Investment Management Agreement dated November 19, 2018, entered into between the Baroda Trustee Company Pvt Ltd and the Baroda MF AMC
- iii) Securities Contract (Regulation) Act 1956 and the Rules framed thereunder
- iv) Depositories Act 1996
- v) Foreign Exchange Management Act 1999
- vi) SEBI (Mutual Fund) Regulations, 1996
- vii) SEBI Act 1992
- viii) Association of Mutual Funds in India (AMFI) Guidelines, Circulars & Directives

- ix) Prevention of Money Laundering Act 2002
- x) Reserve Bank of India Act 1934 and other Rules, Regulations and Guidelines prescribed by RBI
- xi) Income Tax Act 1961

### 2.7.11 Operational Results

The Revenue from Operations were as follows:

(Rs. in crore)

Particulars	2017-18	2016-17
Management Fee	43.45	38.55
Investment Advisory and Research Fee	0.23	1.02
<b>Total Revenue from Operations</b>	<b>43.69</b>	<b>39.57</b>

### 2.7.12 Financial Working Results

(Rs. in crore)

Particulars	2017-18	2016-17
Revenue from Operations	43.69	39.57
Other Income	3.79	3.41
<b>Total Income</b>	<b>47.49</b>	<b>42.99</b>
Total Expenses	44.31	41.92
Profit Before Exceptional items	3.17	1.07
Exceptional items	--	---
<b>Profit Before Tax</b>	<b>3.17</b>	<b>1.07</b>
Tax	--	--
<b>Profit After Tax</b>	<b>3.17</b>	<b>1.07</b>

### 2.7.13 Audit Checks:

The General Audit Checks for Mutual Fund Asset Management Companies which have already been specified previously in this Chapter may be referred to.

## **A BRIEF WRITE UP ON MUTUAL FUNDS**

### **Mutual Funds meaning**

A Mutual Fund is a pool of money managed by a professional Fund Manager. A Mutual Fund shall be constituted in the form of a Trust and the Instrument of Trust shall be in the form of a Deed, duly registered under the provisions of the Indian Registration Act 1908, executed by the sponsor in favour of the Trustees named in such an Instrument.

It is a trust that collects money from a number of investors who share a common investment objective and invests the same in equities, bonds, money market instruments and/or other securities. And the income / gains generated from this collective investment is distributed proportionately amongst the investors after deducting applicable expenses and levies, by calculating a scheme's "Net Asset Value" or NAV. Simply put, the money pooled in by a large number of investors is what makes up a Mutual Fund.

"Net Asset Value" or NAV.

Just like an equity share has a traded price, a Mutual Fund unit has Net Asset Value per Unit. The NAV is the combined market value of the shares, bonds and securities held by a fund on any particular day (as reduced by permitted expenses and charges). NAV per Unit represents the market value of all the Units in a Mutual Fund scheme on a given day, net of all expenses and liabilities plus income accrued, divided by the outstanding number of Units in the scheme.

Mutual Funds are ideal for investors who either lack large sums for investment, or for those who neither have the inclination nor the time to research the market, yet want to grow their wealth. The money collected in Mutual Funds is invested by professional fund managers in line with the scheme's stated objective. In return, the fund house charges a small fee which is deducted from the investment. The fees charged by Mutual Funds are regulated and are subject to certain limits specified by the Securities and Exchange Board of India (SEBI).

Mutual Funds offer multiple product choices for investment across the financial spectrum. As investment goals vary – post-retirement expenses, money for children's education or marriage, house purchase, etc. – the products required to achieve these goals vary too. The Indian Mutual Fund industry offers a plethora of schemes and caters to all types of investor needs.

Mutual Funds offer an excellent avenue for retail investors to participate and benefit from the uptrends in capital markets. While investing in Mutual Funds can be beneficial, selecting the right fund can be challenging. Hence, investors should do proper due diligence of the fund and take into consideration the risk-return trade-off and time horizon or consult a professional investment adviser. Further, in order to reap maximum benefit from Mutual Fund investments, it is important for investors to diversify across different categories of funds such as equity, debt and gold.

While investors of all categories can invest in securities market on their own, a Mutual Fund is a better choice for the only reason that all benefits come in a package.

Type of Mutual Fund schemes



The Mutual Fund schemes could be 'open ended' or close-ended' and actively managed or passively managed.

#### Open-Ended and Closed-Ended Funds

An open-end fund is a Mutual Fund scheme that is available for subscription and redemption on every business throughout the year, (akin to a savings bank account, wherein one may deposit and withdraw money every day). An open ended scheme is perpetual and does not have any maturity date.

A closed-end fund is open for subscription only during the initial offer period and has a specified tenor and fixed maturity date (akin to a fixed term deposit). Units of Closed-end funds can be redeemed only on maturity (i.e., pre-mature redemption is not permitted). Hence, the Units of a closed-end fund are compulsorily listed on a stock exchange after the new fund offer, and are traded on the stock exchange just like other stocks, so that investors seeking to exit the scheme before maturity may sell their Units on the exchange.

#### Actively managed and passively managed Funds

An actively managed fund is a Mutual Fund scheme in which the Fund Manager "actively" manages the portfolio and continuously monitors the fund's portfolio, deciding on which stocks to buy/sell/hold and when, using his professional judgement, backed by analytical research. In an active fund, the fund manager's aim is to generate maximum returns and out-perform the scheme's bench mark.

A passively managed fund, by contrast, simply follows a market index, i.e., in a Passive Fund, the fund manager remains inactive or passive in as much as, he/she does not use his/her judgement or discretion to decide as to which stocks to buy/sell/hold, but simply replicates / tracks the scheme's benchmark index in exactly the same proportion. Examples of Index funds are an Index Fund and all Exchange Traded Funds. In a passive fund, the fund manager's task is to simply replicate the scheme's benchmark index i.e., generate the same returns as the index, and not to out-perform the scheme's bench mark.

#### Equity Funds

An Equity Fund is a Mutual Fund scheme that invests predominantly in equity stocks.

In the Indian context, as per current SEBI Mutual Fund Regulations, an equity Mutual Fund scheme must invest at least 65% of the scheme's assets in equities and equity related instruments.

Under the tax regime in India, equity funds enjoy certain tax advantages (such as, there is no incidence of long term capital gains tax on equity shares or equity funds which are held for at least 12 months from the date of acquisition). As per current Income Tax rules, an "**Equity Oriented Fund**" means a Mutual Fund Scheme where the investible funds are invested in equity shares in domestic companies to the extent of more than 65% of the total proceeds of such fund.

An Equity Fund can be actively managed or passively managed. Index funds and ETFs are passively managed.

Equity Mutual Funds are principally categorized according to company size, the investment style of the holdings in the portfolio and geography.

The size of an equity fund is determined by a market capitalization, while the investment style, reflected in the fund's stock holdings, is also used to categorize equity Mutual Funds.

Equity funds are also categorized by whether they are domestic (investing in stocks of only Indian companies) or international (investing in stocks of overseas companies). These can be broad market, regional or single-country funds.

Some specialty equity funds target business sectors, such as health care, commodities and real estate and are known as Sectoral Funds.

### **Debt Fund**

A Debt Fund is a Mutual Fund scheme that invests in fixed income instruments, such as Corporate and Government Bonds, corporate debt securities, and money market instruments etc. that offer capital appreciation. Debt funds are also referred to as Income Funds or Bond Funds.

Debt Funds invest in either listed or unlisted debt instruments, such as Corporate and Government Bonds at a certain price and later sell them at a margin. The difference between the cost and sale price accounts for the appreciation or depreciation in the fund's net asset value (NAV). Debt funds also receive periodic interest from the underlying debt instruments in which they invest. In terms of return, debt funds that earn regular interest from the fixed income instruments during the fund's tenure are similar to bank fixed deposits that earn interest. This interest income gets added to a Debt Fund on a daily basis. If the interest payment is received, say, once every year, it is divided by 365 and the debt fund's NAV goes up daily by this small amount. Thus, a debt scheme's NAV also depends on the interest rates of its underlying assets and also on any upgrade or downgrade in the credit rating of its holdings

### **Liquid Fund**

Liquid Funds, as the name suggests, invest predominantly in highly liquid money market instruments and debt securities of very short tenure and hence provide high liquidity. They invest in very short-term instruments such as Treasury Bills (T-bills), Commercial Paper (CP), Certificates of Deposit (CD) and Collateralized Lending & Borrowing Obligations (CBLO) that have residual maturities of up to 91 days to generate optimal returns while maintaining safety and high liquidity. Redemption requests in these Liquid funds are processed within one working (T+1) day.

The aim of the fund manager of a Liquid Fund is to invest only into liquid investments with good credit rating with very low possibility of a default. The returns typically take the back seat as protection of capital remains of utmost importance. Control over expenses in the form of low expense ratio, good overall credit quality of the portfolio and a disciplined approach to investing are some of the key ingredients of a good liquid fund.

Most retail customers prefer to keep their surplus cash in Savings Bank deposits as they consider the same to be safest and they could withdraw the money at any time. Liquid Funds and Money Market Mutual Funds provide a more attractive option. Surplus cash invested in

money market Mutual Funds earns higher post-tax returns with a reasonable degree of safety of the principal invested and liquidity.

Liquid funds are preferred by investors to park their money for short periods of time typically 1 day to 3 months. Wealth managers suggest liquid funds as an ideal parking ground when you have a sudden influx of cash, which could be a huge bonus, sale of real estate and so on and you are undecided about where to deploy that money. Investors looking out for opportunities in equities and long-term fixed income instruments can also park their money in the liquid funds in the meantime

### **Balanced Fund**

A balanced fund combines equity stock component, a bond component and sometimes a money market component in a single portfolio. Generally, these hybrid funds stick to a relatively fixed mix of stocks and bonds that reflects either a moderate, or higher equity, component, or conservative, or higher fixed-income, component orientation

These funds invest in a mix of equities and debt, giving the investor the best of both worlds. Balanced funds gain from a healthy dose of equities but the debt portion fortifies them against any downturn.

Balanced funds are suitable for a medium-term horizon and are ideal for investors who are looking for a mixture of safety, income and modest capital appreciation. The amounts this type of Mutual Fund invests into each asset class usually must remain within a set minimum and maximum.

Although they are in the "asset allocation" family, balanced fund portfolios do not materially change their asset mix. This is unlike life-cycle, target-date and actively managed asset-allocation funds, which make changes in response to an investor's changing risk-return appetite and age or overall investment market conditions.

### **EXPENSE RATIO**

Under SEBI (Mutual Funds) Regulations, 1996, Mutual Funds are permitted to incur / charge certain operating expenses for managing a Mutual Fund scheme – such as sales & marketing / advertising expenses, administrative expenses, transaction costs, investment management fees, registrar fees, custodian fees, audit fees – as a percentage of the fund's daily net assets.

This is commonly referred to as 'Expense Ratio'. In short, Expense ratio is the cost of running and managing a Mutual Fund which is charged to the scheme. All expenses incurred by a Mutual Fund Asset Management Company (AMC) will have to be managed within the limits specified under Regulation 52 of SEBI Mutual Fund Regulations.

For actively managed equity schemes, the total expense ratio (TER) allowed under the regulations is 2.5 per cent for the first Rs 100 crore of average weekly net assets; 2.25 per cent for the next Rs. 300 crore, 2 per cent for the subsequent Rs300 crore and 1.75 per cent for the balance Assets Under Management (AUM). For debt schemes, the expense ratio permitted is 0.25 per cent lower than that allowed for equity funds. Information on expense ratio applicable to a MF scheme is mentioned in the Scheme Information Document. For example, an expense

ratio of 1 per cent per annum means that each year 1 per cent of a scheme's total assets will be used to cover the expenses managing and operating a scheme.

In addition, Mutual Funds have been allowed to charge up to 30 basis points (bps) more, if 30 per cent or more of new inflows come from locations "Beyond the Top-15 (B15) cities, to widen the penetration of the Mutual Funds in tier - 2 and tier - 3 cities.

The expense ratio is calculated as a percentage of the Scheme's average Net Asset Value (NAV). The daily NAV of a Mutual Fund is disclosed after deducting the expenses. Thus, the TER has a direct bearing on a scheme's NAV – the lower the expense ratio of a scheme, the higher the NAV.

However, while expense ratio is important, it should be borne in mind that it is not the only criterion while selecting Mutual Fund scheme. A scheme with a consistently decent track record, but a higher expense ratio may be better than the one which lower expense ratio, but gives poor returns.

### **Registration of Mutual Fund with SEBI**

An applicant proposing to sponsor a Mutual Fund (MF) in India must submit an application in Form A [first schedule of the SEBI (Mutual Funds) Regulations, 1996 along with a non-refundable fee of Rs 5 lakh. The application is examined and once the sponsor satisfies the eligibility criteria, it is required to complete the remaining formalities for setting up a MF. **These include inter alia, executing the trust deed and investment management agreement, setting up a Trustee company/board of Trustees comprising two-thirds independent Trustees, incorporating the Asset Management Company (AMC), contributing to at least 40 per cent of the net worth of the AMC and appointing a custodian.** Upon satisfying these conditions, the registration certificate is issued subject to the payment of registration fees of Rs 25 lakh.

Chapter III of the SEBI Mutual Fund Regulations, 1996, lays down the provisions in respect of Constitution and Management of Mutual Fund and Operation of Trustees etc. Chapter IV of SEBI Mutual Fund Regulations, 1996, lays down the provisions in respect of Constitution and Management of Asset Management Company and Custodian.

### **The Process Flow is as follows:**

- i) Mutual Fund appoints Trustees in accordance with SEBI Regulations.
- ii) The Sponsor or, if so authorized by the Trust Deed, the Trustee, shall appoint an Asset Management Company, which has been approved by the Board (SEBI) under Sub Regulation (2) of Regulation 21 of SEBI (MF) Regulations
- iii) The Trustees and the Asset Management Company, shall with the prior approval of Board (SEBI), enter into Investment Management Agreement.
- iv) The Asset Management Company shall take all reasonable steps and exercise due diligence to ensure that the investment of funds pertaining to any scheme is not contrary to the provisions of SEBI (MF) Regulations and Trust Deed.

- v) The Mutual Fund shall appoint a Custodian to carry out the custodial services for the schemes of the Fund.
- vi) No Scheme shall be launched by the Asset Management Company unless such Scheme is approved by the Trustees and a copy of the Offer Document has been filed with the Board.

**During the year 2017-18 following Key SEBI Regulations and Guidelines were issued for the Mutual Fund Industry**

1. SEBI modified the provisions regarding the disclosure of Executive Remuneration by AMCs/Mutual Funds.
2. SEBI issued guidelines for extending Instant Access Facility in liquid schemes for credit of redemption proceeds on the same day of redemption request and use of e-wallets for investment in the Mutual Fund schemes.
3. SEBI has modified the norms for participation in derivatives by Mutual Funds.
4. SEBI issued guidelines regarding categorization and rationalization of Mutual Fund Schemes in order to ensure that different schemes launched by a Mutual Fund are clearly distinct in terms of asset allocation, investment strategy etc. and to bring uniformity in the characteristics of similar type of schemes launched by different Mutual Funds and to standardize the scheme categories and characteristics of each category.
5. In order to strengthen the governance structure for Mutual Funds, SEBI has specified for the tenure of Independent Trustees and Independent Directors of AMC and the Auditor of a Mutual Fund.
6. SEBI specified norms for benchmarking of scheme's performance to Total Return Index (TRI) instead of Price Return variant of an Index (PRI) as TRI is more appropriate as a benchmark to compare the performance of Mutual Fund schemes.
7. SEBI clarified that AMCs shall not be eligible to charge the additional expenses as per Regulation 52 (6A), incurred towards different heads mentioned under Regulation 52 (2) and Regulation 52 (4), not exceeding 0.20 per cent of daily net assets for such schemes including close ended schemes, wherein exit load is not levied / not applicable.
8. SEBI specified that additional TER of upto 30 basis points as per Regulation 52 (6A)(b) would be allowed for inflows beyond top 30 cities instead of beyond top 15 cities.
9. SEBI modified the norms for disclosure of Total Expense Ratio (TER) to the investors.
10. SEBI issued SEBI (Mutual Funds) (Amendment) Regulation, 2018 by inserting new Regulation 7B pertaining to norms for shareholding and governance in Mutual Funds.
11. SEBI has issued new policy measures for filing and Redressal of investor grievances using SCORES

The above parameters may be checked in Audit.

ii) As per Institute of Chartered Accountants of India, **the major focus areas of internal audit of Mutual Fund shall include the following**

- (a) Dealing Operations and Fund Management
- (b) Net Asset Value (NAV) Calculations
- (c) Fund Accounting and Treasury
- (d) Custodian Operations
- (e) Compliances and Risk Management
- (f) Registrar and Transfer Agent and Investor Services
- (g) AMC Branch Operations
- (h) Distribution
- (i) Information Technology
- (j) Role of Trustees

iii) **Audit of dealing room and fund management activities includes the following**

- (a) Process flow of dealing room and fund management activities with regards to internal policies, guidelines, and MF regulations.
- (b) Reporting structure of the dealing and fund management team in accordance with SEBI “Operating Manual for Risk Management for Indian Mutual Funds” for segregation.(SEBI Cir – MFD/CIR/15/19133/ 2002 dated September 30, 2002).
- (c) Dealing room activities, i.e., ordering systems that includes order placement IT systems, deal slips, order books, counter party confirmation, price verification and documentation, authorization and its compliance with prescribed procedures and MF Regulations.

(iv) **Major Focus Areas of Internal Audit of Mutual Fund**

- (a) Recording of investment reasons by fund manager in compliance with MF regulations, internal policy, etc.
- (b) Voice recording of the telephone lines connected to dealing room and restriction on usage of mobile phones for dealings in accordance with SEBI directives.
- (c) Compliance to investment activities with regard to internal policies and investment restrictions as imposed by SEBI MF Regulations.
- (d) Adherence to overseas investment norms and limits and appropriate disclosures in offer documents.
- (e) Delegation of power for investment in primary/ secondary market equity and debt.
- (f) Primary market transactions with laid down procedures including, authorization and allocation between schemes.

- (g) Inter-scheme transfer of securities - Compliance with internal policy, clause 3 of the Seventh Schedule of the MF Regulations and its documentation for approval of compliance, Risk Management and respective fund managers.
- (h) Investment limits monitoring for schemes/ Fund, position monitoring for derivative transactions as per MF Regulations/ SEBI circulars.
- (i) Underwriting transactions entered into as per MF regulations.
- (j) Investments conducted as per Scheme objectives as mentioned in the SID.
- (k) Investment in Unrated papers to be pre-approved in accordance with MF Regulations.
- (l) Norms for empanelment of brokers as specified by the AMC [Reg.18(4)(g)].
- (m) Compliance by the AMC of the restrictions on transactions done through brokers other than those specified under regulations 25(7)(a)[Reg. 25(7)(b)].
- (n) Distribution of business to empanelled brokers to avoid undue concentration of business with any broker [Reg. 18(5)].
- (o) Identifications and recovery of Non Performing Assets.
- (p) Review of scheme/ fund performance with benchmarks stated in the scheme related documents, if any or with comparative benchmarks.
- (q) Documentation of debt/ equity primary market transactions

**(v) Compliances and Risk Management**

**Following are steps involved in internal audit of compliances and risk management of Mutual Fund**

- (i) Adherences to MF Regulations, circulars, AMFI guidelines and internal norms.
- (ii) Monitoring of employee dealing guidelines; reporting to Trustees any deviations as per MF Regulation 25 (9).
- (iii) Adherence to Compliance and Risk Manuals and SOP's; Review of Service level agreement terms with various service providers.
- (iv) Adherences to accounting policies prescribed in Eleventh Schedule of MF regulations.
- (v) Review of Investment restrictions (Seventh Schedule of MF Regulations), decision-making, and recording of decisions.
- (vi) Day to day fees and expenses charged to schemes as per the MF Regulations.
- (vii) KYC Norms and applicability of Prevention of Anti Money Laundering Act 2002; submission of Cash Transaction Report (CTR) and Suspected Transaction Report (STR).
- (viii) Approval of Manuals and Policies by appropriate authorities- Compliance Manual, Operation Manual, Advertisement Manual, IT System Manual, Customer Service Manual, Risk Management Manual, Investment Policy, Valuation Policy, Employee Dealing Policy, etc. should be approved by the appropriate authorities. Conduct yearly updates of SOPs and should be approved/ noted by appropriate authorities.

- (x) Delegation of authority to be approved by the Board of AMC.
- (xi) Amendments, if any, as approved by Board or noted by Board or in any manner as authorized by the Board/ Audit Committee.
- (xii) Front Office and Back Office segregation of duties (including deployment of requisite skilled manpower, investment system and infrastructure to Back Office commensurate with Front Office).
- (xiii) Adherences to the Advertisement Code; AMC and all intermediaries of the fund abide by the Code of Conduct.
- (xiv) Employees engaged in marketing and distribution should have obtained appropriate certification from AMFI as required by SEBI.
- (xv) Risk Management System as per SEBI circular MFD/CIR/ 15/ 19133/2002 dated 30th Sept 2002. It includes risk policy approvals by the AMC and Trustee Board e.g., risk procedures for investment, operational and business risks assessments, DR/BCP set ups; risk/investment committee set ups and meetings; reporting to Board/ Audit committee; other compliance with risk management circular of SEBI and ongoing updation.
- (xvi) Verifying whether the Company is carrying out appropriate and adequate investor profiling.
- (xvii) Verifying the maintenance and adequacy of data security system.
- (xviii) Verifying whether source codes for software are maintained and updated.
- (xix) Verifying whether the Company has with itself data lying with RTA and Custodian.



## CHAPTER III

### MUTUAL FUND TRUSTEE COMPANIES

The Office of the Director General of Audit & ex-Officio Member, Audit Board-I, Mumbai, conducts the Audit of the following six Mutual Fund Trustee Companies

- i) BOI Axa Trustee Co. Ltd
- ii) UTI Trustee Co (P) Ltd
- iii) IDBI Mutual Fund Trustee Co Ltd
- iv) SBI Mutual Fund Trustee Co (P) Ltd
- v) Union Trustee Co (P) Ltd
- vi) Baroda Trustee India (P) Ltd

It is pertinent to note that as against seven Mutual Fund Asset Management Companies being audited by this Office, there are only six Trustee Companies. One of the Mutual Funds, Canara Robeco Mutual Fund, has no Trustee Company (under Companies Act 1956/2013), but has only a Trust, to act as Trustee to the said Mutual Fund.

#### **Mutual Fund Trustee Companies**

A Mutual Fund shall be constituted in the form of a Trust and the instrument of trust shall be in the form of a deed, duly registered under the provisions of the Indian Registration Act, 1908 (16 of 1908), executed by the sponsor in favour of the Trustees named in such an instrument

The Mutual Fund (MF) Trustee Company performs a supervisory role over the operations of Mutual Fund Asset Management Company (AMC). For performing the said Role, the MF Trustee Company receives Trusteeship Fees at a defined rate as prescribed under SEBI Regulations and Trust Deed.

The Trustees are responsible for the Management of the Mutual Fund, to hold trust Property, to provide information to Unit Holders & SEBI, to ensure compliance with SEBI Regulations by Mutual Fund, to protect interest of the unit holders, to frame, formulate and launch MF Schemes etc.

The Trustee shall be entitled to receive a Fee on the basis of the daily/net assets of the Mutual Fund subject to a maximum fee as per Trust Deed The Trustee shall also be entitled for reimbursement of all costs, charges and expenses incurred in the course of administration and execution of the Fund

#### **Duties and Obligations of Trustees and Substantial Provisions of the Trust Deed**

##### **The rights, duties and obligations of the Trustee including the following:**

- 1) To enter into an investment management agreement with the AMC with the prior approval of SEBI.

- 2) To ensure that the investment management agreement contains such clauses as are mentioned in the Fourth Schedule of SEBI (Mutual Fund) Regulations, 1996 and such other clauses as are necessary for the purpose of making investment.
- 3) The Trustees shall have a right to obtain from the Asset Management Company such information as is considered necessary by the Trustees.
- 4) To ensure before the launch of any scheme that the AMC has -
  - a) Systems in place for its back office, dealing room and accounting;
  - b) appointed all key personnel including fund manager(s) for the scheme(s) and submitted their bio data which shall contain the educational qualifications, past experience in the securities market with the Trustee, within 15 days of their appointment;
  - c) Appointed auditors to audit its accounts;
  - d) Appointed a compliance officer who shall be responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions, etc., issued by the Board or the Central Government and for redressal of investors grievances;
  - e) Appointed registrars and laid down parameters for their supervision;
  - f) Prepared a compliance manual and designed internal control mechanisms including audit systems;
  - g) Specified norms for empanelment of brokers and marketing agents
  - h) obtained, wherever required under these regulations, prior in principle approval from the recognised stock exchange(s) where units are proposed to be listed.
- 4A) The compliance officer appointed under clause (d) of sub-regulation (4) shall immediately and independently report to the Board any non-compliance observed by him.
- 5) To ensure that the AMC has been diligent in empanelling the brokers, in monitoring securities transactions with brokers and avoiding undue concentration of business with any broker.
- 6) To ensure that the AMC has not given any undue or unfair advantage to any associates or dealt with any of the associates of the Asset Management Company in any manner detrimental to the interest of the Unit holders.
- 7) To ensure that the transactions entered into by the Asset Management Company are in accordance with SEBI (Mutual Fund) Regulations, 1996 and the scheme.
- 8) To ensure that the AMC has been managing the Mutual Fund schemes independently of other activities and have taken adequate steps to ensure that the interests of investors of one scheme are not being compromised with those of any other scheme or of other activities of the Asset Management Company.

9) To ensure that all activities of the AMC are in accordance with the provisions of SEBI (Mutual Fund) Regulations, 1996.

10) Where the Trustee have reason to believe that the conduct of business of the Mutual Fund is not in accordance with SEBI (Mutual Fund) Regulations, 1996 and the scheme they shall forthwith take such remedial steps as are necessary by them and shall immediately inform the SEBI of the violation and the action taken by them.

11) Trustees to file the details of his/her holdings in securities with the Mutual Fund on a quarterly basis.

12) To be accountable for, and be the custodian of, the funds and property of the respective schemes and to hold the same in trust or the benefit of the unit holders in accordance with SEBI (Mutual Fund) Regulations, 1996 and the provisions of trust deed.

13) To take steps to ensure that the transactions of the Mutual Fund are in accordance with the provisions of the trust deed.

14) To be responsible for the calculation of any income due to be paid to the Mutual Fund and also of any income received in the Mutual Fund for the holders of the units of any scheme in accordance with SEBI (Mutual Fund) Regulations, 1996 and the trust deed.

15) To obtain the consent of the Unit holders i. whenever required to do so by the SEBI in the interest of the Unit holders; or ii. whenever required to do so on the requisition made by three fourths of the Unit holders of any scheme; or iii. when the majority of the Trustee decide to wind up or prematurely redeem the units;

15A) The Trustees shall ensure that no change in the fundamental attributes of any scheme or the trust or fees and expenses payable or any other change which would modify the scheme and affects the interest of unit-holders, shall be carried out unless,—  
(i) a written communication about the proposed change is sent to each unit-holder and an advertisement is given in one English daily newspaper having nationwide circulation as well as in a newspaper published in the language of region where the Head Office of the Mutual Fund is situated; and (ii) the unit-holders are given an option to exit at the prevailing Net Asset Value without any exit load.

16) To call for the details of transactions in securities by the key personnel of the AMC in his own name or on behalf of the AMC and shall report to the SEBI, as and when required.

17) To quarterly review all transactions carried out between the Mutual Fund, Asset Management Company and its associates.

18) To quarterly review the net worth of the AMC and in case of any shortfall, ensure that the AMC make up for the shortfall as per clause (f) of sub-regulation (1) of regulation 21 of SEBI (Mutual Fund) Regulations, 1996.

- 19) To periodically review all service contracts such as custody arrangements, transfer agency of the securities and satisfy that such contracts are executed in the interest of the Unit holders.
- 20) To ensure that there is no conflict of interest between the manner of deployment of its net worth by the AMC and the interest of the Unit holders.
- 21) To periodically review the investor complaints received and the redressal of the same by the AMC.
- 22) To abide by the Code of Conduct as specified in the fifth schedule of SEBI (Mutual Fund) Regulations, 1996.
- 23) To furnish to the SEBI on a half yearly basis - i. a report on the activities of the Mutual Fund; ii. a certificate stating that the Trustee have satisfied themselves that there have been no instances of self dealing or front running by any of the Trustee, directors and key personnel of the AMC; iii. a certificate to the effect that the AMC has been managing the schemes independently of any other activities and in case any activities of the nature referred to in sub-regulation (2) of regulation 24 of SEBI (Mutual Fund) Regulations, 1996 have been undertaken by the AMC and has taken adequate steps to ensure that the interests of the Magnum holders / Unit holders are protected.
- 24) The independent Trustee referred to in regulation 16 (5) shall give their comments on the report received from the AMC regarding the investments made by the schemes in the securities of group companies of the Sponsor.
- 25) To maintain arms' length relationship with other companies, or institutions or financial intermediaries or anybody corporate with which he may be associated.
- 26) To ensure that no Trustee shall participate in the meetings of the board of Trustee or Trustee Company when any decisions for investments in which he may be interested are taken.
- 27) To furnish to the board of Trustee or Trustee company particulars of interest which he may have in any other company, or institution or financial intermediary or any corporate by virtue of his position as director, partner or with which he may be associated in any other capacity.
- 28) To appoint a custodian and shall be responsible for the supervision of its activities in relation to the Mutual Fund and shall enter into a custodian agreement with the custodian for this purpose.
- 29) To ensure that the removal of a Trustee in all cases would require the prior approval of SEBI.
- 30) To ensure that the Trustee may dismiss the AMC under the specific events only with the approval of SEBI and in accordance with the SEBI Regulations.
- 31) To forbid the acquisition of any asset out of the trust property which involves the assumption of any liability which is unlimited and shall not result in encumbrance of the trust property in any way.

32) To provide or cause to provide information to unit-holders and SEBI as may be specified by SEBI.

As per the sub-regulation (25), the Trustee shall exercise due diligence as under:

**A. General Due Diligence**

- a. The Trustee shall be discerning in the appointment of the directors on the Board of the Asset Management Company.
- b. The Trustee shall review the desirability of continuance of the Asset Management Company if substantial irregularities are observed in any of the schemes and shall not allow the Asset Management Company to float new schemes.
- c. The Trustee shall ensure that the trust property is properly protected, held and administered by proper persons and by a proper number of such persons.
- d. The Trustee shall ensure that all service providers are holding appropriate registrations from the Board or concerned regulatory authority.
- e. The Trustee shall arrange for test checks of service contracts.
- f. Trustee shall immediately report to Board of any special developments in the Mutual Fund.

**B. Specific Due Diligence**

The Trustee shall :

- a. Obtain internal audit reports at regular intervals from independent auditors appointed by the Trustee.
- b. Obtain compliance certificates at regular intervals from the Asset Management Company.
- c. Hold meeting of Trustee at frequent intervals.
- d. Consider the reports of the independent auditors and compliance reports of Asset Management Company at the meetings of Trustee for appropriate action.
- e. Maintain records of the decisions of the Trustee at their meetings and of the minutes of the meetings.
- f. Prescribe and adhere to a code of ethics by the Trustee, Asset Management Company and its personnel.
- g. Communicate in writing to the Asset Management Company of the deficiencies and Checking on the rectification of deficiencies. Notwithstanding the aforesaid, the Trustee shall not be held liable for acts done in good faith if they have exercised adequate due diligence honestly.

The independent Directors of the Trustee or AMC shall pay specific attention to the following, as may be applicable, namely

- a. The Investment Management Agreement and the compensation paid under the agreement.
- b. Service contracts with affiliates - whether the AMC has charged higher fees than outside contractors for the same services.
- c. Selection of the AMC's independent directors.
- d. Securities transactions involving affiliates to the extent such transactions are permitted.
- e. Selecting and nominating individuals to fill independent directors' vacancies.
- f. Code of ethics must be designed to prevent fraudulent, deceptive or manipulative practices by insiders in connection with personal securities transactions.
- g. The reasonableness of fees paid to Sponsors, AMC and any others for services provided.
- h. Principal underwriting contracts and their renewals.
- i. Any service contract with the associates of the AMC

#### **Act, Rules, Documents applicable to MF Trustee Companies**

- i) Companies Act 2013
- ii) Income Tax Act 1961
- iii) SEBI (Mutual Fund) Regulations, 1996
- iv) Deed of Trust
- v) Investment Management Agreement entered into with the AMC

#### **General Audit Checks for Mutual Fund Trustee Companies**

The Assets Under Management through various schemes managed by Mutual Fund Asset Management Companies (AMCs)/Trustee Companies are not reflected in its Balance Sheet since these Assets do not form part of the Mutual Fund AMCs/Trustee Companies. Therefore, the C&AG Audit does not look into the operation of these schemes including decision making regarding acquisition, management and disposal of the assets managed by the AMC/Trustee Companies and expresses no opinion on the soundness of the investments.

Subject to above Disclaimer, the following are the general audit checks in respect of MF Trustee Companies:

- i) To check the Accounting and booking of Revenue for Trusteeship Fees. To examine whether the Trustee Fees are accounted on accrual basis in accordance with the Trust Deed between the Mutual Fund Trustee Company and the Mutual Fund. Trusteeship Fee is recognized at specific rates agreed with the relevant schemes, applied on the average daily net assets of each scheme (excluding inter-scheme investments, investment in fixed deposits, investments made by

the Asset Management Company and deferred revenue expenses, where applicable), and is in conformity with the limits specified under SEBI (Mutual Funds) Regulations, 1996

- ii) To examine whether Trusteeship Fees are recognized on accrual basis as a percentage of the average daily net assets of the schemes of the Mutual Funds, so that it does not exceed the rates prescribed by the Securities and Exchange Board of India (SEBI) Mutual Fund Regulations, 1996, and any other amendments or offer document of the respective schemes.
- iii) To examine whether the expenses of the scheme of the Mutual Fund in excess of the limits prescribed by SEBI MF Regulations, 1996, have been borne by the Company
- iv) To examine apportionment of the Secretarial and other charges attributable to the Trustee Company Ltd on a Reasonable and Equitable basis, and charging thereof to P & L Account
- v) To examine Compliance with the various clauses of the Trust Deed
- vi) To examine Compliance with the provisions of the Investment Management Agreement entered into between the Trustees and the Asset Management Company (AMC) as per SEBI Regulations
- vii) To examine whether the Trustee Company has complied with the Duties and Responsibilities as per the provisions of the Trust Deed and in compliance with SEBI (MF) Regulations
- viii) To examine whether the Trustees have ensured that the AMC has been managing the Mutual Fund Schemes independent of other activities and have taken adequate steps to ensure that the interests of the investors are adequately safeguarded.
- ix) To examine whether the Trustees had reviewed on quarterly basis, all the transactions carried out between the Mutual Fund, AMC and Associates. The Trustees shall also quarterly review the networth of the AMC and in case of any shortfall, ensure that the AMC makes up for the shortfall as per clause (f) of sub-regulation (1) of Regulation 21 of SEBI (MF) Regulations.
- x) To examine whether the Trustees had periodically reviewed all service contracts such as custody arrangements, transfer agency of the securities and satisfy itself that such contracts are executed in the interest of the unit-holders.
- xi) To examine whether the Trustees had ensured that there was no conflict of interest between the manner of deployment of its net-worth by the AMC and the interest of the unit-holders.
- xii) To examine whether the Trustees had ensured that the Trust Property is properly protected, held and administered by proper persons

- xiii) Whether the Trustees had considered the Reports of the Independent Auditor and Compliance Reports of the AMC at the meeting of Trustees.
- xiv) To examine whether the Trustee has, at any time, acquired any asset out of the Trust Property, which involves the assumption of any liability, which is unlimited or results in encumbrance of Trust Property in any way, to the extent permitted by SEBI Regulations.

### **3.1 BOI AXA TRUSTEE SERVICES PRIVATE LIMITED**

#### **3.1.1 Introduction**

BOI Axa Trustee Services Private Ltd, a Subsidiary Company of Bank of India, has been incorporated on 13 August 2007. The Registered Office of the Company is at Mumbai. The Holding Company Bank of India holds 51 *per cent* Equity in the Company and the balance 49 *per cent* Equity in the Company is held by AXA Investment Managers Asia Holdings Private Ltd, Singapore.

The Company does not have any Subsidiary or Joint Venture Companies.

BOI AXA Trustee Services Private Ltd has been appointed as Trustees to the Mutual Fund by the Sponsors of BOI AXA Mutual Fund (the Fund) and BOI AXA Investment Managers Private Ltd (the AMC) acts as an Investment Manager to the Fund. As per the Trust Deed executed between Sponsors and the Company, the Trusteeship Fees should be charged by the Trustees upto one basis point (0.01 *per cent*) on the Assets Under Management (AUM) of the Fund on daily basis.

#### **3.1.2 Objectives**

The Company has been appointed as the Trustee of BOI AXA Mutual Fund in accordance with the Investment Management Agreement (IMA) dated 16 November 2007, and as amended (IMA Agreement) on 24 May 2012, between BOI AXA Investment Managers Private Ltd and the Company.

#### **3.1.3 Activities**

The Company, as the Trustee to BOI AXA Mutual Fund, is the owner of the Trust Fund of BOI AXA Mutual Fund, and holds the same in trust for the benefit of the unitholders. The Trustee has been discharging its duties and carrying out the responsibilities as provided in the Regulations and the Trust Deed, and keeping in view the interests of the investors.

The Trustee Board maintains oversight on the activities of the Asset Management Company (AMC), particularly on matters of investor interest, compliance and controls.

The Trustee Board meets once every 2 months and receives various compliance and other reports from the AMC, and reviews the same. It also receives on a periodical basis, the investment portfolios, as well as investment performance as compared against both the peer groups as well the benchmark for the respective schemes. This information is reviewed by the Trustee. The Trustee also furnishes its half yearly



reports to SEBI on various compliance and other matters relating to the Mutual Fund activity.

The review aids Trustee to oversee that the Fund and the schemes floated thereunder are managed by the AMC in accordance with the Trust Deed, the regulations, directions and guidelines issued by SEBI, Stock Exchanges, Association of Mutual Funds in India (AMFI) and other Regulatory Agencies.

### **3.1.4 Organizational Set up**

The Board of Directors of the Company are responsible for the overall management, superintendence and control over the affairs of the Company. As on August 2018, the Board of Directors of the Company consisted of five Directors, out of which four were Independent Directors, and one nominated by Bank of India. M/s AXA Investment Managers (holding 49 *per cent* equity) also appointed a Nominee Director. All the Directors of the Company are Non Executive Directors. The composition of the Board is in line with the regulatory requirements. While the Board is broadly responsible for overall strategy and business planning, the Management is responsible for executing the strategy and business plan.

### **3.1.5 Capital Structure**

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 4,00,000 equity shares of Rs 10 each aggregating to Rs 40 lakh. The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 1,99,396 equity shares of Rs.10 each aggregating to Rs 19,93,960. As on 31 March 2018, the Holding Company Bank of India held 1,01,692 number of Equity Shares of Rs 10 each constituting 51 *per cent* Equity Holding in the Company. M/s AXA Investment Managers Asia Holdings Pvt. Ltd held 97,704 number of equity Shares of Rs 10 each constituting 49 *per cent* Equity Holding in the Company.

### **3.1.6 Budget and Planning**

The primary objective of the Company is to ensure that that the Asset Management Company complies with SEBI Regulations and also Rules/guidelines/circulars etc, if any, issued by SEBI and applicable Mutual Funds. They shall report periodically to the investors of the fund about such compliance. Since the above function is not like any other commercial organization, the Company does not prepare Budget

### **3.1.7 Accounting System**

The Financial Statements of the Company are prepared under the historical cost convention on an accrual basis in compliance with all material aspects of the applicable Accounting Standards notified by the Companies (Indian Accounting Standard) Rules, 2015, in terms of Section 133 of the Companies Act, 2013.

### **3.1.8 Manpower Analysis**

The Company (Trustee) does not have any Staff of its own, no Staff Cost/Employee Benefit Cost has been booked in the Accounts for the year ended 31 March 2018 and

31 March 2017. The Company does not have any employee. Hence, the provisions of Section 197 of the Companies Act, 2013 read with Rule 5 (2) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 are not attracted.

### 3.1.9 Computerization

In terms of SEBI Circular dated 16 September 2009, Mutual Funds are required to conduct a Systems Audit every 2 years through Independent Auditors. As required by the said Circular, the Company has conducted the Systems Audit and the Systems Audit Report and Compliance Status had been placed before the Board of Trustees, to be filed with SEBI.

### 3.1.10 Internal Audit

The Company has an Internal Audit system commensurate with the size, scale and complexity of its operations. The scope and authority of the Internal Audit function is defined in the engagement letter entered into with the Internal Auditors. To maintain its objectivity and independence, the Internal Auditors submit their report to the Audit & Compliance Committee of the Board regularly.

The Internal Auditors monitor and evaluate the efficacy and adequacy of internal control system in the Company, its compliance with operating system, accounting procedures and policies.

The Trustee has engaged an external accounting firm to carry out internal audit on an ongoing basis. The reports of the internal auditors further aid the Trustee in maintaining an oversight on the activities of the AMC and the Fund.

Although the provisions of Section 177 of the Companies Act, 2013 are not applicable to the Company, the Board of Directors of the Company has constituted an Audit and Compliance Committee (the Audit Committee), which is chaired by a non executive independent director.

The Audit Committee reviews the financials of the Company, financials of schemes, regulatory inspection reports, reports of the internal and statutory auditors placed before them, from time to time.

### 3.1.11 Operational Results

The Revenue from Operations were as follows:

(Rs.in lakh)

Particulars	2017-18	2016-17
Trusteeship Fees- Gross	20.66	13.97
<b>Total Revenue from Operations</b>	<b>20.66</b>	<b>13.97</b>

### 3.1.12 Financial Working Results

(Rs. in lakh)

Particulars	2017-18	2016-17
Revenue from Operations	20.66	13.97
Other Income	0.04	0.02
<b>Total Income</b>	<b>20.71</b>	<b>14.00</b>
Total Expenses	10.71	11.59
Profit Before Exceptional items	10.00	2.41
Exceptional items	--	--
<b>Profit Before Tax</b>	<b>10.00</b>	<b>2.41</b>
Tax	2.56	0.74
<b>Profit After Tax</b>	<b>7.44</b>	<b>1.66</b>

### 3.1.13 Audit Checks:

The General Audit Checks for Mutual Fund Trustee Companies which have already been specified previously in this Chapter may be referred to.

## **3.2 UTI TRUSTEE COMPANY PRIVATE LIMITED**

### **3.2.1 Introduction**

In terms of the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002, all the Schemes/Plans of the erstwhile Unit Trust of India stood transferred to and vested in UTI Trustee Company Private Ltd, the Trustee Company of UTI Mutual Fund and the Administrator of the Specified Undertaking of the Unit Trust of India with effect from the appointed day, i.e., 1 February 2003.

In accordance with the SEBI (Mutual Fund Regulations) 1996, UTI Mutual Fund has been structured comprising a three tier structure, namely, UTI Mutual Fund, UTI Trustee Company (P) Ltd (the Trustee Company to UTI Mutual Fund) and UTI Asset Management Company Ltd (the Investment Managers to UTI Mutual Fund). UTI Mutual Fund has been constituted as a Trust on 9 December 2002, in accordance with the provisions of the Indian Trusts Act 1882 (2 of 1882) with Bank of Baroda, Punjab National Bank, State Bank of India and Life Insurance Corporation of India as the Sponsors and UTI Trustee Company Private Ltd as the Trustee.

### **3.2.2 Objectives**

UTI Trustee Company Private Ltd (the Trustee) , through its Board of Directors, discharges its obligations as Trustee of the UTI Mutual Fund. The Trustee ensures that the transactions entered into by UTI Asset Management Co. Ltd (AMC) are in accordance with the SEBI Regulations and reviews the activities carried on by the UTI AMC.

### **3.2.3 Activities**

As on 31 March 2018, UTI Mutual Fund had 231 schemes in operation with Average Asset Under Management (AAUM) at Rs 1,54,939 crore as against Rs 1,36,810 crore in FY 2016-17.

The Trustee review the operations of the Fund House, based on periodical reports submitted to them during Board Meeting, Reports submitted by Internal Auditors, as a part of their Supervisory Role. The Audit Committee and the Board of Trustees also conduct a Review of Half yearly and Annual Accounts of Schemes of UTI Mutual Fund. Audit Committee of the Trustees discusses the matters arising from Half Yearly and Annual Accounts of the Schemes of the UTI Mutual Fund with the Statutory Auditors of the Fund.

### **3.2.4 Organizational Set up**

The Board of Directors of the Company are responsible for the overall management, superintendence and control over the affairs of the Company. The Chairman, Director & Chairman, Audit Committee of the Company and the Company Secretary are the authorized signatories of the financial statements of the Company. The Company also has an Executive Vice President.

### 3.2.5 Capital Structure

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 1,00,000 equity shares of Rs 10 each aggregating to Rs.10,00,000. The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 1,00,000 equity shares of Rs. 10 each aggregating to Rs 10,00,000. As on 31 March 2018, the shareholding pattern of the Company was as follows:

Shareholders	% Equity Holding as on 31.03.2018	No. of Equity Shares held on 31.03.2018
State Bank of India	18.50 %	18,500
LIC of India	18.50 %	18,500
Bank of Baroda	18.50 %	18,500
Punjab National Bank	18.50 %	18,500
T. Rowe Price International Ltd	26.00 %	26,000
	<b>100 %</b>	<b>1,00,000</b>

### 3.2.6 Budget and Planning

The primary objective of the Company is to ensure that the Asset Management Company complies with SEBI Regulations and also Rules/guidelines/circulars etc, if any, issued by SEBI and applicable Mutual Funds. They shall report periodically to the investors of the fund about such compliance. Since the above function is not like any other commercial organization, the Company does not prepare Budget

### 3.2.7 Accounting System

The financial statements of the Company are prepared under the historical cost convention on accrual basis of Accounting. The financial statements of the Company are being prepared after considering all material aspects of Accounting Standards specified under Section 133 of the Companies Act 2013, read with Rule 7 of the Companies (Accounts) Rules, 2014.

### 3.2.8 Manpower Analysis

Based on the Profit and Loss statement of the Company for the year ended 31 March 2016, 2017 and 2018, the Company does not have any expenditure towards Staff. Thus, the Company does not have any Staff.

### 3.2.9 Internal Audit

As per the Independent Auditors' Report on the Accounts of the Company for the Year Ending (Y/E) 31.03.2018, the Company has, in all material respects, an adequate internal financial control system over financial reporting and such internal financial control system over financial reporting were operating effectively as at 31 March 2018.

The Audit Committee and the Board of Trustees also conduct a Review of Half yearly and Annual Accounts of Schemes of UTI Mutual Fund. Audit Committee of the Trustees discusses the matters arising from Half Yearly and Annual Accounts of the Schemes of UTI Mutual Fund with the Statutory Auditors of the Fund.

### 3.2.10 Operational Results

The Revenue from Operations were as follows:

(Rs. in lakh)

Particulars	2017-18	2016-17
Sale of Services- Trusteeship services	61.85	51.63
<b>Total Revenue from Operations</b>	<b>61.85</b>	<b>51.63</b>

### 3.2.11 Financial Working Results

(Rs in lakh )

Particulars	2017-18	2016-17
Revenue from Operations	61.85	51.63
Other Income	11.66	13.35
<b>Total Income</b>	<b>73.51</b>	<b>64.99</b>
Total Expenses	36.99	38.05
Profit Before Exceptional items	36.52	26.93
Exceptional items	--	---
<b>Profit Before Tax</b>	<b>36.52</b>	<b>26.93</b>
Tax	9.41	8.33
<b>Profit After Tax</b>	<b>27.11</b>	<b>18.60</b>

### 3.2.12 Audit Checks:

The General Audit Checks for Mutual Fund Trustee Companies which have already been specified previously in this Chapter may be referred to.

### **3.3 IDBI MUTUAL FUND TRUSTEE COMPANY LIMITED**

#### **3.3.1 Introduction**

IDBI Mutual Fund (MF) Trustee Company Ltd was incorporated on 25 January 2010 as a Public Limited Company. The Company is a wholly owned subsidiary Company of IDBI Bank Ltd. IDBI Asset Management Ltd is the Company's fellow Subsidiary. The Principal Activity of the Company is to act as Trustee for the schemes of the IDBI Mutual Fund by devising various Mutual Fund Schemes for raising funds and deploying them to earn reasonable returns. The Company's Registered Office is at Mumbai.

#### **3.3.2 Objectives**

The objective of the Company is to act as Trustee for the schemes of the IDBI Mutual Fund by devising various Mutual Fund Schemes for raising funds and deploying them to earn reasonable returns.

As per Trust Deed dated 19 February 2010, IDBI MF Trustee Company Ltd acts as a Trustee to IDBI Mutual Fund. IDBI MF Trustee Company Ltd performs a supervisory role over the operations of IDBI Asset Management Ltd. For performing the said Role, IDBI MF Trustee Company Ltd receives Trusteeship Fees at a defined rate as prescribed under SEBI Regulations and Trust Deed. IDBI Bank (the Settlor) has constituted a Trust in the name of IDBI Mutual Fund. The Settlor has appointed IDBI MF Trustee Company Ltd as Trustees to the Mutual Fund.

The Trustee shall be entitled to receive a Fee not exceeding 0.01 *per cent* per annum of the daily/net assets of the Mutual Fund subject to a maximum fee not exceeding Rs 10 lakh per annum. The Trustee shall also be entitled for reimbursement of all costs, charges and expenses incurred in the course of administration and execution of the Fund. Schedule III of the SEBI (Mutual Funds) Regulations allows IDBI MF Trustees Company Ltd to recover from the schemes, Trusteeship Fees, for supervising the operations of the Schemes of IDBI Mutual Fund as per the Trust Deed dated 19 February 2010 entered into with IDBI Bank Ltd (Sponsor to IDBI Mutual Fund)

#### **3.3.3 Activities**

The Company appoints the Asset Management Committee (AMC) to act as Investment Manager of the IDBI Mutual Fund. The Company ensures that the transactions entered into by the AMC are in accordance with SEBI (MF) Regulations, and also reviews the activities carried by the AMC. The Company, as a Trustee, performs a supervisory role over the operation of IDBI Asset Management Ltd., for which The Company receives Trusteeship Fees at a defined rate as prescribed under SEBI Regulations and Trust Deed.

#### **3.3.4 Organizational Set up**

The Board of Directors of the Company is responsible for the overall management, superintendence and control over the affairs of the Company. The Company's Financial Statements for the Year Ending (Y/E) 31.03.2018 were authenticated by Chairman, Director and Company Secretary of the Company, apart from the Statutory

Auditors. The Managing Director and Chief Executive Officer of IDBI Asset Management Ltd is the Key Management Personnel of the Company.

The total strength of the Board of Directors of the Company was five. The Company also has Independent Directors.

### **3.3.5 Capital Structure**

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 5,00,000 equity shares of Rs 10 each aggregating to Rs 50,00,000. The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 2,00,000 equity shares of Rs 10 each aggregating to Rs 20,00,000. As on 31 March 2018, the Holding Company IDBI Bank Ltd held all the 2,00,000 number of Equity Shares of Rs 10 each constituting 100 *per cent* Equity Holding in the Company.

### **3.3.6 Budget and Planning**

The primary objective of the Company is to ensure that the Asset Management Company complies with SEBI Regulations and also Rules/guidelines/circulars etc, if any, issued by SEBI and applicable Mutual Funds. They shall report periodically to the investors of the fund about such compliance. Since the above function is not like any other commercial organization, the Company does not prepare Budget.

### **3.3.7 Accounting System**

The Company's Financial Statements are prepared in accordance with the Generally Accepted Accounting Principles in India (Indian GAAP), to comply with the Accounting Standards prescribed under Section 133 of the Companies Act, 2013.

### **3.3.8 Manpower Analysis**

The services of around 12 Officials (of IDBI Asset Management- AMC- Ltd) are being used for IDBI MF Trustee Company related work, as the Company (IDBI MF Trustee Company Ltd) does not have any employee on its rolls. These AMC Officials take care of the work relating to secretarial matters, conducting of meetings, ROC work, Accounts/tax matters, SEBI compliance etc. IDBI AMC is charging the Company 1 *per cent* of salary expenses, which worked out to Rs 12 lakh per annum in FY 2016-17.

Thus, the secretarial and account services of the Company are managed by the employees of IDBI AMC (Investment manager to IDBI Mutual Fund), since the Company has no employees on roll. The said arrangement has been approved by the Board of Directors of the Company on 22.11.2003, as per Form AOC2.

### **3.3.9 Computerization**

All the Support Services are provided by IDBI AMC to the Company.

### **3.3.10 Internal Audit**



As per the Independent Auditors' Report on the Internal Financial Controls over financial reporting of IDBI MF Trustee Company Ltd, for the year ending 31.03.2018, the Company had, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31 March 2018. The Company has an Audit Committee duly constituted under the Companies Act 2013.

### 3.3.11 Financial Working Results

(Rs. in lakh)

Particulars	2017-18	2016-17
Revenue from Operations	81.58	66.31
Other Income	0.21	---
<b>Total Income</b>	<b>81.80</b>	<b>66.31</b>
Total Expenses	52.17	48.23
Profit Before Exceptional items	29.63	18.08
Exceptional items	--	--
<b>Profit Before Tax</b>	<b>29.63</b>	<b>18.08</b>
Tax	7.65	5.56
<b>Profit After Tax</b>	<b>21.97</b>	<b>12.51</b>

### 3.3.12 Audit Checks:

The General Audit Checks for Mutual Fund Trustee Companies which have already been specified previously in this Chapter may be referred to.

## **3.4 SBI MUTUAL FUND TRUSTEE COMPANY PRIVATE LIMITED**

### **3.4.1 Introduction**

SBI Mutual Fund (the “Mutual Fund”) has been constituted on June 29, 1987 as a Trust in accordance with the provisions of the Indian Trusts Act, 1882 (2 of 1882) with State Bank of India (SBI), as the Sponsor and **SBI Mutual Fund Trustee Company Private Limited (SBIMFTCPL) as the Trustee**. The Trust Deed has been registered under the Indian Registration Act, 1908. The Mutual Fund was registered with SEBI on December 23, 1993 under Registration Code MF-009/93/3.

The Company (SBIMFTCPL) was incorporated on 2 January 2003. The Company is a wholly owned subsidiary of State Bank of India.

The registered office of the Company (SBIMFTCPL) is situated at Mumbai. The Company (SBIMFTCPL) is the Trustee to the SBI Mutual Fund vide the Restated and Amended Trust Deed dated December 29, 2004, to supervise the activities of the Fund. The Nature of Business of the Company is Trusteeship for SBI Mutual Funds under SEBI Regulations.

### **3.4.2 Objectives**

The Company was granted approval by the Securities and Exchange Board of India (SEBI) under SEBI (Mutual Funds) Regulations, 1996, to carry on the functions and duties of the Trustee of SBI Mutual Fund (the Fund), which has launched various schemes.

SBI Mutual Fund is sponsored by State Bank of India, one of the largest public sector banks in India. The Sponsor is the Settlor of the Mutual Fund Trust. The Sponsor has entrusted a sum of Rs. 5 Lakhs to the Trustee as the initial contribution towards the corpus of the Mutual Fund

SBI Mutual Fund Trustee Company Private Limited (the “Trustee” or SBIMFTCPL), through its Board of Directors, shall discharge its obligations as Trustee of the SBI Mutual Fund. The Trustee ensures that the transactions entered into by the Asset Management Company (AMC) are in accordance with the SEBI Regulations and will also review the activities carried on by the AMC.

### **3.4.3 Activities**

The Board of Trustees monitors the activities of the AMC. From time to time it seeks information from the AMC in the form of Performance Reports, Compliance Reports, etc. On a quarterly basis, a review report is prepared by the AMC and the same is placed at the board meetings of the Trustee Company. Specific approval of the Trustees is also obtained on various important matters. The Audit Committee, comprising of three directors of the board of the Trustee Company which has been constituted pursuant to the SEBI circular MFD/CIR/010/024/ 2000 dated January 17, 2000 to, inter alia, review internal audit systems and reports from internal and concurrent auditors. The Committee is chaired by an Independent Director of the Company.

#### **3.4.4 Organizational Set up**

The Company is managed by a Board of Directors and does not have any employees. Two Directors of the Company are Authorized Signatories to the Financial Statements of the Company.

All work and support related to SBI Mutual Fund Trustee Company Private Ltd including IT system related work is provided by relevant departments of SBI Funds Management Private Ltd with due systemic segregation, wherever necessary.

#### **3.4.5 Capital Structure**

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 1,00,000 equity shares of Rs 10 each aggregating to Rs 10,00,000.

The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 1,00,000 equity shares of Rs10 each aggregating to Rs 10,00,000.

As on 31 March 2018, the Holding Company State Bank of India held all the Equity Shares constituting 100 *per cent* Equity Holding in the Company.

#### **3.4.6 Budget and Planning**

The primary objective of the Company is to ensure that that the Asset Management Company complies with SEBI Regulations and also Rules/guidelines/circulars etc, if any, issued by SEBI and applicable Mutual Funds. They shall report periodically to the investors of the fund about such compliance. Since the above function is not like any other commercial organization, the Company does not prepare Budget.

#### **3.4.7 Accounting System**

The Company has a Centralized system of Accounting. The financial statements of the Company are prepared under historical cost convention on an accrual basis of accounting to comply in all material respects with mandatory accounting standards as specified u/s 133 of the Companies Act 2013, and the Rules made there-under as applicable to the company.

#### **3.4.8 Manpower Analysis**

The Company does not have any employees. All work and support related to SBI Mutual Fund Trustee Company Private Ltd including IT system related work is provided by relevant departments of SBI Funds Management Private Ltd with due systemic segregation, wherever necessary.

#### **3.4.9 Computerization**

The Company has SUN (Accounting System) ERP/IT System.

#### **3.4.10 Internal Audit**

For 2015-16, the Internal Audit of the Company was conducted by the Company's Own Resources on Annual basis. During the year 2016-17 and 2017-18, Internal Audit was done by Outside Agency on Annual basis. The Manual of Internal Audit is available with the Company.

### 3.4.11 Operational Results

The Revenue from Operations were as follows:

(Rs.in crore )

Particulars	2017-18	2016-17
Trusteeship Fee	1.96	1.37
<b>Total Revenue from Operations</b>	<b>1.96</b>	<b>1.37</b>

### 3.4.12 Financial Working Results

(Rs in crore )

Particulars	2017-18	2016-17
Revenue from Operations	1.96	1.37
Other Income	3.45	1.97
<b>Total Income</b>	<b>5.42</b>	<b>3.35</b>
Total Expenses	0.78	0.42
Profit Before Exceptional items	4.63	2.93
Exceptional items	--	--
<b>Profit Before Tax</b>	<b>4.63</b>	<b>2.93</b>
Tax	0.80	0.51
<b>Profit After Tax</b>	<b>3.82</b>	<b>2.42</b>

### 3.4.13 Audit Checks:

The General Audit Checks for Mutual Fund Trustee Companies which have already been specified previously in this Chapter may be referred to.

## **3.5 UNION TRUSTEE COMPANY PRIVATE LIMITED**

### **3.5.1 Introduction**

Union Trustee Company Private Ltd (formerly known as Union KBC Trustee Company Private Ltd) is a wholly owned Subsidiary Company of Union Bank of India. The Company has been incorporated on 30 December 2009. The Nature of Business of the Company is to render Trusteeship service to Union Mutual Fund.

### **3.5.2 Objectives**

The Company's principal activity is to act as a Trustee Company for the various Funds to be launched by Union Mutual Fund on approval from Securities and Exchange Board of India.

### **3.5.3 Activities**

As per the Accounting Standard on Segment reporting, the Company's primary business segment is to act as a Trustee Company for various Funds to be launched by Union Mutual Fund. The Company generates Revenue from Operations from Trustee Fees.

### **3.5.4 Organizational Set up**

The Board of Directors of the Company is responsible for the overall management, superintendence and control over the affairs of the Company. The Company's Financial Statements are authenticated by, (in addition to the Statutory Auditors of the Company), four Authorized Signatories, of which two are Directors, and one is Chief Financial Officer of the Company.

### **3.5.5 Capital Structure**

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 50,000 equity shares of Rs 10 each aggregating to Rs 5,00,000.

The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 50,000 equity shares of Rs 10 each aggregating to Rs 5,00,000.

As on 31 March 2018, the Holding Company Union Bank of India held 50,000 number of Equity Shares of Rs 10 each constituting 100 *per cent* Equity Holding in the Company.

### **3.5.6 Budget and Planning**

The primary objective of the Company is to ensure that the Asset Management Company complies with SEBI Regulations and also Rules/guidelines/circulars etc, if any, issued by SEBI and applicable Mutual Funds. They shall report periodically to the investors of the fund about such compliance. Since the above function is not like any other commercial organization, the Company does not prepare Budget

### **3.5.7 Accounting System**

The Financial Statements of the Company are prepared in accordance with the Generally Accepted Accounting Principles (GAAP) in India (Indian GAAP), so as to

comply in all material respects with the Accounting Standards notified u/s 133 of the Companies Act 2013, read with Para 7 of the Companies (Accounts) Rules, 2014. The Financial Statements are prepared on accrual basis under historical cost convention. The Company has a Centralized system of Accounting.

### 3.5.8 Manpower Analysis

The Trustee Company, through its Board of Directors, has been discharging its duties and carrying out the responsibilities as provided in the SEBI (Mutual Funds) Regulations, 1996, and the Trust Deed. The employees of Union Asset Management Company Private Ltd assist the Company in co-ordinating various functions of the Company.

### 3.5.9 Computerization

The Company had ERP/IT Systems such as Sun Accounting system, HRMS system and Moneyware Miles system.

### 3.5.10 Internal Audit

For FY 2017-18, the Internal Audit of the Company was entrusted to Outside Agency. Internal Audit was conducted on Half Yearly basis. In respect of Manual of Internal Audit, the Company has Board approved Internal Audit scope documentation available with it.

### 3.5.11 Operational Results

The Revenue from Operations were as follows:

(Rs. in lakh)

Particulars	2017-18	2016-17
Trustee Fees	10.00	9.99
<b>Total Revenue from Operations</b>	<b>10.00</b>	<b>9.99</b>

### 3.5.12 Financial Working Results

(Rs. in lakh)

Particulars	2017-18	2016-17
Revenue from Operations	10.00	9.99
Other Income	0.05	0.08
<b>Total Income</b>	<b>10.05</b>	<b>10.08</b>
Total Expenses	9.05	10.15
Profit/ (Loss) Before Exceptional items	1.00	(0.06)
Exceptional items	--	---
<b>Profit/ (Loss) Before Tax</b>	<b>1.00</b>	<b>(0.06)</b>
Tax	0.25	0.01
<b>Profit/ (Loss) After Tax</b>	<b>0.75</b>	<b>(0.07)</b>

### 3.5.13 Audit Checks:

The General Audit Checks for Mutual Fund Trustee Companies which have already been specified previously in this Chapter may be referred to.

#### 3.5.14 Additional Audit Checks (Specific to Union Trustee Co Pvt LIMITED)

- i) To examine the provision for cross charge from Union Asset Management Company (AMC) to Union Trustee Company Pvt Ltd (Union Trustee) towards manpower support provided by Union AMC for accounting, administrative and secretarial report.
- ii) To examine changes in Trustee fee payable to the Trustee Company, subject to approval of the sponsor as required under the Trust Deed dated 1 December 2010. Union Bank of India, vide its letter dated 14 February 2018, had approved Rs 20 lakh per annum as Trustee Fee to be charged from the schemes of Union Mutual Fund. Subsequently, the Board, at its Meeting held on 26 February 2018, had approved the payment of Rs 50,000 per month (plus applicable taxes) to Union Asset Management Company Private Ltd (AMC) towards Accounting, Administrative and Secretarial support provided by the AMC with effect from 1 April 2018. As per the same, Union Trustee will cross charge towards accounting, administrative and secretarial support provided by Union AMC by Rs 50,000 per month in FY 2018-19. Accordingly, Audit to examine the provision for cross charge from Union Asset Management Company (Union AMC) to Union Trustee Company Pvt Ltd (Union Trustee) towards manpower support provided by Union AMC for Accounting, Administrative and Secretarial support. Audit to thus examine the changes in the Trust Deed of the Trustee Company and approval from the Sponsors of the Trust and approval from AMC and Trustee Board of the quantum of cross charge.

## 3.6 BARODA TRUSTEE INDIA PRIVATE LIMITED

### 3.6.1 Introduction

Baroda Pioneer Trustee Company Private Ltd was incorporated on 23 December 2011 as a Private Limited Company. The Company has been incorporated to act as a Trustee to the Baroda Pioneer Mutual Fund (the Fund). The Company was granted approval on 28 July 2011 by the Securities and Exchange Board of India (SEBI) under SEBI (Mutual Fund) Regulations 1996 to carry on the functions and duties of a Trustee of the Fund. Effective 1 November 2017, pursuant to a Deed of Merger between Pioneer Global Asset Management S.p.A (PGAM) and Uni Credit SpA (Uni Credit), the ultimate Holding Company of PGAM, the entire shareholding of PGAM in the Company was registered in the name of Uni Credit on 21 December 2017.

Further, by virtue of the Share Purchase Agreement executed between Bank of Baroda and Uni Credit on 28 December 2017, Bank of Baroda initiated the process of acquiring the shares held by UniCredit in the Company, subject to necessary regulatory approvals.

In December 2017, both Bank of Baroda and Uni Credit signed a Share Purchase Agreement, by virtue of which Bank of Baroda bought 51 *per cent* shareholding in Uni Credit, subject to Regulatory Approvals. Once the said transaction was concluded, the Company became 100 *per cent* owned by Bank of Baroda.

The name of the Company was changed from Baroda Pioneer Trustee Company Private Ltd to Baroda Trustee India Private Limited with effect from 02.11.2018.

The Company's Registered Office is at Mumbai.

The sponsor for 10 years, Pioneer Investments, with their merger worldwide with another Asset Management Company, have moved out of the joint venture and Bank of Baroda, India's 2nd largest PSU Bank, has now become the sole sponsor for the Mutual Fund.

On September 28, 2018, Bank of Baroda acquired the entire shareholding of UniCredit S.p.A. (erstwhile PGAM, which merged into its holding company viz. UniCredit S.p.A. effective November 1, 2017) held in the AMC and Baroda Pioneer Trustee Company Private Limited ("Trustee"). Subsequently, the names of the AMC and Trustee have been changed to **Baroda Asset Management India Limited** and **Baroda Trustee India Private Limited** respectively, and the name of our Mutual Fund has been changed to **Baroda Mutual Fund**. The Trustee through its Board of Directors shall discharge its obligation as the Trustee of the Mutual Fund.

### 3.6.2 Objectives

The Trustee through its Board of Directors shall discharge its obligation as the Trustee of the BOB Mutual Fund. The Trustee ensures that the transactions entered into by the BOB MF AMC are in accordance with the SEBI (Mutual Funds) Regulations, 1996 ("Regulations"), and also reviews the activities carried on by the AMC.

### 3.6.3 Activities



The source of Income from Principal Business Activity of the Company is Trustee Fee Income, comprising 97 *per cent* of the total turnover of the Company as on 31.03.2018.

The Company, as a MF Trustee, monitors the activities of the AMC. From time to time, it seeks information from the AMC in the form of performance reports, compliance reports, etc. On a quarterly basis, a review report is prepared by the AMC and placed at the Board meetings of the Trustee. Specific approval of the Trustee is also obtained on various important matters. An Audit Committee, comprising of four directors with an independent director chairing the Committee, has been constituted, pursuant to SEBI circular MFD/CIR/010/024/ 2000 dated January 17, 2000 to, *inter alia*, review internal audit systems and reports from internal auditors

Baroda Mutual Fund (formerly known as Baroda Pioneer Mutual Fund), is a Trust registered under the Indian Trusts Act and registered with SEBI under the SEBI (MF) Regulations, vide registration number MF/018/94/2.

Baroda Trustee India Private Limited (formerly known as Baroda Pioneer Trustee Company Private Limited), incorporated under the Companies Act, 1956 on December 23, 2011, having its registered office at Mumbai has been acting as the Trustee to the schemes of Baroda Mutual Fund with effect from July 30, 2012. Prior to July 30, 2012, the Board of Trustees, comprising 4 Trustees, was the Trustee to Baroda Mutual Fund.

The Investment Management Agreement (IMA) dated November 19, 2018, has been entered into between the Trustee and the AMC, as amended from time to time.

#### **3.6.4 Organizational Set up**

The Board of Directors of the Company is responsible for the overall management, superintendence and control over the affairs of the Company under the provisions of the Companies Act, 2013. The Company has four Directors consisting *inter alia* of Chairman, one Associate Director, and two Independent Directors.

As on 31.03.2018, the Company also had Board constituted Audit Committee and Risk and Compliance Committee.

#### **3.6.5 Capital Structure**

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 50,000 equity shares of Rs 10 each aggregating to Rs 5,00,000. The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 50,000 equity shares of Rs 10 each aggregating to Rs 5,00,000. As on 31 March 2018, the Holding Company UniCreditSpA held 25,500 number of Equity Shares constituting 51 *per cent* Equity Holding in the Company. Bank of Baroda held 24,500 number of Equity Shares in the Company constituting 49 *per cent* Equity Holding in the Company.

As on 31.01.2019, the Holding Company Bank of Baroda held 49,900 equity shares of Rs 10 each fully paid up aggregating to Rs 4,99,000 in the Company, out of total 5,00,000 equity shares of Rs 10 each fully paid up, issued and subscribed in the Company.

### 3.6.6 Accounting System

The Company's Financial Statements for FY 2017-18 have been prepared in accordance with the Generally Accepted Accounting Principles (GAAP) in India (Indian GAAP), so as to comply with the Accounting Standards specified under Section 133 of the Companies Act 2013 read with Rule 7 of the Companies (Accounting Standard) Rules 2014, as amended. The Financial Statements of the Company have been prepared on accrual basis under historical cost convention.

### 3.6.7 MOU Targets and Achievements

Not Applicable since the Company is not a Central Public Sector Enterprise.

### 3.6.8 Manpower

As on 31.03.2018, the Company did not have any employees and the activities of the Company is managed through Baroda AMC Ltd.

### 3.6.9 Internal Audit

The Company has in place a proper and adequate internal control systems commensurate with the nature of business and size of the operations. The statutory auditors of the Company have found no weakness in the internal control system of the Company and have mentioned the same in their audit report for the Financial Year ended 31 March 2017.

### 3.6.10 Act, Rules, Documents

- xii) Companies Act 2013 and the Rules framed thereunder
- xiii) Investment Management Agreement dated November 19, 2018, entered into between the Baroda Trustee Company Pvt Ltd and the Baroda MF AMC
- xiv) SEBI (Mutual Fund) Regulations, 1996
- xv) SEBI Act 1992
- xvi) Association of Mutual Funds in India (AMFI) Guidelines, Circulars & Directives

### 3.6.11 Operational Results

The Revenue from Operations were as follows:

(Rs. in lakh)

Particulars	2017-18	2016-17
Trustee Fee Income (0.002 per cent of Average Assets Under Management)	20.50	21.00
<b>Total Revenue from Operations</b>	<b>20.50</b>	<b>21.00</b>

### 3.6.12 Financial Working Results

(Rs. in lakh)

Particulars	2017-18	2016-17
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Revenue from Operations	20.50	21.00
Other Income	0.64	0.76
<b>Total Income</b>	<b>21.14</b>	<b>21.76</b>
Total Expenses	19.97	20.78
Profit Before Exceptional items	1.16	0.98
Exceptional items	--	--
<b>Profit Before Tax</b>	<b>1.16</b>	<b>0.98</b>
Tax	0.28	0.30
<b>Profit After Tax</b>	<b>0.88</b>	<b>0.68</b>

### 3.6.13 Audit Checks:

The General Audit Checks for Mutual Fund Trustee Companies which have already been specified previously in this Chapter may be referred to.

## CHAPTER IV

### Finance-Other Trustee Companies

The Office of The Director General of Commercial Audit & *ex-officio* Member Audit Board-I Mumbai conducts the Audit of the following Trusteeship Companies (other than Mutual FundTrustee Companies)

- 1) IDBI Trusteeship Services Co Ltd
- 2) SBI Cap Trustee Co Ltd
- 3) SIDBI Trustee Co Ltd
- 4) UTI Investment Advisory Services Ltd
- 5) CentBank Financial Services Ltd
- 6) Maharashtra Executor &Trustee Co Private Ltd

#### 4.1 IDBI TRUSTEESHIP SERVICES LIMITED

##### 4.1.1 Introduction

IDBI Trusteeship Services Limited is India's Leading Trusteeship Company. The Company is jointly promoted by IDBI Bank Ltd(54.67 *per cent* equity), LIC of India (29.84 *per cent* equity) , and GIC of India (14.92 *per cent* equity), and provides a wide spectrum of Trusteeship Services. The Company was incorporated on 8 March 2001.

The Company's Registered Office is at Mumbai, and has Branches at Delhi and Satara.

The Industrial Development Bank of India (now IDBI Bank Ltd) had set up its Debenture Trusteeship Cell in 1992. IDBI Trusteeship Services Limited was set up as a sequel to amendments in SEBI Regulations in August 2000 that revised its Debenture Trusteeship Guidelines. The revised Debenture Trusteeship Guidelines stated the following points

- Requiring the Trustees to maintain Arms-Length relationship with issuer/lenders.
- Perceived Conflict of Interest. Industrial Development Bank of India hived off its existing Trusteeship business by setting up IDBI Trusteeship Services Limited (ITSL) on March 8, 2001.

IDBI Trusteeship Services Limited was registered with the SEBI on 4 September 2001. The Company was jointly promoted by IDBI Bank Ltd., Life Insurance Corporation of India (LIC), General Insurance Corporation of India (GIC) and Industrial Finance Corporation of India Limited (IFCI). ITSL was incorporated under Companies Act 1956 as a Government Company under Section 619(1)(b) for limited purpose. On 1 April 2007, the Western India Trustee and Executor Company

(WITECO) established in 1946 merged with ITSL. WITECO was the oldest Trusteeship Company in India.

IFCI divested its entire shareholding in ITSL in September 2011 to IDBI Bank Ltd. Since then ITSL became subsidiary of IDBI Bank Ltd.

#### **4.1.2 Objectives**

The main objectives of the Company are to provide the following Trusteeship Services :

- i) Debenture Trustee
- ii) Security Trustee
- iii) Facility Agent
- (iv) Securitization Trustee
- (v) Share Pledge Trustee
- (vi) Escrow Agent
- (vii) Alternative Investment Fund
- (viii) Safe Keeping
- (ix) Management of Private Trust
- (x) Employees Stock Option Plan (ESOP) and Employee Welfare Trustee

Thus, the principal activities of the Company are providing Trusteeship Services, viz., Debenture/Bond Trusteeship, Security Trusteeship, Safe Keeping, Securitization, Management of Special Purpose Vehicles (SPVs), Managing Trusts etc.

#### **4.1.3 Activities**

The Company's Activities are described in detail below

##### **Debenture Trustee**

ITSL's Debenture Trustee Service ensures the protection of interest of debenture holders whilst ensuring an adequate asset coverage ratio. At ITSL, the Company specializes in varied facets of Debenture Trustee services including creation of security within stipulated time, effective handling of investor complaints and proficient settlement of clearances on behalf of debenture holders in event of further borrowings by the Issuer. The following services are provided as a Debenture Trustee

- To advise Issuer Company on mode of creation of Security.
- To hold the Security/Charge on behalf of debenture holders and hold the security documents in safe custody.
- To advise Issuer Company on the mode of creation of Security and Registration of Debenture Trust Deed.

- To ensure Compliance of Listing Agreement, Companies Act, 1956/Companies Act 2013 and the relevant SEBI Regulations.
- Enforcement of Security in the interest of the debenture holders.
- Assisting Issuer Company on various aspects.
- Assisting in obtaining in principle approval from stock exchanges.
- Drafting and Vetting of Documents
- Advising Clients on structuring of Debt Instruments.

### **Security Trustee**

Security Trusteeship is a contractual arrangement amongst Borrower, Lenders (who are NBFCs, Banks & Financial Institutions), and the Security Trustee. This arrangement is established by executing a document called Security Trustee Agreement (STA).

Pursuant to the execution of STA, Borrower is required to create all securities in favour of Security Trustee including mortgage of immovable properties. Security Trustee holds charge on Borrower's assets including interest in underlying security on behalf of the multiple lenders. Thus under the arrangement, Hypothecation/Mortgage and any other charge on other securities is created by the Borrower in favour of single entity called "Security Trustee" for the benefit of lenders. In other words, lenders are represented through Security Trustee as their sole representative. This being contractual arrangement is absolutely legal, valid, binding and enforceable.

In view of the advantages of Security Trusteeship arrangements, all NBFCs, Banks & Financial Institutions prefer Security Trusteeship Arrangements in financing small, medium and large Corporates for their all types of projects including Infrastructure Projects like Power, Telecom, Roads, Airports, Ports etc. and also other small and medium projects.

Key Benefits to Lenders and Borrowers are as follows: -

- Since Security Trustee has no financial relations with other Corporate Entities (like many Banks and Financial Institutions have), it has no conflict of interest in discharging role as Security Trustee
- Security Trustee coordinates with lenders, borrowers and all other agencies involved in the chain
- Protection of lenders' interest in respect of security held under the charge including verification of the title deeds related to mortgaged property and holding of such title deeds under the custody of STA at one place.
- The limitations on pledge of shares prescribed under various regulations can be addressed by engaging a Security Trustee.
- Lenders can down sell or divest their stake to incoming lenders with minimal documentation.

- Enforcement of the security when required by the lenders and disbursement of the sale proceeds without prejudice.
- Saves Banks & FIs of their hassles for creation of security and enforcement of the same, which helps them to concentrate on their core activities.

Security Trustee is the entity who acts in place of Lenders for holding the security and enforcing the same for and on behalf of the lenders for the benefit of the Lenders.

### **Facility Agent**

At ITSL, services rendered by the Company in its capacity as a Facility Agent to various clients depend upon the transaction structure mainly including the following :-

- Interest calculation and payouts
- Compliances to meet various covenants
- Authority for various payments from Bank Accounts
- Co ordination between lenders and borrowers
- Circulate various information as and when received from borrower/issuer
- Monitoring the fund movement
- Other services as per the requirement of the transaction

The Company also provides specialized services as Facility Agent for complex structured transactions including opening the Bank Accounts and Demat Accounts. The Company advises on the suitability of the transaction on operational aspects.

Depending on the Role in aforesaid transactions, the Company also provides the following services to accomplish the requirement -

- Dissemination of information between the Parties to the transaction
- Monitor pre-execution and post execution compliance of conditions
- Monitor and confirm compliance of pre-disbursement conditions.
- Convening meetings of the parties to the transaction
- Obtain information regarding compliance from the parties.

### **Securitization Trustee**

IDBI Trusteeship Services Ltd is the leading Trusteeship Company for Securitisation. IDBI Trusteeship holds substantial market share of the entire industry. A typical process of asset securitization involves sale of specific receivables to a Special Purpose Vehicle (“SPV”). While globally different forms of entities are used as SPVs, in India trusts make up the most popular form of SPV structure. ITSL acts as a Trustee to following asset classes.

#### **1. ABS (Asset Backed Securitisation)**

- Commercial Vehicles/Construction Equipment loans.

- Car, Two wheeler loans.

## 2. MBS (Mortgage Backed Securitisation)

- Housing Loans.
- Mortgage loan.
- Micro Finance Loans
- Personal Loans

The Trustee-Securitization service includes the following

- Liaising with Originators, Bankers, Rating Agencies, Arrangers, Legal Counsels and Investors among others.
- Vetting of legal documents.
- Ensuring that the transaction is in accordance with the RBI Guidelines and SEBI Guidelines.
- Providing inputs on the transaction structure/ information memorandum and preparing the spreadsheets (par/premium) for the same.
- Collecting proceeds from the investors and providing the same to the originator.
- Issuance of Physical Trusteeship Certificates (PTC's) and Demat of Securities.
- Invoking the credit enhancement/liquidity facility in case of shortfall as per RBI Guidelines
- Regular analysis of service reports, ensuring timely and accurate payouts.
- Monitoring the credit enhancement as stipulated by the rating agency.
- Sending out monthly reports along with future cash flows factoring prepayments to the investor, originator & rating agency.
- Investor servicing for responding to any queries/clarifications sought by the investors.
- Redemption of the PTCs on completion of the payouts.
- Audit of various trusts on a quarterly basis and issuance of TDS certificates to the beneficiaries wherever TDS implications are involved.

### **Share Pledge Trustee**

Pledge of shares is a common practice adopted in the securities market by the borrower and intermediaries to raise finance from the lenders viz. Banks, Financial Institutions and other financiers. Pledge of shares can either be may be offered as 100 *per cent* security under the transaction or may be partial or as collateral, lenders follow their own method of advancing under pledge transactions. Normally adequate margin is kept against the market value of shares offered under the pledge. Margin adequacy depends upon the volatility of pledged shares and/or market conditions.

Functions of IDBI Trusteeship Services Ltd (ITSL) as a Share Pledge Trustee are as follows:



- Quickest way to raise loans.
- It is beneficial for the borrower to create pledge in favour of third party, here in favour of ITSL as Trustee, instead of creating pledge in favour of lender directly.
- Listed as well as unlisted shares can be pledged in favour of ITSL for the facility advanced by the lender to the borrower.
- In consortium lending where number of lenders are involved, it is always beneficial to have pledge of shares with single entity i.e. with the Trustee, instead of having pledge of shares in favour of each individual lender. In such case, ITSL will hold the pledge for the benefit of consortium lenders. This facilitates substitution of lenders by executing simple deed of accession by new lenders.
- ITSL will hold the pledge of shares for the benefit of lender till the end of the transaction.
- ITSL as Trustee can monitor valuation of shares for the listed shares pledged with them on a daily, weekly, monthly basis, which is important in asset cover calculation as per the facility agreement or term sheet.
- In case of event of default, ITSL can invoke the pledge on the basis of instructions received from the lender.
- ITSL has expertise to sell the shares pledged and distribute the sale proceeds to the lenders towards repayment of their loans.

### **Escrow Agent**

At ITSL, the Company offers specialized Escrow Agent services. The Company provides services which are required for different purpose including but not limited to-

- Escrow for Disputed Liability.
- Escrow for Business Acquisition.
- Escrow for Private Equity Transactions.
- Escrow for Holding the Securities.
- Escrow for Timely Payouts.

Above services require the following:

- Efficient operation and Management of Escrow Accounts i.e Bank Accounts or Demat Accounts opened for the purpose.
- Proper Documentation of Escrow Mechanism.
- Advice client on the structure suitable to their requirement.
- Monitoring the fund movement.
- Strict compliances to various provisions of the Escrow Arrangement.

## **Alternative Investment Fund**

At ITSL, the Company offers the following services as Trustee to Alternative Investment Fund (AIF) (erstwhile VCF- Venture Capital Financing) Primary Documentation

- Executing and Registering Indenture of Trust
- Executing Investment Management Agreement
- Processing SEBI application for AIF registration
- Vetting Private Placement Memorandums – Issued by Investment Manager on behalf of the Trust.

### Other Documentation

- Vetting and signing Contribution Agreements (amongst the Trustee, Investment Managers (IM) and Investors)
- Signing of documents / certificates as per the regulations and as required by the regulating bodies, authorities, bankers and Depository Participants (DPs) etc.

### SEBI and Other Compliances

- Signing documents for obtaining PAN, TAN and for other Registration for the trust.
- Ensuring uploading of documents and/or information on SEBI portal.
- Obtaining Annual Compliance certificate on fund operations from Investment Manager.
- Signing of Financials of the Trust.
- Signing of Income Tax Return of the Trust.

### Other duties of Trustee

- Appointment of Auditors for Trust accounts.
- Keeping continuous interaction with the Investment Manager.
- Attending queries / grievances of Investors.
- Overseeing functioning of the Trust.

As Trustee for AIF, the Company trusts various duties to Investment Manager including signing agreements with investee companies, operating fund's Bank and Demat Accounts; maintaining fund's book of accounts and preparing periodical financials and other reports for submission to Authorities and to the investors etc.

## **Safe Keeping**

As a Safe keeper, ITSL provides Safe Keeping services in Mumbai, wherein clients can safely keep their valuable documents, deeds, certificates etc. with ITSL in fire proof safe custody which is under 24 hours security. With minimal paper work this facility can be availed by the intending clients. ITSL also extends Safe Deposit Lockers services from its Satara Branch

where the clients can avail lockers facility to keep safely their documents and valuables like Gold Ornaments, Silver items, cash etc. under total confidential arrangement.

### **Management of Private Trust**

During the last quarter of a century there has been a radical change in the Social fabric of the country. There has been a gradual disintegration of the Joint Family System and emergence of 'Nuclear Family'. In the former collective wisdom of the elders was the basis of decision making; whereas in the latter it is more individualistic. At the same time the economic profile of the individual has also undergone a 'Sea Change'. With higher education and better competency level, individuals have access to more avenues of income and also the levels of income very often know no bounds. The individual becomes the owner of huge assets both liquid and illiquid at a very early stage in life. It is because of these socio economic changes that the relevance and need of "Trusts" is once again felt.

It may so happen that while one is earning, he / she would like to provide financial assistance / security to his / her dependants till they attain majority or become self sufficient. They may even apprehend that proper care of their properties may not be taken, due to mental incapacity, physical disability, careless way of life etc. of their kith and kin and hence they wish to provide them livelihood from their properties by creating a Private Trust.

Private Trust is an arrangement made by a creator of the Trust for his own benefit and/or for the benefit of his near and dear ones. Trust can also work even after the life of creator of such Trusts. Trusts may be created for a specific period and/or for specific Object also.

The Private/Family Trust can be created for self, for spouse, for children, for parents, for dependants, for employees or for any other valid purpose.

The Public Trust can be created for any social purpose such as extending educational, medical help to needy persons etc.

With merger between Western India Trustee Co. Ltd. and IDBI Trusteeship Services Limited (ITSL), the Company enjoys an aggregate experience in managing Public as well as Private Trusts for more than 65 years. Some Trusts are with the Company continuously for more than 50 years with very satisfactory relationship with the clients.

ITSL is a leading Trustee Company in India, having techno based Offices with experienced and customer friendly staff.

In respect of Trusts, the Company extends the following services -

- Helping in creation of Trust and Preparation of Trust Deed.
- Obtaining registration with Charity Commissioner, Income Tax Office, in case of Public Trusts.
- Other Offerings.
- Complete Management of Trust – which includes:
  - Investing the funds, collecting income of the Trust
  - Applying the income towards Trust Objects

- Maintaining the Accounts, TDS records,
- Obtaining PAN, TAN as required,
- Getting the Trust audited Filing Income Tax returns, etc.
- Convening meetings of Trusts, preparing and maintaining minutes of meetings and further execution according to minutes.
- Mandatory submissions to Charity Commissioner and Income Tax Dept.

The Company undertakes work of preparation of Will, execution of Will and Estate Planning for its clients in utmost reliable manner.

### **ESOP and Employee Welfare Trustee**

#### **Scheme**

Under Employees Stock Options Plan (ESOP) Scheme, the Company grants employees/directors stock options which gives them the benefit or right to purchase or subscribe at future date, the securities offered by the Company at pre-determined price. The Constitution of Compensation Committee involves the following

- The Company has to form Compensation Committee which allots options and administers and supervises the whole scheme.
- The Compensation Committee is formed by Board of Directors wherein majority of the Directors are Independent Directors.
- ESOP Trust when settled is guided by Compensation Committee.

Brief Role of ITSL as Trustee:

1. To obtain PAN for the Trust.
2. To open & operate the Bank Accounts.
3. To open & operate the Demat Account and operate the Trading Account for dealing in the Equity Shares of the Company.
4. To follow the instruction of the Compensation Committee in regard to the purchase, holding, sale transfer or disposal of the equity shares of the Company and the settlement of the proceeds realized upon such sale, as the case may be.
5. To act as per the directions of the Compensation Committee in the matters of the exercise of voting rights of the equity shares of the Company held by the Trustees on behalf of the employees.
6. To distribute the dividend in respect of Equity Shares of the Company amongst the beneficiaries in such manner and to such an extent as may be determined by the Committee.
7. To confirm the receipt of any fund transfer by the Company for purchase of shares during the week, to the Trust Bank Account.

8. To carry out purchase and sale of shares as per the grant of options and mandates from option holders in accordance with the ESOP Scheme, the necessary particulars will be provided to the Trustees by Compensation Committee, who will then intimate the Share broker by a separate communication regarding the purchase or sale of shares.
9. To monitor taxation part of the Trust by appointing Chartered Accountant.
10. To make mandatory ongoing declarations while selling / purchasing of shares.

### **Employee Welfare Trustee**

The objects of such Trusts may be all of the following or may be some selective objects, but which are always for the benefit of all employees or for a class of employees. The objectives may be as under:

1. Medical Aid to employees or/and their family
2. Educational Help to employees or/and their children
3. Help to purchase residential house
4. For giving prize to an employee who has done extraordinary job for Company
5. For arranging Trips, Seminars or training for employees
6. For extending retirement gifts to employees etc.

### **Funds –**

Companies either donate the funds to such Trusts or Companies give interest free or with interest Loan to the Trust.

### **Investment –**

Normally, the investment of Trust Funds is done as per the advice of the contact person from Company side, who in turn takes advice from his investment department. The investment is in Fixed Deposit of Banks, Shares (including shares of the Company who is settler of the Trust), Debentures, Mutual Funds, etc.

Role of ITSL as a Trustee is as follows:

- To prepare or vet Trust Deed
- Obtain related KYC
- Obtain PAN/TAN
- Open/Operate/Close Bank Account
- Make/change/redeem Investments
- Maintaining Books of Accounts, getting them audited and get them approved from the Trustees
- Filing Income Tax Return and Monitor Taxation of the Trust by appointing separate Tax consultant

- Arrange meetings of Trustees as per provisions of Trust Deed
- Maintain minutes of meetings
- Pass on benefits to beneficiaries as per provisions of Trust Deed and as per the resolutions of the Trust meetings.

### **Trustee appointment–**

In some cases, ITSL is sole Trustee. In some other cases ITSL is one of the Trustees along with other Trustee. The Settlor Company appoints their Trustees – who may be from within the Company or may be some professionals or other experienced or reputed persons who are not related to the Company. Presently, ITSL is managing Employees Welfare Trusts of many reputed Indian companies

#### **4.1.4 Organizational Set up**

The Board of Directors of the Company are responsible for the overall management, superintendence and control over the affairs of the Company. The Company's Managing Director & Chief Executive Officer and Chairman of the Board of Directors are Authorized Signatories to the Company's Financial Statements apart from the Statutory Auditors. The Board of Directors of the Company consists of Chairman (who is the deputy Managing Director of IDBI Bank), four Directors (two ex-Executive Directors of LIC of India, one Director and General manager of GIC of India and one Retired IAS Officer), and Managing Director & Chief Executive Officer. The Chief General Manager of IDBI Bank is the Managing Director of the Company. The Company also has Company Secretary.

The Company's Key Managerial Personnel include three Vice Presidents (VPs) – Marketing & Operations, Senior VP- Legal, and Compliance Officer.

The following are the Committees of the Board of Directors of the Company

- i) Audit Committee
- ii) HR/Remuneration Committee
- iii) Investment Committee
- iv) Corporate Social Responsibility (CSR) Committee

#### **4.1.5 Capital Structure**

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 75,00,000 equity shares of Rs 10 each aggregating to Rs 7,50,00,000 (Rs 7.50 crore) The Company's Authorized Preference Share Capital is 2,50,000 Preference Shares of Rs 100 each aggregating to Rs 2,50,00,000 (Rs 2.50 crore).

The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 60,32,760 equity shares of Rs10 each aggregating to Rs 6,03,27,600 (Rs. 6.03 crore).

As on 31 March 2018, the Holding Company IDBI Bank Ltd held 33,00,000 number of Equity Shares of Rs 10 each constituting 54.67 *per cent* Equity Holding in the Company. LIC of India held 18,00,000 Equity Shares constituting 29.84 *per cent* Equity Holding and GIC of India held

9,00,000 Equity Shares constituting 14.92 *per cent* Equity Holding in the Company. Out of the above, 50,27,300 Equity Shares were allotted as Bonus Shares by Capitalization of General Reserves on 24.02.2011.

#### 4.1.6 Budget and Planning

(Rs in crore)

Years	2015-16		2016-17		2017-18	
Particulars	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	9.77	0.14	11.22	0.21	13.82	0.17
Revenue Expenditure		9.62		11.92		14.40
Revenue/Turnover	71.5	68.13	81.75	76.10	87.66	70.42
Profit for the year	62.18	58.05	71.25	66.21	77.26	63.58

#### 4.1.7 Accounting System

The Company has a Centralized system of Accounting. The Financial Statements of the Company have been prepared under historical cost convention on accrual basis in accordance with the Generally Accepted Accounting Principles (GAAP) in India. The Financial Statements comply in all material respects with the Accounting Standards (AS) notified under the Companies Act 1956 read with General Circular 15/200 dated 13 September 2013 of the Ministry of Corporate Affairs in respect of Section 133 of the Companies Act, 2013.

#### 4.1.8 Manpower Analysis

As on 31.03.2018, the Company had 54 Managerial and 7 Non Managerial Employees.

#### 4.1.9 MOU Targets and Achievements

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

#### 4.1.10 Computerization

The Company has a Personalized ERP Software.

#### 4.1.11 Internal Audit

The Internal Audit of the Company for the period 2015-16 to 2017-18 is conducted on a Quarterly basis by an Outside Agency of Chartered Accountants' Firm, in respect of which Quarterly Audit Reports are available with the Company.

#### 4.1.12 Act, Rules, Documents

- i) Companies Act, 2013 and the applicable Rules
- ii) Income Tax Act 1961 and the applicable Rules
- iii) GST Act 2017 and the applicable Rules
- iv) SEBI Regulations for Debenture Trustee, 1993
- v) SEBI Regulations for Alternative Investment Fund, 2012

#### 4.1.13 Operational Results

The Revenue from Operations were as follows:

(Rs.in crore )

Particulars	2017-18	2016-17
<b>Income from Services</b>		
From Trusteeship Services	63.38	66.02
From Other Services	0.02	0.01
<b>Sub-total (a)</b>	<b>63.41</b>	<b>66.04</b>
<b>Other Operating Revenue</b>		
Locker Rent	0.16	0.16
<b>Sub-total (b)</b>	<b>0.16</b>	<b>0.16</b>
<b>Total Revenue from Operations (a) + (b)</b>	<b>63.57</b>	<b>66.21</b>

#### 4.1.14 Financial Working Results

(Rs.in crore )

Particulars	2017-18	2016-17
Revenue from Operations	63.57	66.21
Other Income	6.84	9.88
<b>Total Income</b>	<b>70.42</b>	<b>76.09</b>
Total Expenses	14.39	11.91
Prior Period Adjustment (net)	(0.30)	0.07
Profit Before Exceptional items	55.72	64.25
Exceptional items	--	---
<b>Profit Before Tax</b>	<b>55.72</b>	<b>64.25</b>
Tax	19.27	22.29
<b>Profit After Tax</b>	<b>36.44</b>	<b>41.96</b>

#### 4.1.15 Disinvestment (Upto 2017-18)

Not Applicable

#### 4.1.16 Audit Checks

- i) The Company derives its Revenue from Acceptance Fees, Service Charges, Documentation Charges, Locker Rentals and Income from Investments in Bank Fixed Deposit and Mutual Funds which are accounted for on accrual basis. Audit to examine the realization of Revenue from Trusteeship Services rendered by the Company
- ii) Assignments are to be classified as irregular assignments if any outstanding dues are not recovered till the end of the next two financial years. Income in respect of such irregular assignments is accounted for in the year of receipt. Any previous year/s amounts outstanding against such irregular assignments are written off as bad debt in the year of such determination. Other Debts are considered as bad and written off when ultimate realization is uncertain. Audit to examine the irregular Assignments, bad debts written off etc
- iii) To examine interest on delayed payment of withholding taxes on Securitization trusts, where the Company is acting as Securitization Trustee for the same.



- iv) Whether the Company complied with relevant SEBI Regulations in respect of Trusteeship Services rendered by the Company , including SEBI (Debenture Trustees) Regulations , 1993, as amended
- v) Whether the Company complied with the Code of Conduct as per Schedule III of Regulation 16 of SEBI (Debenture Trustees) Regulations, 1993.
- vi) Whether the Company satisfied itself that the prospectus or letter of offer does not contain any matter which is inconsistent with the terms of the issue of debentures or with the trust deed and that the covenants in the trust deed are not prejudicial to the interest of the debenture holders
- vii) Whether the Company called for periodical status/ performance reports from the issuer company within 7 days of the relevant board meeting or within 45 days of the respective quarter whichever is earlier
- viii) Whether the Company communicated promptly to the debenture holders defaults, if any, with regard to payment of interest or redemption of debentures and action taken by the Trustee therefor
- ix) Whether the Company appointed a nominee director on the Board of the Company (issuing debentures) in the event of two consecutive defaults in payment of interest to the debenture holders; or default in creation of security for debentures or default in redemption of debentures
- x) Whether the Company ensured the implementation of the conditions regarding creation of security for the debentures, if any, and debenture redemption reserve
- xi) Whether the Company ensured that the assets of the Company issuing debentures and of the guarantors, if any, are sufficient to discharge the interest and principal amount at all times and that such assets are free from any other encumbrances except those which are specifically agreed to by the debenture holders
- xii) Whether the Company exercised due diligence to ensure compliance by the body corporate, with the provisions of the Companies Act, Securities and Exchange Board of India (Listing Obligations and Disclosure Requirement), Regulations, 2015, the listing agreement of the stock exchange or the trust deed or any other regulations issued by the Board pertaining to debt issue
- xiii) Whether the Company appointed a compliance officer who shall be responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions, etc., issued by the Board (SEBI) or the Central Government and for redressal of investors' grievances
- xiv) Whether the Company, as a Debenture Trustee, maintained the networth requirements as specified in SEBI regulations on a continuous basis and informed SEBI (Board) immediately in respect of any shortfall in the networth and in such a case it shall not be entitled to undertake new assignments until it restores the networth to the level of specified requirement within the time specified by the Board

- xv) Whether the Company maintained proper books of account, records and documents, relating to the Trusteeship functions for a period of not less than five financial years from the date of redemption of debentures.
- xvi) Whether, in case of Securitization Trustee, the Company ensured that the transaction is in accordance with the RBI Guidelines and SEBI Guidelines.
- xvii) Whether, as a Securitization Trustee, the Company invoked the credit enhancement/liquidity facility in case of shortfall as per RBI Guidelines
- xviii) Whether, as a Share Pledge Trustee, the Company monitored the valuation of shares for the listed shares pledged with them on a daily, weekly, monthly basis, which is important in asset cover calculation as per the facility agreement or term sheet. In case of event of default, whether the Company invoked the pledge on the basis of instructions received from the lender.
- xix) To examine periodical inspection/audit reports of the Company conducted by Regulatory Authorities like SEBI, RBI, etc and compliance thereof by the Company.
- xx) To test check the assignment cases in respect of revenue generated through Security Trusteeship, Debenture Trusteeship, Escrow Agent, Security Agent, Pledge of Shares, Alternative Investment Fund Trusteeship, etc. i.e. One Time Acceptance Fees and Annual Service Charges in accordance with the Consent Letter accepted by the Client and the Debenture Trustee Deed or the Security Trustee Deed entered thereafter.
- xxi) To check that the Trust Deed is executed after obtaining Valuation Report, Certificate of Receivables/Book Debts & ROC Search Reports of the concerned issuer company.
- xxii) To check that the Company is obtaining quarterly reports from Issuer Companies.
- xxiii) To review Policy on Income, Accrual and timeline for reversal.

## **4.2 SBI CAP TRUSTEE CO LIMITED**

### **4.2.1 Introduction**

SBICAP Trustee Company Ltd was incorporated on 28 December 2005 as a wholly owned subsidiary of SBI Capital Markets Ltd, and is registered with the Securities and Exchange Board of India (SEBI) as a Debenture Trustee. The Company's Ultimate Holding Company is State Bank of India. The Company's nature of Business is Corporate Trusteeship Services. The Company's Registered Office is at Mumbai and has Branches at New Delhi, Bangalore, Chennai, Ahmedabad, Kolkatta and Hyderabad.

### **4.2.2 Objectives**

The main objective of the Company is to provide Corporate Trusteeship Services to various types of Borrowers and Investors. This includes activities such as Security Trusteeship, Debenture Trusteeship, Security Agent, Share Pledge Trusteeship, Safe Custody of Documents, Online Will services etc

### **4.2.3 Activities**

SBICAP Trustee Company Limited (SBICTCL) acts as Security Trustee to the Lenders for Corporate and Project Finance Loans and as a Trustee for the Debentures/Bonds issued by Corporates. The major portion of Trusteeship revenue is derived from Security Trusteeship. The Company had handled 1788 assignments and held securities worth Rs. 23.01 crore as on 31.03.2018 on behalf of Lenders and Debenture/Bond holders.

### **4.2.4 Organizational Set up**

The Board of Directors of the Company comprise of Chief Executive Officer (CEO) and Whole Time Director (WTD), two Directors, one Additional Director, one Independent Director, and one Nominee Director of SBI Capital Markets Ltd. The following report to Chief Executive Officer (CEO) & Whole Time Director (WTD) of the Company

- a) Assistant Vice President & Head- Legal & Compliance at Central Office, Mumbai
- b) Senior Manager & Group Head – Marketing & Operations at Central Office, Mumbai
- c) Manager & Group Head- IT & Operations at Central Office, Mumbai
- d) Asst. Vice President- Marketing & Relationships- Delhi
- e) Senior Manager/Manager & Group Head- Security Trustee
- f) Company Secretary & Group Head- Debenture Trustee
- g) Retainers are posted at various locations across India, viz., Mumbai, Bangalore, Chennai, Hyderabad, Kolkatta, & Ahmedabad.

### **4.2.5 Capital Structure**

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 20,00,000 equity shares of Rs 10 each aggregating to Rs 2 crore. The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 10,00,000 equity shares of Rs 10 each aggregating to Rs 1 crore. As on 31 March 2018, the Holding Company SBI Capital Markets Ltd held 9,99,880 number of Equity Shares of Rs 10 each, constituting 99.99 *per cent* Equity Holding in the Company.

#### 4.2.6 Budget and Planning

(Rs in crore)

Years	2015-16		2016-17		2017-18	
Particulars	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	2.39	0.77	1.16	1.61	0.42	0.36
Revenue Expenditure	19.67	17.42	21.57	18.63	21.53	18.48
Revenue/Turnover	33.74	30.77	36.93	30.32	35.47	30.38
Profit for the year Before Tax	21.32	20.08	23.48	17.60	21.32	16.30

#### 4.2.7 Accounting System

The Company has a Centralized system of Accounting. The financial statements of the Company are prepared under historical cost convention on accrual basis of Accounting so as to comply in all material respects with the mandatory Accounting Standards as notified by the Companies (Accounting Standards) Rules, 2006, (as amended), issued by the Central Government, in consultation with the National Advisory Committee on Accounting Standards (NACAS), read with Rule 7 of the Companies (Accounts) Rules, 2014.

#### 4.2.8 Manpower Analysis

The Company is managed by a Chief Executive Officer and Whole Time Director and as on 31.03.2018, had 10 Managerial (including the CEO) and 36 Non Managerial employees.

#### 4.2.9 MOU Targets and Achievements

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE)

#### 4.2.10 Computerization

The Company has put in place a IT platform called "Trusteeship Enterprise Management System (TEMS), an end to end Business Automation System encompassing various modules viz. Lead Management, Mandate Management Accounts & Billing Generation, CERSAI, Virtual Data Display etc.

#### 4.2.11 Internal Audit

Internal Audit was conducted by the Company on Quarterly basis during the period from 2015-16 to 2017-18 through an Outside Professional Agency. The scope of work of Internal Audit is decided by the Management from time to time.

#### 4.2.12 Act, Rules, Documents

- a) Companies Act 2013 and the applicable Rules

- b) Income Tax Act, 1961 and the applicable Rules
- c) Central GST Act, 2017
- d) SEBI Laws and Regulations (Debenture Trustee Regulations, 1993)

#### 4.2.13 Operational Results

The primary role of the Company is to act as a Security Trustee to the Lenders for Corporate and Project Finance Loans and act as a Trustee for the Debenture/Bonds issued by Corporates. The major revenue is derived from fees for undertaking activities such as Security Trusteeship, Debenture Trusteeship, Escrow Agent, Security Agent, Pledge of Shares, Alternative Investment Fund Trusteeship, etc. The fee received by the Company is in the form of One Time Acceptance fees and Annual Service Charges after the terms and conditions of the Consent Letter are accepted by the client. The Debenture Trustee Deed or the Security Trustee Deed is entered thereafter.

For the purpose of raising invoice for receipt of fees from the client, the Company issues Consent Letter clearly depicting the One Time Fees, Annual Service Charges, Trust Settlement fee and Out of Pocket Expenses. All expenses relating to the legal and other expenses including Enforcement Security are charged separately and the overdue payment of Service Charges invites payment of 12 *per cent* per annum from the due date till the date of actual payment.

As regards the issue of fixation of fees for the One Time Fees or the Annual Service Charges, the Marketing team negotiates the rates, terms and conditions in consultation with the Chief Executive Officer (CEO) and then confirms the offer either verbally or through email depending on the contingency. During the year 2017-18, Debts aggregating to Rs 331.49 lakh were written off in 112 cases. Further, during the year 2017-18, Service Charges aggregating to Rs 69.33 lakh were reversed in 28 cases, as follows:

#### The Revenue from Operations were as follows:

(Rs.in crore )

Particulars	2017-18	2016-17
Trusteeship Acceptance Fees	4.77	4.93
Trusteeship Service Charges	22.08	21.72
Other Operating Revenue	0.08	0.15
Trusteeship Income from Will Services	0.01	0.01
<b>Total Revenue from Operations</b>	<b>26.95</b>	<b>26.81</b>

#### 4.2.14 Financial Working Results

(Rs.in crore )

Particulars	2017-18	2016-17
Revenue from Operations	26.95	26.81
Other Income	3.42	3.50
<b>Total Income</b>	<b>30.38</b>	<b>30.32</b>
Total Expenses	14.07	12.71
Profit Before Exceptional items	16.30	17.60
Exceptional items	--	--

<b>Profit Before Tax</b>	<b>16.30</b>	<b>17.60</b>
Tax	4.40	5.92
<b>Profit After Tax</b>	<b>11.90</b>	<b>11.68</b>

#### **4.2.15 Disinvestment (Upto 2017-18)**

Not Applicable

#### **4.2.16 Audit Checks**

- i) To review the Revenue Recognition Policy
- ii) To review Policy on Income, Accrual and timeline for reversal
- iii) To review the Internal Audit Reports, RBI/SEBI Audit Reports, Investment Policy and its compliances.
- iv) To test check the assignment cases in respect of revenue generated through Security Trusteeship, Debenture Trusteeship, Escrow Agent, Security Agent, Pledge of Shares, Alternative Investment Fund Trusteeship, etc. i.e. One Time Acceptance Fees and Annual Service Charges in accordance with the Consent Letter accepted by the Client and the Debenture Trustee Deed or the Security Trustee Deed entered thereafter.
- v) To check whether the Company is complying with the SEBI Circulars issued from time to time and the guidelines enumerated in the SEBI Debenture Trustees Regulations 1993. (updated)
- vi) To check the database maintained in the Trustee Enterprise Management System (TEMS)
- vii) Whether the Company complied with the Code of Conduct as per Schedule III of Regulation 16 of SEBI (Debenture Trustees) Regulations, 1993.
- viii) Whether the Company satisfied itself that the prospectus or letter of offer does not contain any matter which is inconsistent with the terms of the issue of debentures or with the trust deed and that the covenants in the trust deed are not prejudicial to the interest of the debenture holders
- ix) Whether the Company called for periodical status/ performance reports from the issuer company within 7 days of the relevant board meeting or within 45 days of the respective quarter whichever is earlier
- x) Whether the Company communicated promptly to the debenture holders defaults, if any, with regard to payment of interest or redemption of debentures and action taken by the Trustee therefor
- xi) Whether the Company appointed a nominee director on the Board of the Company in the event of two consecutive defaults in payment of interest to the debenture holders; or default in creation of security for debentures or default in redemption of debentures

- xii) Whether the Company ensured the implementation of the conditions regarding creation of security for the debentures, if any, and debenture redemption reserve
- xiii) Whether the Company ensured that the assets of the Company issuing debentures and of the guarantors, if any, are sufficient to discharge the interest and principal amount at all times and that such assets are free from any other encumbrances except those which are specifically agreed to by the debenture holders
- xiv) Whether the Company exercised due diligence to ensure compliance by the body corporate, with the provisions of the Companies Act, Securities and Exchange Board of India (Listing Obligations and Disclosure Requirement), Regulations, 2015, the listing agreement of the stock exchange or the trust deed or any other regulations issued by the Board pertaining to debt issue
- xv) Whether the Company appointed a compliance officer who shall be responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions, etc., issued by the Board (SEBI) or the Central Government and for redressal of investors' grievances
- xvi) Whether the Company as a Debenture Trustee, maintained the networth requirements as specified in SEBI regulations on a continuous basis and informed SEBI (Board) immediately in respect of any shortfall in the networth and in such a case it shall not be entitled to undertake new assignments until it restores the networth to the level of specified requirement within the time specified by the Board
- xvii) Whether the Company maintained proper books of account, records and documents, relating to the Trusteeship functions for a period of not less than five financial years from the date of redemption of debentures
- xviii) Whether, in case of Securitization Trustee, the Company ensured that the transaction is in accordance with the RBI Guidelines and SEBI Guidelines.
- xix) Whether, as a Securitization Trustee, the Company invoked the credit enhancement/liquidity facility in case of shortfall as per RBI Guidelines
- xx) Whether, as a Share Pledge Trustee, the Company monitored the valuation of shares for the listed shares pledged with them on a daily, weekly, monthly basis, which is important in asset cover calculation as per the facility agreement or term sheet. In case of event of default, Whether the Company invoked the pledge on the basis of instructions received from the lender.
- xxi) To check that the Trust Deed is executed after obtaining Valuation Report, Certificate of Receivables/Book Debts & ROC Search Reports of the concerned issuer company.
- xxii) To check that the Company is obtaining quarterly reports from Issuer Companies.

- xxiii) Whether the Company has recognized Trusteeship Acceptance Fees on the acceptance or execution of Trusteeship Assignment, whichever is earlier
- xxiv) Whether the Trusteeship Service Charges are recognized on the basis of terms of Trusteeship Contracts/Agreements entered into with Clients
- xxv) Whether the Company has classified those Assignments, wherein Outstanding Dues have not been recovered of earlier two financial years, as Irregular Assignments
- xxvi) To examine cases of writing off of Irregular Assignments as Bad Debt.
- xxvii) As per the Company's Accounting Policy, whenever, in the views of the Management, it is felt that the recovery of the Fees due from the Company seems bleak, the Management may write-off the Dues subject to full provisioning already made for such dues. Further, whenever the Fees are non-recoverable due to circumstances beyond the control of the Company/Projects not taking over/Loans not sanctioned etc., the Management may de-accrue/write-off immediately. The same may be examined in Audit
- xxviii) As per the Company's Accounting Policy for Provision for Doubtful Debts, a 10 *per cent* Provision has to be made in respect of Debts outstanding for more than 6 months but not exceeding 12 months. In respect of Debts outstanding for more than 12 months, 100 *per cent* Provision for Doubtful Debts has to be made. Audit to examine whether adequate provisions have been made in Accounts for such Doubtful Debts and to examine the reasons for non recovery of outstanding in respect thereof.
- xxix) To examine the Accounts which have been referred to National Company Law Tribunal (NCLT), and whether adequate Provisions have been made in respect of such Accounts as per RBI Guidelines
- xxx) Whether the Company has documented fixed parameters or the basis on which the One-time fee or the Annual Service Charges is decided for each case.
- xxxi) Whether the Company has framed any guidelines or policies regarding fixation of price/fee to be obtained from the client irrespective of whether the Company is appointed as a Debenture Trustee or the Security Trustee or Escrow Agent or Share Pledge Trustee, etc
- xxxii) Whether the Company has delegated powers to the officials of the Company to fix the fees or the annual service charges and the factors to be taken into consideration for fixing the fees for the cases wherein the Company has undertaken the assignments and generated revenue
- xxxiii) The Consent letter issued to the client enumerates standard condition for all types of assignments that overdue payment of Annual Service Charges, if any, may carry an interest of 12 *per cent* per annum payable from the due



date till the date of actual payment. Whether there is any mention in any of the Consent letters as to what period is treated as the overdue period.

### 4.3 SIDBI TRUSTEE COMPANY LIMITED

#### 4.3.1 Introduction

SIDBI Trustee Company Ltd was incorporated on 19.07.1999, as a wholly owned Subsidiary Company of Small Industries Development Bank of India (SIDBI), the Apex Financial Institution in the country for the Micro Small and Medium Enterprises (MSME) sector. The Company is acting as the Trustee for venture capital funds/alternate investment funds and earns income by way of Trusteeship fees. The Company has been promoted by SIDBI, (as its Subsidiary), which holds 99.88 per cent of the equity share capital of the Company. The Registered Office of the Company is at Mumbai.

#### 4.3.2 Objectives

The Company was established to carry out the Trusteeship functions in general and for Venture Capital Funds/Alternate Investment Funds in particular.

The following are the Objectives of various Funds

Sl No	Name of the Fund	Objectives of the Fund	Size of Fund (Corpus) Rs in crore
1	National Venture Fund for Software and Information technology Industry	To provide venture capital support by way of equity and equity linked instruments to unlisted SME enterprises in the areas of software and information technology	100
2	SME Growth Fund	To provide Growth Capital support, primarily to unlisted SME enterprises across diverse sectors by way of equity and equity linked instruments	500
3	India Opportunities Fund	To meet growth capital needs of India's growing and unlisted MSMEs operating in emerging sectors such as educational services, IT/ITES, light engineering, clean tech, agro based industries, logistics, infrastructure etc	421.30
4	Samridhi Fund	To promote early stage/growth stage and sustainable social enterprises which provide economic, social or environmental benefits and can deliver both financial and social returns in 8 low Income States (LIS), namely, Bihar, Uttar Pradesh, Madhya Pradesh, Odisha, Chattisgarh, Jharkhand, Rajasthan and West Bengal	432.99
5	Tex Fund	To invest in small enterprises, as defined under MSME Act 2006, and as amended from time to time, in the textile sector, more particularly related to Powerloom Sector	40.83
6	West Bengal MSME VC Fund	To invest in start-ups, emerging or early growth stage investments in West Bengal MSMEs both manufacturing and services	144.00
7	Maharashtra State Social Venture Fund	To identify and invest in scalable business ventures including innovative business model or new products and technologies which	116.67

		would have potential to provide social benefits (economic and/or social and/or environmental) to the people of Maharashtra	
--	--	--	--

### 4.3.3 Activities

As on 31 March 2018, the Company was acting as the Trustee for National Venture Fund for Software and Information Technology Industry (NFSIT) , SME Growth Fund (SGF) (first unit scheme of SIDBI SME Venture Fund), India Opportunities Fund (IOF) (second unit scheme of SIDBI SME Venture Fund) , SamriddhiFund (SF) (unit scheme of SIDBI Social Venture Trust), TEX Fund (TF) (a unit scheme of LaghuVikas Trust) , West Bengal MSME VC Fund (WB Fund) (unit scheme of BiswaBanglaSilpa Trust) and Maharashtra State Social Venture Fund (MS Fund) (the unit scheme of Maharashtra LaghuVikas Trust). The Performance of the various Funds as on 31.03.2018 was as follows:

Sl No	Name of the Fund	Sector	Commitments (No. of Companies)	Investments (No. of Companies)	Exits (No. of Companies)	Size of Fund (Corpus) Rs in crore	Distribution (Rs in crore)
1	National Venture Fund for Software and Information technology Industry (SEBI Registration Date-6.9.1999)	IT industries	31	31	27 (Full) 1 (Partial) 2 (Write off)	100	196.47
2	SME Growth Fund (SEBI Registration Date- 2.9.2004)	Sector Agnostic	25	25	15 (Full) 2 (Partial)	500	369
3	India Opportunities Fund (SEBI Registration Date- 2.9.2004)	Sector Agnostic	31	30	2 (Full) 3 (Partial)	421.30	46.94
4	Samriddhi Fund (SEBI Registration Date- 27.2.2013)	Social Venture Fund	28	17	--	432.99	---
5	Tex Fund (SEBI Registration Date- 9.6.2014)	Textile Sector	6	4	--	40.83	--
6	West Bengal MSME VC Fund (SEBI Registration Date-9.11.2015)	Sector Agnostic	6	3	--	144.00	--
7	Maharashtra State Social Venture Fund (SEBI Registration Date- 10.12.2015)	Sector Agnostic Fund	7	6	--	116.67	--

Investments (at acquisition cost) made by the following funds (as on 31 March 2018) are being held in the name of the Company in its capacity as the Trustee of the Fund

(Amount in Rs crore)

Sl No	Name of the Fund	As on 31 March 2018	As on 31 March 2017
1	NFSIT	3.20	13.53
2	SGF	178.16	178.16
3	IOF	268.19	210.32
4	SF	294.95	270.38
5	TF	7.84	4.84
6	WBF	16.94	8.69
7	MSF	33.55	17.99

#### 4.3.4 Organizational Set up

The Board of Directors of the Company is responsible for the overall management, superintendence and control over the affairs of the Company. The Company has two types of Directors, viz., Nominee Directors and Non Executive Directors. Nominee Directors can be nominated by SIDBI, Government of India, and IDBI Bank Ltd or any other contributor and Other Directors are appointed by the Board of Directors of the Company.

During the year 2017-18, the Chairman & Managing Director (CMD) of SIDBI, an IAS Officer, was appointed as Chairman of SIDBI Trustee Company Ltd., as a Nominee Director of SIDBI. As on 31 March 2018, the Company has four Non- Executive Directors.

#### 4.3.5 Capital Structure

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 25,000 equity shares of Rs 100 each aggregating to Rs 25,00,000 (Rs 25 lakh).

The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 5,000 equity shares of Rs100 each aggregating to Rs 5,00,000 (Rs 5 lakh).

As on 31 March 2018, the Holding Company Small Industries Development Bank of India (SIDBI) held 4,994 number of Equity Shares of Rs 100 constituting 99.88 *per cent* Equity Holding in the Company.

#### 4.3.6 Budget and Planning

(Rs in crore)

Years	2015-16	2016-17	2017-18
Particulars	Actual	Actual	Actual
Capital Expenditure	Nil--	Nil--	Nil--
Revenue Expenditure	0.07	0.06	0.05
Revenue/Turnover	0.62	0.68	0.66
Profit for the year After Tax	0.38	0.43	0.45

#### **4.3.7 Accounting System**

The Accounting system of the Company is Centralized. The Company prepares the financial statements under historical cost convention on accrual basis, in accordance with the Generally Accepted Accounting Principles (GAAP) in India, comprising the mandatory accounting standards issued by the Institute of Chartered Accountants of India, and under the provisions of Section 133 of the Companies Act 2013, and Companies (Accounting Standard) Rules, 2006 (as amended), and other relevant provisions of the Companies Act 2013.

#### **4.3.8 Manpower Analysis**

The Company does not have any employees. The Company does not have any amount booked in the Financial Statements towards Employee Cost. The Company (STCL) is a Board managed Company with no employees as on 31.03.2018.

#### **4.3.9 MOU Targets and Achievements**

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

#### **4.3.10 Internal Audit**

The Internal Audit of the Company for the period 2015-16 to 2017-18 has been conducted by an Outside Agency. Internal Audit is conducted on Quarterly basis. The Company does not have Manual of Internal Audit.

The Company has an Internal Control System, commensurate with the size, scale and complexity of its operations. The Company has appointed an independent Chartered Accountant firm for carrying out Internal Audit of the Company. The Internal Audit reports are submitted to the Board.

The Internal Auditor monitors and evaluates the efficacy and adequacy of internal control system in the Company, in compliance with the operating systems, accounting procedures, policies etc. Based on the report of the internal auditor, the required corrective actions in the respective areas are undertaken, thereby strengthening the controls.

#### **4.3.11 Act, Rules, Documents**

- i) Companies Act 2013 and the applicable Rules
- ii) Income Tax Act 1961 and the applicable Rules
- iii) Central GST Act, 2017 and the applicable Rules
- iv) SIDBI Act, 1989
- v) SEBI Regulations on Debenture Trustees
- vi) SEBI Regulations on Alternative Investment Funds

#### 4.3.12 Operational Results

The Revenue from Operations were as follows:

(Rs.in lakh)

Particulars	2017-18	2016-17
<b>Trusteeship Fees</b>		
From India Opportunities Fund (IOF)	5.00	5.00
From Samriddhi Fund	5.00	5.00
From Tex Fund	4.34	4.36
From West Bengal MSME VC Fund	5.00	5.00
From Maharashtra State Social Venture Fund	5.00	5.00
<b>Total Revenue from Operations</b>	<b>24.34</b>	<b>24.36</b>

#### 4.3.13 Financial Working Results

(Rs. in lakh )

Particulars	2017-18	2016-17
Revenue from Operations	24.34	24.36
Other Income	41.17	44.08
<b>Total Income</b>	<b>65.51</b>	<b>68.45</b>
Total Expenses	4.94	6.24
Profit Before Exceptional items	60.57	62.21
Exceptional items/Prior Period items	0.14	--
<b>Profit Before Tax</b>	<b>60.43</b>	<b>62.21</b>
Tax	15.54	19.35
<b>Profit After Tax</b>	<b>44.88</b>	<b>42.85</b>

#### 4.3.14 Disinvestment (Upto 2017-18)

Not Applicable

#### 4.3.15 Environment Management

Not Applicable

#### 4.3.16 Audit Checks

- i) To examine the Trusteeship Fees derived by the Company from various Funds such as India Opportunities Fund, Samriddhi Fund, Tex Fund, West Bengal MSME Fund, Maharashtra State Social Venture Fund etc The Company is acting as the Trustee for Venture Capital Funds/Alternative Investment Funds and earns income by way of Trusteeship Fees as under

Sl No	Name of the Fund	Trusteeship Fee (Rs lakh p.a.)	Remarks
1	National Venture Fund for Software and Information technology Industry	Nil	Stopped charging Trusteeship Fee with effect from August 12, 2012

2	SME Growth Fund	Nil	Stopped charging Trusteeship fee with effect from 20 September 2014
3	India Opportunities Fund	5	Plus taxes
4	Samriddhi Fund	5	Plus taxes
5	Tex Fund	5	Inclusive of taxes
6	West Bengal MSME VC Fund	5	Plus taxes
7	Maharashtra State Social Venture Fund	5	Plus taxes

- ii) To examine the Investment Policy of the Company for Investment of Surplus Funds. As on 31 March 2018 and 31 March 2017, the Company had Term Deposits (with Maturity of more than 12 months) amounting to Rs4,51,02,000(31.03.2018) and Rs 5,52,94,000 (31.03.2017) respectively. To examine the role of the Company as a Trustees to the seven Funds (Venture Capital Funds/Alternate Investment Funds), the Performance monitoring of the said funds, whether the said funds realized their objectives, number of Companies which have made Commitments/Investments in the said funds, number of Companies that have exited the Funds, Funds Distributed so far etc. Whether the Company, as a Trustee has exercised proper oversight over the performance of the said Funds (VCFs/AIFs)
- iii) Whether the Company, as a Trustee to VCF/AIF ensures that the AIF/VCF complies with the SEBI Regulations on Alternate Investment Funds (AIFs). As per SEBI Regulations on Alternative Investment Fund” (AIF), AIF means any fund established or incorporated in India in the form of a trust or a company or a limited liability partnership or a body corporate which, -
- (i) is a privately pooled investment vehicle which collects funds from investors, whether Indian or foreign, for investing it in accordance with a defined investment policy for the benefit of its investors; and
- (ii) is not covered under the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, Securities and Exchange Board of India (Collective Investment Schemes) Regulations, 1999 or any other regulations of the Board to regulate fund management activities
- iv) “SME” means Small and Medium Enterprise and shall have the same meaning as assigned to it under the Micro, Small and Medium Enterprises Development Act 2006 as amended from time to time; “SME fund” means an Alternative Investment Fund which invests primarily in unlisted securities of investee companies which are SMEs or securities of those SMEs which are listed or proposed to be listed on a SME exchange or SME segment of an exchange; Whether the Company, as a Trustee ensures compliance with the above in respect of the investments in SMEs/AIFs
- v) “Social venture” means a trust, society or company or venture capital undertaking or limited liability partnership formed with the purpose of promoting social welfare or solving social problems or providing social benefits and includes,- (i) public charitable trusts registered with Charity Commissioner; (ii) societies registered for charitable purposes or for promotion of science, literature, or fine arts; (iii)

company registered under section 8 of the Companies Act, 2013 (iv) micro finance institutions; (v) “social venture fund” means an Alternative Investment Fund which invests primarily in securities or units of social ventures and which satisfies social performance norms laid down by the fund and whose investors may agree to receive restricted or muted returns

“Venture capital fund” means an Alternative Investment Fund which invests primarily in unlisted securities of start-ups, emerging or early-stage venture capital undertakings mainly involved in new products, new services, technology or intellectual property right based activities or a new business model and shall include an angel fund. Whether the Company, as a Trustee to Venture Capital investments has ensured that various VCF/AIF Funds comply with the above conditions.

- vi) Whether the Company has ensured as a Trustee that Alternative Investment Fund, has stated investment strategy, investment purpose and its investment methodology in its placement memorandum to the investors.
- vii) Whether any material alteration to the fund strategy has been made with the consent of atleast two-thirds of unit holders by value of their investment in the Alternative Investment Fund.
- viii) Whether each scheme of the Alternative Investment Fund has a corpus of atleast twenty crore rupees;
- ix) Whether the Alternative Investment Fund has accepted from an investor, an investment of value less than one crore rupees



## **4.4 UNIT TRUST OF INDIA INVESTMENT ADVISORY SERVICES LIMITED**

### **4.4.1 Introduction**

Unit Trust of India Investment Advisory Services Limited (UTI-IAS), a company registered under the Companies Act, 1956, was established in 1988 as a wholly owned subsidiary of erstwhile Unit Trust of India (UTI), the statutory corporation established in 1963 towards mobilizing savings of public and canalizing them into the growth and development of industries in the country. UTI had a hand in almost all segment of industrial growth in the country. The Company was established on 18.07.1988 with the main objective of managing and rendering advices in respect of investment which was discontinued in the year 2002-03 due to regulatory restrictions. The Date of Incorporation of the Company is 20-6-1988.

UTI-IAS initially took up the role of Investment Advisor for the Off-shore Funds floated by UTI and was registered with Securities Exchange Commission (SEC) of United States of America as an Investment Advisor. It acted as Investment Advisor for India Growth Fund and provided the accounting and back office services to India Growth Fund, India Fund, India Access Fund, India IT Fund and India PSU Fund. It performed consistently well and declared dividends regularly.

With the restructuring of UTI in 2003, pursuant to the passing and commencement of Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002, the Equity Shares of UTI-IAS held by UTI has come to be transferred to and vested in the Administrator of the Specified Undertaking of Unit Trust of India, a statutory authority constituted under the said Act. The Administrator is appointed by the Government of India and is advised and assisted by a Board of Advisors constituted by the Government of India under the Act.

The objective clause of the Memorandum of Association of the Company was altered and an objective of rendering Trusteeship services was added (Feb 2004). The Board subsequently decided (October 2017 and December 2017) and approved closure of Trusteeship business. Pursuant to the same, it has been decided to continue to work on existing assignments till the process for transfer to other security/debenture Trustee is completed and not to accept new assignments.

The Specified Undertaking of Unit Trust of India (SUUTI) is the Holding Company with 91.44 per cent Equity Holding.

The Company's Registered Office is at Mumbai.

### **4.4.2 Objectives**

The Company is registered as a 'Debenture Trustee' under SEBI Regulations. Though the main objective of the Company is rendering Trusteeship services, however, the Board has decided (2017) to close down/wind up and exit from Trusteeship Business. Hence, the Company has not accepted any fresh assignments from October 2017. The Company has however decided to continue to act as Trustee for the existing clients till

such time alternate arrangements are made or sale of Trusteeship business does not take place. The Company will continue to work on the existing assignments, till the process for transfer to other security/debenture Trustee is completed.

#### **4.4.3 Activities**

With demand for and scope to provide quality service in the Trusteeship role, UTI-IAS has taken up and is offering the Trusteeship Services with a team of experienced personnel fully familiar with and equipped to deal with documentation, security creation and monitoring aspect of Trusteeship

Trusteeship services provided comprises of following 3 principal categories:

Trusteeship Service for Bonds / Debentures

Security Trusteeship Service for ECBs / Consortium Financing

Trusteeship in Securitization Transactions

Since UTI-IAS's commencement of operation of the Trusteeship Services in April 2004, in spite of sluggish debt market, it has obtained mandate from overseas branch of a leading private sector bank for acting as Security Trustee for their ECB assistances to some of the well known Indian Corporate. Besides The Company has got enquiries / agreed to act as Trustees for a few Debenture Issues, Securitization transactions and Venture Fund.

The Company is acting as a Security Trustee as well as Trustee for Debenture issues, Securitization transactions and Venture Fund. The Company has also been acting as Security Trustee for External Commercial Borrowings (ECB) assistances to several Indian Corporates.

During the year 2017-18, the Company took up seven assignments upto September 2017 (as against 13 assignments in FY 2016-17) . Pursuant to the Board decision to close down the Trusteeship business, the Company has not accepted any fresh assignment from October 2017.

Due to continuous operational losses since last two years and the performance of the Company not improving during last three years, the Board of Directors of the Company decided to close down/wind up and exit from Trusteeship Business vide Board Resolution dated 24.10.2017 and 20.12.2017 in which it was also decided to continue to act as Trustee for the existing clients till such time alternate arrangements are made or sale of Trusteeship business does not take place

#### **4.4.4 Organizational Set up**

The Board of Directors of the Company is responsible for the overall management, superintendence and control over the affairs of the Company. The Company's Board consists of the Chairman and two Directors. The Financial Statements of the Company are authenticated by the Chairman and one Director. In addition, the Company has one Assistant Vice President, one Manager and one Deputy Manager.

#### **4.4.5 Capital Structure**

The Authorized Share Equity Share Capital of the Company as on 31.03.2018 is 50 lakh equity shares of Rs 10 each aggregating to Rs5 crore. The Issued Share Capital as on 31.03.2018 is 9 lakh equity shares of Rs 10 each aggregating to Rs 90 lakh. The Subscribed, and Paid Up Equity Share Capital as on 31 March 2018 is Rs 76,55,000 comprising of 7,65,500 equity shares of Rs 10 each fully paid up.

As on 31.03.2018, the Administrator of the Specified Undertaking of Unit Trust of India holds 91.44 *per cent* of the equity shares of the Company.

#### **4.4.6 Budget and Planning**

Not Applicable, since the Board of the Company has decided (2017) to close down/wind up and exit from Trusteeship Business vide Board Resolution dated 24.10.2017 and 20.12.2017 in which it was also decided to continue to act as Trustee for the existing clients till such time alternate arrangements are made or sale of Trusteeship business does not take place

#### **4.4.7 Accounting System**

The Accounts of the Company are prepared under historical cost convention on accrual basis and comply with the applicable Accounting Standards referred to in Section 133 of the Companies Act 2013.

Due to continuous operational losses since last two years and the performance of the Company not improving during last three years, the Board of Directors of the Company decided to close down/wind up and exit from Trusteeship Business vide Board Resolution dated 24.10.2017 and 20.12.2017 in which it was also decided to continue to act as Trustee for the existing clients till such time alternate arrangements are made or sale of Trusteeship business does not take place. Considering above and the healthy financial position of the Company, the Financial Statements of the Company are being prepared on going concern basis.

#### **4.4.8 Manpower Analysis**

As per the Annual Report for FY 2017-18, in respect of particulars of Employees, the Company has stated that the provisions of Section 197 (12) of the Companies Act 2013 relating to appointment and remuneration of Managerial Personnel were not applicable to the Company during the FY 2017-18. However, as per the Financial Statements of the Company, the expenditure incurred by the Company towards Salaries, Leave Encashment and Ex Gratia in FY 2017-18 was Rs 31.65 lakh as against Rs 30.69 lakh in FY 2016-17.

#### **4.4.9 MOU Targets and Achievements**

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

#### **4.4.10 Computerization**

The Board of Directors of the Company decided (October 2017) to close down/wind up and exit from Trusteeship Business. As per the Financial Statements of the Company

for the year ended 31 March 2018, the net block of Computers' Hardware -Desktops and Laptops and Software etc were 30,662 and Nil respectively,.

#### 4.4.11 Internal Audit

As per the Report of the Statutory Auditor for FY 2017-18, in the opinion of Independent Auditor, the Company has, in all material respects, an adequate internal financial control system over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31 March 2018.

#### 4.4.12 Act, Rules, Documents

- i) Companies Act 2013 and the applicable Rules
- ii) Income Tax Act 1961 and the Rules thereunder
- iii) Central GST Act 2017 and the Rules thereunder
- iv) SEBI Regulations for Trusteeship Companies (Debenture Trustee)
- v) SUUTI Act 2002

#### 4.4.13 Operational Results

The Board of Directors of the Company in its Meeting held on 24.10.2017 and 20.12.2017 decided to close down/wind up and exit from the Trusteeship Business carried on since 2004 under SEBI License, as its performance was not improving since last three years, and in particular, was having operational loss since last two years. The Company also informed SEBI about closure of its Trusteeship Business on 21.02.2018, and that it would continue to act as Trustee for existing clients till such time alternate arrangements are made in case the sale of business does not take place.

(Rs. in crore)

Particulars	2017-18	2016-17
Revenue from Operations	0.18	0.44
Other Income	3.62	1.15
<b>Total Income</b>	<b>3.81</b>	<b>1.60</b>
Total Expenses	0.64	0.68
Profit Before Exceptional items	3.16	0.92
Exceptional items	--	--
<b>Profit Before Tax</b>	<b>3.16</b>	<b>0.92</b>
Tax	0.67	0.09
<b>Profit After Tax</b>	<b>2.48</b>	<b>0.82</b>
<b>Profit from Continuing Operations Before Tax</b>	<b>3.45</b>	<b>0.95</b>
<b>Tax</b>	<b>0.67</b>	<b>0.09</b>
<b>Profit from Continuing Operations After Tax</b>	<b>2.77</b>	<b>0.85</b>
<b>Profit/ (Loss) from Discontinuing Operations After Tax</b>	<b>(0.28)</b>	<b>(0.03)</b>
<b>Net Profit from Operating Activities After Tax</b>	<b>2.48</b>	<b>0.82</b>

#### 4.4.14 Disinvestment

Not Applicable

#### **4.4.15 Environment Management**

Not Applicable

#### **4.4.16 Audit Checks**

- i) To examine accounting of Trusteeship business fees. Acceptance Fees are accounted on accrual basis and recognized upon the acceptance of the offer by the client. Annual Service Charges are accounted upfront on Annual basis during the tenure of the loan. The billing of Trusteeship fees terminates on satisfaction of charge. One Time fees are Service charges charged and accounted upfront upon execution of agreement irrespective of the tenure of the loan.
- ii) To check Recovery of Outstanding Trusteeship Fees
- iii) To check Doubtful Debts in respect of Trusteeship Fees
- iv) To check Recovery of Defaulted Annual Service charges
- v) To check Refund of Acceptance Fees
- vi) To examine the booking of Other Income and Profit/Loss on Sale of Non Current Investments.
- vii) To check winding up of Trusteeship Business, Bid evaluation process for selling of Trusteeship business on 'As is' basis
- viii) To examine the liability arising on account of pending litigations (United Spirits v/s IDBI Bank, Unitech Ltd v/s LIC of India, and Watson Ltd v/s Standard Chartered Bank), in which The Company, in its capacity as Security Trustee, had been made a Proforma Defendant.

## **4.5 CENTBANK FINANCIAL SERVICES LIMITED**

### **4.5.1 Introduction**

CentBank Financial Services Ltd. (CFS) is a wholly owned subsidiary of Central Bank of India that provides services to corporate and individual. CFS was incorporated on 01 May 1929 and has been operating since then as a service company. Its business model includes provision of Debenture Trustee and Security Trustee Services in addition to the Executor and Trustee Business. The Company's Registered Office is at Mumbai. The Company is under the Ministry of Finance, Government of India.

### **4.5.2 Objectives**

The nature of business of the Company is Trusteeship Services. The Company's objective is also to provide investment banking services in the areas of Corporate Finance, Advisory, Capital Markets & Trusteeship and achieve overall business growth through superior customer satisfaction, innovation, quality and commitment

### **4.5.3 Activities**

The Principal Business Activities of the Company are Debenture Trustee and Security Trustee comprising 89.29 *per cent* of the total Turnover of the Company and Executor and Trusteeship comprising 10.71 *per cent* of the total Turnover of the Company as on 31.03.2018.

### **4.5.4 Organizational Set up**

The overall operation and activities of the Company are under the administration of the Board of Directors. The Board takes decision relating to major policy matters, reviewing Corporate performance, ensuring adequate financial and other resources to facilitate effective performance

The Board of Directors have also constituted Committees such as Audit Committee, Investment Committee and Corporate Social Responsibility (CSR) Committee. The Authorized Signatories to the Company's Financial Statements are the Chairman of the Company, the Managing Director and The Company Secretary.

### **4.5.5 Capital Structure**

The authorized equity share capital of the Company as on 31st March, 2018 was 1,00,000 equity shares of Rs 1000 each aggregating to Rs. 10 crore. The issued, subscribed and paid-up equity share capital of the Company as on 31 March 2018 was 50,000 equity shares of Rs 1000 each aggregating to Rs. 5 crore. As on 31 March 2018, all the 50,000 Equity Shares of the Company are held by Central Bank of India and its nominees.

### **4.5.6 Budget and Planning**

A brief outline of the targets and achievements of the Company for the last three years ending 31 March 2018 is as follows:

(Rs in crore)

Years	2015-16	2016-17	2017-18
Particulars	Actual	Actual	Actual
Capital Expenditure	0	0	-
Revenue Expenditure	3.38	2.29	2.29
Revenue/Turnover	6.21	6.40	6.07
Profit Before Tax	2.83	4.11	3.78

#### **4.5.7 Accounting System**

The Company has a centralized accounting system for upkeep of the accounts. The Company while accounting and preparation of its financial statements observes the Indian generally accepted accounting principles (Indian GAAP), the Accounting standards prescribed under Section 133 of the Companies Act 2013, Companies (Accounts) Rules, 2014 and other relevant provisions of the Companies Act 2013.

#### **4.5.8 Manpower Analysis**

The Company had 11 employees as on 31 March 2018, which comprised of 7 managerial employees and 4 non – managerial employees. As on 31 March 2018, seven staff members including the Managing Director of the Company out of a total 10 staff members were on deputation from Central Bank of India. The Company had reimbursed the salaries/remunerations of these personnel to Central Bank of India.

#### **4.5.9 MOU Targets and Achievements**

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

#### **4.5.10 Computerization**

The Company has inbuilt ERP/IT System. Migration Audit of system was done in 2016-17. Afterwards, it is reviewed internally.

#### **4.5.11 Internal Audit**

The internal audit is conducted by the Company by engaging the services of professional Chartered Accountant firms. Such audit is executed by the Company quarterly.

#### **4.5.12 Act, Rules, Documents**

- i) Companies Act 2013 and the rules made thereunder.
- ii) The SEBI (Debenture Trustees) Regulation, 1993
- iii) Indian Trust Act, 1882
- iv) Guidelines and Circulars issued by SEBI from time to time for Debenture Trustees, Alternative Investment Funds etc

v) Special Courts (Torts) Act, 1992

#### 4.5.13 Operational Results

Revenue from Operations

(Rs. in crore)

Particulars	2017-18	2016-17	2015-16
Fees from Executor Trusteeship	0.34	0.36	0.40
Fees from Debenture and Security Trusteeship	2.90	2.69	2.56
<b>Revenue from Operations Total</b>	<b>3.25</b>	<b>3.06</b>	<b>2.97</b>

#### 4.5.14 Financial Working Results

The financial performance of the Company for the last two years ending 31 March 2018 was as under

(Rs. in crore)

Particulars	2017-18	2016-17
Revenue from Operations	3.25	3.06
Other Income	2.81	3.34
Total Income	6.07	6.40
Total Expenses	2.29	2.29
Profit/ (Loss) Before Tax	3.78	4.11
Tax	1.19	1.34
Profit/(Loss) After Tax	2.58	2.77

#### 4.5.15 Disinvestment (Upto 2017-18)

Not Applicable

#### 4.5.16 Environment Management

Not Applicable

#### 4.5.17 Audit Checks

- 1) To check Revenue from Debenture and Security Trusteeship services. In relation to Executor Trusteeship, business income is accrued on occurrence of transactions relating to Trust Account. Revenue from Debenture and Security Trusteeship services is recognized on period basis and accounted on accrual basis, except the income from suits filed of Debenture Trusteeship business of and/or Board for Industrial and Financial Reconstruction (BIFR) Companies, which is accounted on receipt basis. To examine the same in Audit.
- 2) The amounts received on behalf of beneficiaries of whom details about the beneficiaries cannot be ascertained, have been accounted in the nominal account 'Sundry Party Unclaimed Dividend/Interest' and 'Unallocated Proceeds on Redemption of Securities'. As and when the details are received from the payer about the beneficiaries, the amount is transferred to the respective beneficiary account. To examine the same in Audit.



- 3) To examine whether the Company's Investments are as per Investment Policy and to examine the booking of Interest Income accrued on Investments
- 4) To examine adequacy of Provision for Doubtful Debts
- 5) To examine compliance with SEBI Regulations on Debenture Trustees
- 6) To examine expenditure under Special Courts (Torts) Act 1992
- 7) The Company holds investments in the nature of shares, securities and immovable properties on behalf of the clients in a fiduciary capacity on a Trustee Beneficiary relationship. To check whether the same are adequately safeguarded and all duties arising from fiduciary relationships are adequately fulfilled.
- 8) As per Statutory Auditors Report for year ended 31 March 2018, the Company had not transferred or allocated dividend, interest and other corporate benefits received over a period of time from various companies/undertakings, amounting to Rs 1,42,54,734 to the Trusts/Beneficiaries, on whose behalf the investment portfolios are held under Trusteeship services. Similarly, the Company has not transferred or allocated sales/redemption proceeds of shares/debentures amounting to Rs 15,88,138 to the respective trust/beneficiary. The same is outstanding since 2005-06. To examine the same in Audit

## **4.6 MAHARASHTRA EXECUTOR AND TRUSTEE COMPANY PVT LIMITED**

### **4.6.1 Introduction**

The Maharashtra Executor & Trustee Company Private Ltd is registered under the Companies Act, 1956, and is a wholly owned subsidiary of Bank of Maharashtra. The Company was incorporated on 01.04.1946. The Registered Office of the Company is situated at Pune and the Company has Branches at Pune, Mumbai, Thane and Nagpur. The Company does not have any Subsidiary Company/Associate/Joint Venture. The Nature of Business of the Company is Consultancy and Management of Wills, Trust etc.

### **4.6.2 Objectives**

The Company, started in 1946 as a fully owned subsidiary of Bank of Maharashtra, has been established with the Objective of undertaking the work as an Executor & or Trustee of Will, Private Trust or Public Trust or as an Attorney to manage the Property

### **4.6.3 Activities**

Since the year 1946, the Company is in the business of formation, Management, and Execution of Trusts, Wills, Power of Attorney. As at 31 March 2017, the Company was managing approximately 1760 Trusts. The Company offers the following range of trust services

#### **(a) Executor of Will**

- Consultation for preparing the Will, drafting the Will and keeping safe custody of it.
- Complex job of executing the Will
- Realization and collection of Property after demise of Executor of Will, from Banks, Companies, Mutual Funds, Unit Trust etc. by complying with varying formalities & procedures.

#### **(b) Management of Private Trust**

A person may be wishing to keep aside part of his Property for the benefit of his dependents during his lifetime and thereafter. But a person may feel that his dependents may not take proper care of the properties due to mental incapacity, physical disability, insufficient age etc. In such a case, a person can create Private Trust for the purpose & arrange for proper care of the property. The person can also keep effective control during his lifetime and thereafter.

- The Company guides the person for formation of such Private Trust
- The Company acts as Managing Trustee of such trusts as sole Managing Trustee or with other Advisory Trustees.

#### **( C ) As Trustee, the Company renders the following services**

- To keep custody of property

- To invest, reinvest, collect, interest / dividends
- To make periodical payments
- To pay for special requirements and
- To ultimately distribute property as per Trust Deed.

#### **(d) Management of Public Charitable Trusts**

At times a person may desire to donate part of his estate for the benevolent objects for social cause manifesting his deep sense of gratitude & social commitment. For this the person wishes to have permanent arrangement. In such cases, the Company acts a Public Charitable Trust for fulfilling these objectives, and activities undertaken as such are as follows:

- Formation of Public Charitable Trust.
- Drafting Trust Deed.
- Register it with Charity Commissioner
- To obtain recognition for the Trust under Income Tax Act
- To accounts and get them audited annually.
- To file periodical returns and statements with concerned authorities
- To call meetings of the Advisory Trustees and maintain minute book.

Thus, the Company undertakes the burden of all technical and financial formalities required under statute so as to serve social cause.’

#### **(e) Management of Investments and House Properties as Attorney**

As an Attorney, the Company undertakes the following work.

- To keep safe custody of securities
- To collect rent and interest
- To invest and reinvest surplus as per the directions of the Client
- To pay taxes
- To pay other outgoings such as telephone bills, electricity bills society charges etc.
- To maintain the house property by undertaking general repairs for wear and tear.

#### **(f) Guardianship of Minors' Property**

The Company takes care of minors’ property when they have unfortunately lost their parents. The Company acts as Court Guardian and manages the property of minors till they attain majority under the directions of the Court.

#### **4.6.4 Organizational Set up**

The Board of Directors of the Company is responsible for overall management, superintendence and control over the affairs of the Company. The Chairman & Director

of the Company holds the Post of Executive Director in the Holding Company (Bank of Maharashtra). There are two General Managers of Bank of Maharashtra, who function as Nominee Directors on the Board of the Company. Besides, the Company also has a Chief Executive Officer (CEO), who is also the General Manager of the Holding Company (Bank of Maharashtra).

#### 4.6.5 Capital Structure

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 1,50,000 equity shares of Rs 100 each aggregating to Rs. 1,50,00,000 (Rs 1.50 crore). The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 20,000 equity shares of Rs 100 each aggregating to Rs 20,00,000 (Rs 20 lakh). As on 31 March 2018, the Holding Company Bank of Maharashtra held 19,880 number of Equity Shares of Rs 100 each in the Company, constituting 99.40 per cent Equity Holding in the Company.

#### 4.6.6 Budget and Planning

The Company does not have any Capital Expenditure Budget as the entire Office belongs to the Holding Body Corporate (Bank of Maharashtra). In respect of Budget for Revenue expenditure, except required business expenses, nothing is designed, i.e., within sanctioning Power.

(Rs in crore)

Years	2015-16		2016-17		2017-18	
	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	--	--	--	--	--	--
Revenue Expenditure	--	1.47	--	1.72	--	1.34
Revenue/Turnover	2.10	2.06	2.25	2.39	2.40	2.36
Profit for the year After Tax	0.45	0.41	0.50	0.46	0.75	0.76

#### 4.6.7 Accounting System

The Company has a Centralized system of Accounting. The financial statements of the Company are prepared under historical cost convention, on accrual basis of accounting, to comply in all material respects, with the mandatory Accounting Standards, as notified by the Companies (Accounting Standards) Rules, 2006, as amended from time to time, and in conformity with the Accounting Principles generally accepted in India (Indian GAAP), as applicable, and the relevant provisions of the Companies Act, 2013. The Accounts are prepared on Mercantile system, with the Fundamental Accounting Assumptions being Going Concern, Consistency and Accrual.

#### 4.6.8 Manpower Analysis

As on 31.03.2018, the Company had two Managerial and seven Non-Managerial Employees. The same is excluding Officials on Deputation from Holding Body Corporate (Bank of Maharashtra).

#### 4.6.9 MOU Targets and Achievements

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

#### 4.6.10 Computerization

The ERP/IT System in the Company is FAS Software from Virmati Technology Services Ltd.

#### 4.6.11 Internal Audit

The Company conducts only Internal Management Audit being conducted by Holding Body Corporate, i.e., Bank of Maharashtra. As per the Independent Auditor's Report for the Year Ending (Y/E) 31.03.2018, the Company had, in all material respects, an adequate internal financial control system over financial reporting, and such internal financial controls over financial reporting were operating effectively as at 31 March 2018.

#### 4.6.12 Act, Rules, Documents

- i) Companies Act 2013 and the applicable Rules
- ii) Indian Trust Act
- iii) Income Tax Act 1961 and the applicable Rules
- iv) SEBI Regulations on Debenture Trustees
- v) SEBI Regulations on AIFs

#### 4.6.13 Operational Results

The Revenue from Operations were as follows:

(Rs.in crore )

Particulars	2017-18	2016-17
Domestic Services		
Trust Management Charges	1.15	1.03
Will Execution Fees charges	0.22	0.34
Will Maintenance Fees/Drafting charges	0.02	0.02
Miscellaneous Fees	0.03	0.01
Total Revenue from Operations	1.44	1.42

#### 4.6.14 Financial Working Results

(Rs.in crore )

Particulars	2017-18	2016-17
Revenue from Operations	1.44	1.42
Other Income	0.92	0.97
<b>Total Income</b>	<b>2.36</b>	<b>2.39</b>
Total Expenses	1.34	1.72
Profit Before Exceptional items	1.01	0.67
Exceptional items	0	0
<b>Profit Before Tax</b>	<b>1.01</b>	<b>0.67</b>
Tax	0.25	0.20
<b>Profit After Tax</b>	<b>0.76</b>	<b>0.46</b>

#### **4.6.15 Environment Management**

Not Applicable

#### **4.6.16 Audit Checks**

- (i) To examine the booking of Revenue in respect of Fees for various services offered by the Company such as Trust Management charges, Will execution charges, Will Maintenance Fees, Drafting charges, Miscellaneous charges etc. Whether the Revenue has been realized for various services rendered by the Company as per Company approved Tariff Rates.
- (ii) To examine Charges levied by the Company for Consultation and Drafting of Trust Deed, Annual Management Charges, Registration Charges with Charity Commissioner, with Income Tax u/s 12 (A) Revocation/Cancellation charges etc
- (iii) To examine Charges levied by the Company for Consultation and Drafting of Will, Codicil (Supplemental Document to Will), Execution charges of Moveable Property/Immoveable Property, Probate charges, Charges for Management of Property under Power of Attorney etc
- (iv) To examine compliance with the provisions of Indian Trusts Act, Indian Succession Act etc., in so far as the said laws apply to the Company as a Trustee Company.

## CHAPTER V

### Finance Primary Dealers

**The Office of The Director General of Commercial Audit & Ex-Officio Member Audit Board-II Mumbai conducts the Audit of the following Companies functioning as Primary Dealers**

- i) SBI DFHI Ltd
- ii) STCI Primary Dealers Ltd

In 1995, the Reserve Bank of India (RBI) introduced the system of Primary Dealers (PDs) in the Government Securities (G-Sec) Market. The objectives of the PD system are to strengthen the infrastructure in G-Sec market, development of underwriting and market making capabilities for G-Sec, improve secondary market trading system and to make PDs an effective conduit for open market operations (OMO). As on June 30, 2015, there were seven standalone PDs and fourteen banks authorized to undertake PD business departmentally

PDs are expected to play an active role in the G-Sec market, both in its primary and secondary market segments through various obligations like participating in Primary auction, market making in G-Secs, predominance of investment in G-Secs, achieving minimum secondary market turnover ratio, maintaining efficient internal control system for fair conduct of business etc. A PD is required to have a standing arrangement with RBI based on the execution of an undertaking and the authorization letter issued by RBI every three years. Undertaking will be based on passing of a fresh Board resolution by the PD every three years.

The RBI currently extends the following facilities to the PDs to enable them to fulfill their obligations effectively

- i. access to Current Account facility with RBI;
- ii. access to Subsidiary General Ledger (SGL) Account facility with RBI;
- iii. access to e-Kuber facility for primary auction;
- iv. permission to borrow and lend in the money market including call money market and to trade in all money market instruments;
- v. memberships of electronic dealing, trading and settlement systems (NDS platforms/INFINET/RTGS/CCIL);
- vi. access to the Liquidity Adjustment Facility (LAF) of RBI;
- vii. access to liquidity support from RBI under a scheme separately notified for standalone PDs; and
- viii. access to Open Market Operations (OMO) by RBI

Operations of the PDs are subject to prudential and regulatory guidelines issued by RBI from time to time.

RBI will have the right to inspect the books, records, documents and accounts of a PD. PDs are required to make available all such documents, records, etc. to the RBI officers and render all necessary assistance as and when required. In addition, PDs are required to meet registration and such other requirements as stipulated by the Securities and Exchange Board of India (SEBI) including operations on the Stock Exchanges, if they undertake any activity regulated by SEBI. PD should bring to the attention of RBI any major complaint against it or action initiated/taken against it by authorities such as the Stock Exchanges, SEBI, CBI, Enforcement Directorate, Income Tax Department, etc

PDs are expected to join Primary Dealers Association of India (PDAI) and Fixed Income Money Market and Derivatives Association (FIMMDA) and abide by the code of conduct framed by them and such other actions as initiated by them in the interest of the securities markets.

### **Primary Market Activities**

PDs are expected to support the primary issues of dated securities of Central Government and State Government, T-Bills and CMBs through underwriting/bidding commitments. The related guidelines are as under:

#### **Underwriting of Dated G-Sec**

##### **Dated securities of Central Government**

- i. The underwriting commitment on dated securities of Central Government will be divided into two parts - a) Minimum Underwriting Commitment (MUC), and b) Additional Competitive Underwriting (ACU).
- ii. The MUC of each PD will be computed to ensure that at least 50 percent of the notified amount of each issue is mandatorily underwritten equally by all the PDs. The share under MUC will be uniform for all PDs, irrespective of their capital or balance sheet size. The remaining portion of the notified amount will be underwritten through an ACU auction.
- iii. RBI will announce the MUC of each PD. In the ACU auction, each PD would be required to bid for an amount at least equal to its share of MUC. A PD cannot bid for more than 30 per cent of the notified amount in the ACU auction.
- iv. The auction could be either uniform price-based or multiple price-based depending upon the market conditions and other relevant factors, which will be announced before the underwriting auction for each issue.
- v. Bids will be tendered by the PDs within the stipulated time, indicating both the amount of the underwriting commitment and underwriting commission rates. A PD can submit multiple bids for underwriting. Depending upon the bids submitted for underwriting, RBI will decide the cut-off rate of commission and inform the PDs.
- vi. **Underwriting commission** All successful bidders in the ACU auction will be paid underwriting commission on the ACU segment as per the auction rules. Those PDs who succeed in the ACU for 4 per cent and above of the notified amount of the issue, will be paid commission on the MUC at the weighted average of all the accepted bids in the ACU. Others



will get commission on the MUC at the weighted average rate of the three lowest accepted bids in the ACU.

vii. In the GOI securities auction, a PD should bid for an amount not less than its total underwriting obligation. If two or more issues are floated on the same day, the minimum bid amount will be applied to each issue separately.

viii. Underwriting commission will be paid on the amount accepted for underwriting by the RBI, irrespective of the actual amount of devolvement, by credit to the current account of the respective PDs at the RBI, Fort, Mumbai, on the date of issue of security.

ix. In case of devolvement, PDs would be allowed to set-off the accepted bids in the auction against their shortfall in underwriting commitment accepted by the RBI. Devolvement of securities, if any, on PDs will take place on pro-rata basis, depending upon the amount of underwriting obligation of each PD after setting off the successful bids in the auction.

x. RBI reserves the right to accept any amount of underwriting up to 100 per cent of the notified amount or even reject all the bids tendered by PDs for underwriting, without assigning any reason.

#### **Dated securities of State Governments**

i. On announcement of an auction of State Development Loans (SDLs), which are dated securities of the State Governments, RBI may invite PDs to collectively bid to underwrite up to 100 per cent of the notified amount.

ii. The auction could be either uniform price-based or multiple price-based depending upon the market conditions and other relevant factors, which will be announced before the underwriting auction for each issue.

iii. A PD can bid to underwrite up to 30 per cent of the notified amount of the issue. If two or more issues are floated on the same day, the limit of 30% is applied by taking the notified amounts separately.

iv. Bids will be tendered by PDs within the stipulated time, indicating both the amount of the underwriting commitments and underwriting commission rates. A PD can submit multiple bids for underwriting.

v. Depending upon the bids submitted for underwriting, the RBI will decide the cut-off rate of commission and the underwriting amount up to which bids would be accepted and inform the PDs.

vi. RBI reserves the right to accept any amount of underwriting up to 100 per cent of the notified amount or even reject all the bids tendered by PDs for underwriting, without assigning any reason.

vii. In case of devolvement, PDs would be allowed to set-off the accepted bids in the auction against their shortfall in underwriting commitment accepted by the RBI. Devolvement of securities, if any, on PDs will take place on pro-rata basis, depending upon the amount of underwriting obligation of each PD after setting off the successful bids in the auction.

viii. Underwriting commission will be paid on the amount accepted for underwriting by the RBI, irrespective of the actual amount of devolvement, by credit to the current account of the respective PDs at the RBI, Fort, Mumbai, on the date of issue of security.

### **Bidding in Primary auctions of T-Bills/CMBs**

i. Each PD will individually commit, at the beginning of the year (April – March), to submit bids for a fixed percentage of the notified amount of T-Bills/CMBs in each auction.

ii. The minimum bidding commitment amount / percentage for each PD will be determined by the RBI, in consultation with the PD. While finalizing the bidding commitments, the RBI will take into account the NOF, the offer made by the PD, its track record and its past adherence to the prescribed success ratio. The amount/percentage of minimum bidding commitment so determined by the RBI will remain unchanged for the entire year or till execution of the undertaking for the next year.

iii. In any auction of T-Bills/CMBs, if a PD fails to submit the required minimum bid or submits a bid lower than its commitment, the RBI may take appropriate penal action against the PD.

iv. A PD would be required to achieve a minimum success ratio of 40 percent of bidding commitment in T-Bills/CMBs auctions (if an auction gets cancelled or if all bids are rejected by RBI then PD should not take that auction's notified amount in the calculation of success ratio. Also, if RBI accepts partial amount, PD should take only accepted amount for calculation purpose) which will be monitored on a half yearly basis, i.e. April to September and October to March, separately

v. The CMB transactions may be reported in PDR returns along with the T-Bill transactions

### **Submission of client bids in the primary auctions**

The PDs are allowed to submit bids of their SGL/Gilt account holders in the primary auctions as their own bids under competitive route after putting in place the following safeguards

i. PDs should have a Board approved policy including appropriate risk management system to take care of risks arising out of such activity

ii. List of clients, details of business done through such clients and appropriateness of risk management system put in place may be periodically reviewed by the Board.

iii. Records maintained in this regard should be subjected to concurrent audit.

PDs may execute the secondary market sale transaction and report the same on NDS-OM (T+1 settlement). With respect to the dated securities, the sale transaction may be made within one hour of intimation of firm allotment in the primary auctions.

### **Settlement of primary auctions**

The primary auction settlement is independent from the secondary market settlements and therefore has to be funded separately. Successful PDs shall provide sufficient funds in their current account with the RBI on the auction settlement days before 300 pm to meet their obligations against the subscriptions in the primary auctions failing which the shortage will be

treated as an instance of ‘SGL bouncing’ and will be subjected to the applicable penal provisions.

### **Secondary Market activities**

**Market making in G-Sec:** PDs should offer two-way prices in G-Sec through the Negotiated Dealing System-Order Matching (NDS-OM), over-the-counter (OTC) market and recognized Stock Exchanges in India and take principal positions in the secondary market for G-Sec.

**Turnover ratio:** A PD should annually achieve a minimum turnover ratio of 5 times for Government dated securities and 10 times for T-Bills/CMBs of the average month-end stocks. The turnover ratio in respect of outright transactions should not be less than 3 times in Government dated securities and 6 times in T-Bills/CMBs (Turnover ratio is the ratio of total purchase and sales during the year in the secondary market to average month-end stocks).

### **Investment Guidelines**

**Investment policy** - PDs should frame and implement, a Board approved, investment policy and operational guidelines on securities transactions. The policy should contain the broad objectives to be followed while undertaking transactions in securities on their own account and on behalf of clients, clearly define the authority to put through deals, and lay down procedure to be followed while putting through deals, various prudential exposure limits, policy regarding dealings through brokers, systems for management of various risks, guidelines for valuation of the portfolio and the reporting systems etc. Operational procedures and controls in relation to the day-to-day business operations should also be worked out and put in place to ensure that operations in securities are conducted in accordance with sound and acceptable business practices. While laying down these guidelines, the PDs should strictly adhere to RBI’s instructions, issued from time to time. The effectiveness of the policy and operational guidelines should be periodically evaluated.

The investment in G-Sec should have predominance over the non-core activities in terms of investment pattern. Standalone PDs are required to ensure predominance by maintaining at least 50 per cent of their total financial investments (both long term and short term) in G-Sec at any point of time. Investment in G-Sec will include the PD’s Own Stock, Stock with RBI under Liquidity Support / Intra-day Liquidity (IDL)/ LAF, Stock with market for repo borrowings and G-Sec pledged with the CCIL.

Further, a PD’s investment in G-Sec (including T-Bills and CMBs) and Corporate Bond (to the extent of 50% of NOF) on a daily basis should be at least equal to its net call/notice/repo (including CBLO) borrowing plus net RBI borrowing (through LAF/ Intra-Day Liquidity/ Liquidity Support) plus the minimum prescribed NOF.

PDs should necessarily hold their investments in G-Sec portfolio in SGL with RBI. They may also have a dematerialised (Demat) account with depositories – National Securities Depository Limited / Central Depository Services (India) Limited. All purchase/sale transactions in G-Secs by PDs should be through SGL / Constituent SGL (CSGL) / Demat accounts.

PDs should hold all other investments such as CPs, bonds and debentures (privately placed or otherwise) and equity instruments, only in demat form.

All problem exposures, which are not backed by any security or backed by security of doubtful value, should be fully provided for. Where a PD has filed suit against another party for recovery, such exposures should be evaluated and provisions made to the satisfaction of auditors. Any claim against the PD should also be taken note of and provisions made to the satisfaction of auditors.

The profit and loss account should reflect the problem exposures if any, and also the effect of valuation of portfolio, as per the instructions issued by the RBI, from time to time. The report of the statutory auditors should contain a certification to this effect.

### **Held to Maturity (HTM) Portfolio**

Standalone PDs are allowed to categorize a portion of their G-Sec portfolio in the HTM category, subject to the following conditions

- i. The transfer of securities (both Central Government and State Government) to/from HTM portfolio shall be done as per the policy formulated by the Board. Such transfers shall be permitted only once in a quarter.
- ii. Transfer of securities to/from HTM portfolio should be done with the approval of the Board at the acquisition cost/ book value/ market value on the date of transfer, whichever is the least, and the depreciation, if any, on such transfer shall be fully provided for. PDs are allowed to shift investments to/from HTM portfolio with the approval of the MD of the PD/Head of Asset Liability Committee (ALCO), only in case of exigencies. However, it should be ratified by the Board.
- iii. Only securities acquired by the PD under primary auction will be eligible for classification under HTM category.
- iv. The quantum of securities that can be classified as HTM shall be restricted to 100% of the audited NOF of the PD as at the end March of the preceding financial year.
- v. The profit on sale of securities, if any, from the HTM category shall first be taken to the P & L Account and thereafter be appropriated to the "Reserve Account"; loss on sale shall be recognized in the P & L Account.
- vi. Investments classified under HTM will be carried at acquisition cost, unless it is more than the face value, in which case the premium should be amortized over the remaining period to maturity. The book value of the security should continue to be reduced to the extent of the amount amortized during the relevant accounting period.
- vii. The concurrent auditors should specifically verify compliance with these instructions.
- viii. The facility shall be available until further advice.

Banks undertaking PD activities departmentally may continue to follow the extant guidelines applicable to banks with regard to the classification and valuation of the investment portfolio issued by Department of Banking Regulation (DBR), RBI.

### **The following are the RBI Guidelines for Internal control of PDs**

PDs shall have an efficient internal control system for fair conduct of business, settlement of trades and maintenance of accounts.

- i. PDs should maintain adequate physical infrastructure and skilled manpower for efficient participation in primary issues, trading in the secondary market, and to advise and educate investors.
- ii. In respect of transactions in G-Sec, a PD should have a separate desk and maintain separate accounts in respect of its own position and customer transactions and subject them to external audit also.
- iii. All the transactions put through by the PD either on outright basis or ready forward basis should be reflected on the same day in its books and records i.e. preparation of deal slip, contract note, confirmation of the counter party, recording of the transaction in the purchase/sale registers, etc.
- iv. For every transaction entered into, the trading desk should generate a deal slip which should contain data relating to nature of the deal, name of the counterparty, whether it is a direct deal or through a broker, and if through a broker, name of the broker, details of security, amount, price, contract date and time and settlement date. The deal slips should be serially numbered and controlled separately to ensure that each deal slip has been properly accounted for. Once the deal is concluded, the deal slip should be immediately passed on to the back office for recording and processing. For each deal, there must be a system of issue of confirmation to the counter-party. In view of the reporting and confirmation of OTC trades on Negotiated Dealing System (NDS) and guaranteed settlement through CCIL, the requirement to exchange written confirmation for OTC trades in G-Sec has been dispensed with. With respect to transactions matched on the NDS-OM module, separate counterparty confirmation of deals is not required.
- v. Once a deal has been concluded, there should not be any substitution of the counter-party by the broker. Similarly, the security sold/purchased in a deal should not be substituted by another security under any circumstances.
- vi. On the basis of vouchers passed by the back office (which should be done after verification of actual contract notes received from the broker/counter-party and confirmation of the deal by the counter party), the books of account should be independently prepared.
- vii. PDs should periodically review securities transactions and report to the top management, the details of transactions in securities, details of funds/securities delivery failures, even in cases where shortages have been met by CCIL.
- viii. All security transactions (including transactions on account of clients) should be subjected to concurrent audit by internal/external auditors to the extent of 100% and the results of the audit should be placed before the CEO/MD of the PD once every month. The compliance should be monitored on ongoing basis and reported directly

to the top management. The concurrent audit should also cover the business done through brokers and include the findings in their report.

- ix. The scope of concurrent audit should include monitoring of broker wise limits, prudential limits laid down by RBI, accuracy and timely submission of all regulatory returns, reconciliation of SGL/CSGL balances with PDO statements, reconciliation of current account balance with DAD statements, settlements through CCIL, stipulations with respect to short sale deals, when-issued transactions, constituent deals, money market deals, adherence to accounting standards, verification of deal slips, reasons for cancellation of deals, if any, transactions with related parties on 'arm's length basis', provisions related to HTM portfolio etc.
- x. PDs should have a system of internal audit focused on monitoring the efficacy and adequacy of internal control systems.
- xi. With the approval of their Board, PDs should put in place appropriate exposure limits / dealing limits, for each of their counterparties which cover all dealings with such counter parties including money market, repos and outright securities transactions. These limits should be reviewed periodically on the basis of financial statements, market reports, ratings, etc. and exposures taken only on a fully collateralized basis where there is slippage in the rating/assessment of any counterparty.
- xii. With the approval of their Boards, PDs should put in place reasonable leverage ratio for their operations, which should take into account all outside borrowings as a multiplier of their NOF.
- xiii. There should be a clear functional separation of (i) trading (front office); (ii) risk management (mid office); and (iii) settlement, accounting and reconciliation (back office). Similarly, there should be a separation of transactions relating to own account and constituents' accounts.
- xiv. PDs should have an Audit Committee of the Board (ACB) which should meet at least at quarterly intervals. The ACB should peruse the findings of the various audits and should ensure efficacy and adequacy of the audit function.

## 5.1 SBI DFHI LIMITED

### 5.1.1 Introduction

SBI DFHI Limited (Company) is a leading Primary Dealer (PD), incorporated on 08.03.1988, by merging RBI's Discount & Finance House of India (DFHI) and SBI Gilts Ltd. State Bank of India is the Company's Holding Company with 69.04 *per cent* Equity Holding as on 31 March 2018. The Company is under the Administrative Control of Ministry of Finance.

The Company has headquarters in Mumbai with eight branch offices at Ahmedabad, Bangalore, Bhopal, Chennai, Hyderabad, Kolkata and New Delhi, Mumbai. Clearing Corporation of India Ltd (CCIL) is the Associate of the Holding Company.

### 5.1.2 Objectives

The main role of the Company is to support Reserve Bank of India (RBI) in its public debt management function through underwriting / bidding in primary Government securities auctions and market making in the secondary market. The Company launched Investment Advisory services in March 2017 and started communicating with clients from May 2017. The Company's Principal Business Activity is Primary Dealer in Government Securities.

### 5.1.3 Activities

The Company deals in Government Securities and Treasury Bills on behalf of its constituents through Constituent SGL Account opened with RBI. The transactions undertaken cover monies received from the constituents and stocks tendered by them for conversion into SGL Account. As on 31 March 2018, the Company holds the following investments on behalf of the constituents

(Face Value Rs in crore)

Particulars of Investments	2017-18	2016-17
Dated Government Securities	45,525.95	41,837.83
Treasury Bills	925.00	1805.50

The following are the Core Activities of the Company

- i) Support to Primary Market by participating in auctions of Government Securities, Treasury Bills & Cash Management Bills.
- ii) Market making in Government securities.
- iii) Dealing & underwriting in Government Securities.
- iv) Retailing of Government Securities.
- v) Dealing & underwriting in Corporate/PSU/FI bonds and debentures.
- vi) Investment in Certificate of Deposit & Commercial Paper.
- vii) Dealing in Interest Rate Derivatives.

viii) Investment in debt Mutual Funds.

The following are the Non-Core Activities of the Company

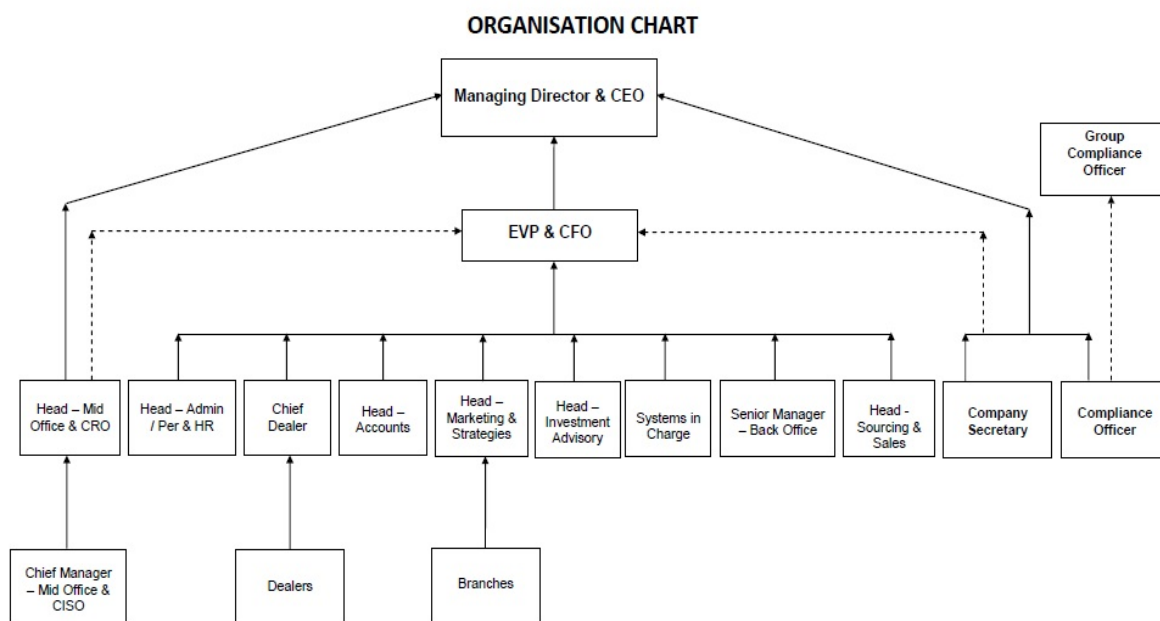
- i) Investment/trading in equity and equity derivative markets.
- ii) Investment in units of equity oriented Mutual Funds.
- iii) Distribution of Mutual Funds units.

#### 5.1.4 Organizational Set up

The affairs of the Company are managed by the Managing Director (MD) & Chief Executive Officer (CEO), an official of the rank of a Chief General Manager in SBI, under the overall supervision and guidance of a Board of Directors chaired by the Chairman of SBI and comprising of reputed market professionals and academicians of eminence.

The Authorized Signatories to the Company's Financial Statements are Chairman, Managing Director & CEO, Company Secretary & Compliance Officer and Executive Vice President & Chief Financial Officer (CFO).

The Organogram of the Company is attached below.



#### 5.1.5 Capital Structure

The Authorized Share Equity Share Capital of the Company as on 31.03.2018 is 3 crore equity shares of Rs 100 each aggregating to Rs 300 crore. The Issued, Subscribed, and Paid Up Equity Share Capital as on 31 March 2018 is Rs 190,48,96,000 (Rs 190.49 crore) comprising of 1,90,48,956 equity shares of Rs 100 each fully paid up.

The paid up capital was reduced to Rs.190.49 crore during the financial year 2017-18 since the Company bought back 27,69,230 equity shares of face value of Rs 100 each



at Rs 520 per share on 28.09.2017 representing 12.69 *per cent* of the total number of equity share capital of the Company aggregating to Rs 144 crore

**As on 31.03.2018, the Equity Holding in the Company is as follows:**

Holder	No. of Equity Shares held on 31.03.2018	Amount (Rs)	% Equity Holding
State Bank of India	1,31,52,074	131,52,07,400	69.04 %
SBI Capital Markets Ltd	5,95,295	5,95,29,500	3.13 %
<b>State Bank Group</b>	<b>1,37,47,369</b>	<b>137,47,36,900</b>	<b>72.17 %</b>
Public Sector Banks	42,92,481	42,92,48,100	22.53 %
Financial Institutions/Insurance Companies (ICICI Bank, EXIM Bank, GIC, New India Assurance, United India Insurance, Oriental Insurance, National Insurance, IFCI Ltd)	10,09,106	10,09,10,600	5.30 %
<b>Total</b>	<b>1,90,48,956</b>	<b>190,48,95,600</b>	<b>100 %</b>

### 5.1.6 Budget and Planning

(Rs in crore)

Years	2015-16		2016-17		2017-18	
	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	Nil	0.39	Nil	1.83	Nil	0.39
Revenue Expenditure	336.00	321.10	354.00	333.35	367.00	298.56
Revenue/Turnover	Nil	429.96	Nil	602.55	Nil	347.54
Profit for the year Before Tax	149.00	108.86	138.00	269.19	152.00	48.98

### 5.1.7 Accounting System

The Company has a centralized accounting system for upkeep of the accounts. The Company while accounting and preparation of its financial statements observes the Indian generally accepted accounting principles (Indian GAAP), the Accounting standards prescribed under Section 133 of the Companies Act 2013, Companies (Accounts) Rules, 2014 and other relevant provisions of the Companies Act 2013.

### 5.1.8 Manpower Analysis

The Company had 70 employees as on 31 March 2018 that included 57 Managerial employees and 13 non-managerial employees.

### 5.1.9 MOU Targets and Achievements

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

#### 5.1.10 Computerization

The Company has home grown core ERP/IT System as below:

- i) Core System- Developed in Oracle Forms and Reports. It has Dealing, Settlement, Derivatives, Accounts and PPD modules
- ii) CRM- to capture client related communication and few HR activities (Under development)

The Company has audited IT systems during 2015-16 to 2017-18 as follows:

- i) All IT Infrastructure for Vulnerability Assessment and Penetration Testing (audited for all the three years)
- ii) Information Systems Audit for IT processes has been audited in 2016-17.

#### 5.1.11 Internal Audit

The internal audit is conducted by the Company by utilizing the services of professional Chartered Accountant firms on quarterly periodicity. Although, the Company does not maintain a manual of internal audit, the scope of internal audit is derived from Regulations, Policies and Manual of Operations.

#### 5.1.12 Act, Rules, Documents

- i) Companies Act, 2013 and the Rules there under
- ii) RBI Master Directions for Standalone Primary Dealers (Reserve Bank) Directions, 2016
- iii) RBI Master Direction on Operational Guidelines for Primary Dealers, 2016
- iv) Income Tax Act, 1961 and the Rules there under
- v) Central Goods and Services Tax Act 2017 and the Rules there under
- vi) RBI's Master Direction – Operational Guidelines for Primary Dealers (Updated as on November 22, 2018)

#### 5.1.13 Operational Results

The Revenue from Operations were as follows:

(Rs. in crore)

Particulars	2017-18		2016-17	
Sale of Securities				
Dated Government Securities	134540.68		213012.85	
Other Securities	1879.99		1740.74	
Treasury Bills	29833.23		62220.58	
Certificate of Deposits	146.25		200.00	
Commercial Paper	1378.29		1420.00	
Equity Shares	0.21		--	

Mutual Funds	62617.12	230395.79	186875.60	465469.79
Loss on Transfer of HTM Securities to Inventories		(6.55)		
Interest Income				
Dated Government Securities (HTM)	26.64		49.88	
Dated Government Securities (Inventories)	103.26		109.87	
Other Securities	78.75		69.77	
Call and Short Notice Lendings	0.08		0.02	
Discount on CBLO Lending	0.41		1.71	
Reverse Repo Lending	--		0.08	
Reverse Repo Lending to RBI	0.10		--	
Interest on Fixed & Term Deposit	0.23		0.51	
Interest on Application Money	--	209.51	0.50	232.29
Other Financial Services				
Underwriting Income		1.45		1.11
Advisory Fees		0.23		--
Income from Interest Rate Futures		(0.61)		--
Income from constituent		0.23		0.40
Commission on Non Competitive Bidding		0.14		0.12
Miscellaneous Income		0.89		0.33
Total Revenue from Operations		230601.10		465704.08

During the year 2017-18, in spite of volatile market conditions, the Company actively participated in the underwriting of Central Government Securities, Auctions, being successful for Rs 17020 crore. Securities to the extent of Rs 19164 crore were picked up in the G-Sec Auctions. In case of Treasury Bills, bidding, the Company achieved a success ratio of 49.39 *per cent* in the first half and 52.69 *per cent* in the second half of the FY 2017-18, against RBI stipulation of 40 *per cent* in each half.

Total outright Turnover in Dated Government Securities (including SDLs) and Treasury Bills were Rs 254297 crore and Rs 38304 crore respectively.

Brief description of the Company's working during the year/State of Company's Affairs was as follows:

(Rs in crore)

Particulars	2017-18	2016-17
Call, Notice and Term Money Lending	358	59
<b>SLR Segment Turnover</b>		
<b>Treasury Bills</b>		
<b>Primary Market</b>		
-Auctions	21967	18018
-Maturity	969	1463
<b>Total of (a)</b>	<b>22936</b>	<b>19481</b>
<b>Secondary Market</b>		
Outright	38304	105523
-Repo with Market	0	0
-Repo with RBI	1767	47752
<b>Total of (b)</b>	<b>40071</b>	<b>153275</b>
<b>Total of A (a+b)</b>	<b>63007</b>	<b>172756</b>
<b>Dated Govt. Securities</b>		

<b>Primary Market</b>		
-Auctions	18948	13335
-Devolvement	216	237
-Maturity	109	6
<b>Total of (a)</b>	<b>19273</b>	<b>13578</b>
<b>Secondary Market</b>		
-Outright	254297	395293
-Repo with Market	20	10
-Repo with RBI	199565	151790
<b>Total of (b)</b>	<b>453882</b>	<b>547093</b>
<b>Total of B (a+b)</b>	<b>473155</b>	<b>560671</b>
<b>Total of II (A+B)</b>	<b>536162</b>	<b>733427</b>
<b>Non SLR Segment Turnover</b>		
CP/CD/DDB/CB	3421	2949
Bonds and Non Convertible Debentures etc	3850	3486
<b>Total of III (a+b)</b>	<b>7271</b>	<b>6435</b>
CBLO Segment	217872	134078

#### 5.1.14 Financial Working Results

(Rs. in crore )

Particulars	2017-18	2016-17
<b>Income</b>		
Interest	209.10	230.57
Discount	141.37	146.94
Trading Profit	(7.32)	222.30
Other Income	3.85	2.72
<b>Total Income</b>	<b>347.54</b>	<b>602.55</b>
<b>Expenses</b>		
Interest	208.80	266.48
Discount	52.77	32.50
Administration Costs	36.99	34.37
<b>Total Expenses</b>	<b>298.56</b>	<b>333.35</b>
Profit Before Exceptional items	48.98	269.19
Exceptional items	--	--
<b>Profit Before Tax</b>	<b>48.98</b>	<b>269.19</b>
<b>Profit After Tax</b>	<b>32.07</b>	<b>176.43</b>

#### 5.1.15 Disinvestment

During the FY 2017-18, the Company bought back 27,69,230 Equity Shares of the Face Value of Rs 100 each at Rs 520 per share on 28 September 2017, representing 12.69 per cent of the total number of equity share capital of the Company aggregating to Rs 143,99,99,600 on a proportionate basis, i.e., buy back of one equity share for every 7.8788 equity shares held.

#### 5.1.16 Environment Management

Not applicable

#### 5.1.17 Audit Checks

- 1) Whether the Company complies with RBI Guidelines in respect of size of Held to Maturity (HTM) Portfolio by Primary Dealers (PDs)
- 2) To verify Company's stock consisting of Treasury Bills, Dated Government Securities held in the form of Subsidiary General Ledger (SGL) with RBI
- 3) To verify stock in the nature of Tax Free Bonds, Corporate Bonds, Promissory Notes Commercial Papers, Certificate of Deposits, Commercial Zero Coupon Bonds, Non Convertible Debentures, Equity Shares etc are confirmed with the Statement of Holding provided by the Depository Participant
- 4) Whether Mutual Fund Unit Balances are confirmed with Mutual Fund Statements provided by respective Mutual Funds on a regular basis
- 5) To verify Income by way of Discount on Treasury Bills, Commercial Papers, Certificate of Deposits, Deep Discount Bonds, Collateralized Borrowing Lending Obligations (CBLO)
- 6) To verify Profit/Loss on Sale of Dated Government Securities, Tax Free Bonds, Non Convertible Debentures, Regular Income Bonds, Floating Rate Bonds, Bonds in the nature of Promissory Notes etc
- 7) To verify whether Underwriting Fees for auction of Dated Government Securities are recognized as Income when auction results are declared
- 8) To verify whether Securities sold/purchased under Repo/Reverse Repo have been accounted as Collateralized Lending and Borrowing Transactions in accordance with RBI Circular dated 23.03.2010.
- 9) To check Derivative Transactions, Equity Index/Stock/Interest Rate Futures, Interest Rate Swap Transaction etc
- 10) Whether the Unutilized Cenvat Credits are transferred to Central Goods and Service Tax (CGST) Input Tax Credit under GST Laws
- 11) To verify Stock pledged with RBI towards Intraday Liquidity facility of Real Time Gross Settlement System
- 12) To verify Stock pledged with Clearing Corporation of India Ltd towards Default Fund and Securities Guarantee Fund (SGF), Centralized Borrowing and Lending Obligations (CBLO) and IRF (Rupee Derivatives Guarantee Settlement)
- 13) To check Capital to Risk Weighted Asset Ratio (CRAR) vis-à-vis Regulatory CRAR
- 14) To examine whether there has been any downgrading of Credit Rating of the Company by the Credit Rating Agency
- 15) To examine Company's Risk Management Policy, Risk Exposure on Derivatives etc and to examine whether there has been any downgrading of Credit rating of the Company by the Credit Rating Agency

## **5.2 STCI PRIMARY DEALERS LIMITED**

### **5.2.1 Introduction**

STCI Primary Dealer Limited (STCI PD) was set up as a wholly owned subsidiary of STCI Finance Ltd (erstwhile Securities Trading Corporation of India (STCI)) on 31 October 2006. The Company's Registered Office is at Mumbai. The Company has two branches which are situated in Delhi and Kolkata. STCI Commodities Ltd is a Fellow Subsidiary Company. The Company is a Standalone Primary Dealer as accredited by Reserve Bank of India and is regulated by Internal Debt Management Department (IDMD) division of RBI.

### **5.2.2 Objectives**

Primary Dealers can be referred to as Merchant Bankers to Govt. of India, comprising the first tier of the Government Securities. The role of the Primary Dealers is to commit participation as a principal in auction of Government of India dated securities treasury bills and dealing for it Secondary Markets, providing underwritings services for unsubscribed portion of the bond issue, undertaking firm buy sell/bid ask courts for treasury bills and dated security, participation in the interbank call/notice/term money market both as lender and borrower. STCI Primary Dealer Ltd (STCI PD) was set up as a wholly owned subsidiary of Securities Trading Corporation of India (STCI) in 2006. STCI was one of the Primary Dealers in the country set up in 1994 as a subsidiary of RBI. Subsequently, RBI's stake was divested in 1998 and 2000 in favour of leading Public Sector Banks and All India Financial Institutions. STCI has since been renamed as STCI Finance Ltd. In 2006, the PD business was demerged by STCI into a separate wholly owned subsidiary, STCI Primary Dealer Ltd (STCI PD). STCI PD has an authorized capital of Rs 300 crore and paid up share capital of Rs 150 crore. In India, the Primary Dealer business model was established to develop an active, vibrant and liquid secondary market for Government Securities, STCI PD has continually endeavoured to fulfil these objectives and aid in deepening the sovereign yield curve. STCI PD is an established player in the Fixed Income and money markets, catering to a diversified pool of investors across the Indian geography.

### **5.2.3 Activities**

The core activities of STCI PD comprise of underwriting, bidding, market making and trading in Government Securities, Treasury Bills and other fixed income securities. Apart from the above, the Company is an active participant in the money market instruments. The Company runs a proprietary portfolio comprising of GoI dated securities (including Floating Rate Bonds, Inflation Indexed Bonds, etc.), GoI Special Bonds, State Development Loans, Treasury Bills, Corporate Bonds, Commercial Papers, Certificates of Deposits, etc. As a Primary Dealer, the Company is also allowed to participate and trade in STRIPS, Interest Rate Derivatives and undertake short selling in Government Securities on NDS OM. The Company has diversified its activities since May 2015, and has started dealing in Equity and Equity F&O (Futures & Options) markets on a proprietary basis.

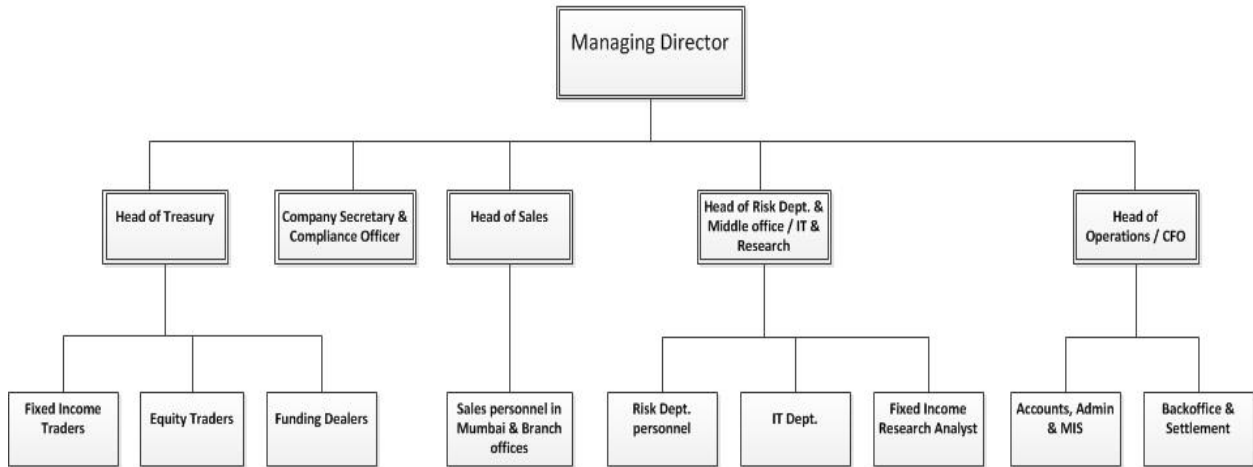
STCI PD is a leading player in the retail and mid-segment of the debt market with a large and diversified client base having pan India presence. The Company has been facilitating clients in shaping strategies, assisting in achievement of investment objectives. The Company provides its clients a bouquet of investment solutions which help them plan and manage their investments better. To help their clients take well informed decisions, the Company publishes daily market updates along with a host of macro updates which impact market dynamics. STCI PD is an active member of the Primary Dealers Association of India (PDAI) and the Fixed Income and Money Market Derivatives Association (FIMMDA). STCI PD has continued association with several committees which interact with regulatory authorities to provide feedback for both product and market development.

During 2017-18, the Company's total Turnover Ratio was 1458 times in Government Dated Securities and 113 times in Treasury Bills, as against the stipulated minimum ratio of 5 times and 10 times respectively under RBI Guidelines for Primary Dealers in G-Secs. On outright basis, the Turnover Ratio was 940 times in Government Dated Securities and 15 times in Treasury Bills as against the prescribed minimum of 3 times and 6 times respectively. The Company achieved the success ratio in respect of bids tendered for primary issues of Treasury Bills at 58 *per cent* as against the stipulated minimum success ratio of 40 *per cent*.

#### **5.2.4 Organizational Set up**

The overall supervision of the activities and operations of the Company vests with the Board of Directors. The Company has constituted functional committees of the Board which include the Audit Committee, Nomination & Remuneration Committee, CSR Committee, and Risk Management Committee. As on 31 March 2018, the Board of Directors of the Company comprised of six Directors, including *inter alia* two Independent Directors, two Non Executive Directors, one Additional Director and Managing Director. For effective execution of the routine operations of the Company, the Board of Directors have delegated the necessary powers to the Managing Director. The organogram of the Company is attached below.

**STCI Primary Dealer Limited  
Organisation Chart**



The Company’s Financial Statements are authenticated by four Directors, Managing Director, Chief Financial Officer and Company Secretary.

**5.2.5 Capital Structure**

The Authorized Equity share capital of the Company as on 31st March, 2018 was 30 crore equity shares of Rs 10 each aggregating to Rs. 300 crore. The issued, subscribed and fully paid-up equity share capital as on 31.03.2018 is 15 crore equity shares of Rs 10 each aggregating to Rs 150 crore. As on 31 March 2018, all the 15 crore equity shares in the Company are held by the Holding Company STCI Finance Ltd.

**5.2.6 Budget and Planning**

The following is a brief outline of the targets and achievements of the Company for the three-year period ended 31 March 2018

(Rs in crore)

Years	2015-16		2016-17		2017-18	
Particulars	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	0.93	0.83	0.46	0.42	0.81	0.31
Revenue Expenditure	340.00	330.71	325.00	328.97	400.00	392.63
Revenue/Turnover	421.0	344.04	410.00	602.65	508.00	452.64
Profit Before Tax	81.00	13.33	85.00	273.68	108.00	60.00

**5.2.7 Accounting System**

The Company uses SAP framework in its operations and upkeep of books of accounting. The Accounts of the Company are centralized. The Company while maintaining its accounts and preparing financial statements observes the Indian generally accepted accounting principles (Indian GAAP), the Accounting standards applicable under section 133 of the Companies Act 2013, other relevant provisions of the Companies Act 2013 and guidelines issued by Reserve Bank of India applicable to Primary Dealers.



### 5.2.8 Manpower Analysis

The Company had 41 employees as on 31 March 2018 of which were 36 are managerial/operational<sup>2</sup> employees and the remaining 5 signify the messenger staff

### 5.2.9 MOU Targets and Achievements

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

### 5.2.10 Computerization

The Company's IT systems consisting of SAP, Application Servers, Network, Firewall, IT Infrastructure have been audited in 2015-16, and the same are audited every two years.

### 5.2.11 Internal Audit

The internal audit of the Company is under the functional procedure of the Audit Committee. The internal audit is conducted by the Company by engaging the services of professional Chartered Accountant firms. The internal audit is executed by the external agency for the Company on a quarterly basis. The Company also maintains a manual of internal audit.

### 5.2.12 Act, Rules, Documents

- i) Companies Act, 2013,
- ii) Companies (Accounting Standards) Amendment Rules, 2016
- iii) RBI Regulations, Circulars, Guidelines, Operational Guidelines, Notifications etc issued by the Reserve Bank of India from time to time to the extent applicable to Non-Banking Finance Companies (NBFCs) (ND-SI) and as applicable to Standalone Primary Dealers (SPD). (applicable to the extent of Capital Adequacy and Risk Management Guidelines)
- iv) Non Banking Financial (Non Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007
- v) RBI's Master Direction – Operational Guidelines for Primary Dealers (Updated as on November 22, 2018)

### 5.2.13 Operational Results

The Revenue from Operations were as follows:

(Rs in crore)

	2017-18		2016-17	
<b>Trading Profit/(Loss) on Securities</b>				
Government Securities	0.04		147.08	

<sup>2</sup> Includes Managing Director, Fixed Income Dealers, Equity Dealers, Fixed Income Sales, Fixed Income Research, Operations, Risk Management, Accounts, Compliance - Company Secretary & IT personnel

State Development Loans	8.05		39.47	
GOI Special Securities	4.65		39.90	
Corporate Bond	(15.35)		0.42	
Zero Coupon Bond	0.73		1.64	
Liquid Mutual Fund	3.64		7.74	
Equity Shares	0.20		4.02	
Equity Futures & Options	(0.92)		(2.63)	
Interest Rate Swap	0.08		(0.05)	
Interest Rate Futures	0.15		(0.87)	
Currency Futures	(0.02)		(0.24)	
Treasury Bills	1.00		2.95	
Commercial Papers	0.10		0.18	
Certificate of Deposit	(0.00)	2.37	1.65	241.28
<b>Interest Income on Discounted Instruments</b>				
Treasury Bills	141.10		103.49	
Commercial Papers	31.52		21.79	
Certificate of Deposits	0.33		19.08	
CBLO Lending	0.11	173.08	0.14	144.51
<b>Interest Income on</b>				
Call Money	--		0.01	
Government Securities	59.42		69.60	
State Development Loan	44.88		18.81	
GOI Special Securities	15.56		18.50	
Corporate Bond	151.00		101.09	
Fixed Deposit	0.07		0.20	
Income from Repo	2.57		5.39	
Other Interest	1.24	274.77	1.38	215.02
<b>Underwriting Fee and Other Income</b>		1.59		1.22
<b>Total Revenue from Operations</b>		<b>451.82</b>		<b>602.04</b>

#### 5.2.14 Financial Working Results

The financial performance of the Company for the last two years ending 31 March 2018 was as under

(Rs. in crore)

Particulars	2017-18	2016-17
Revenue from Operations	451.82	602.04
Other Income	0.81	0.61
<b>Total Revenue</b>	<b>452.64</b>	<b>602.65</b>
Total Expenses	392.63	328.97
<b>Profit/(Loss) before tax</b>	<b>60.00</b>	<b>273.68</b>
Provision for current year and deferred tax	20.22	95.56
Short/(Excess) provision for tax for earlier years	0.62	-
<b>Profit/(Loss) after Tax</b>	<b>39.15</b>	<b>178.12</b>
Transfer to Statutory Reserve	7.83	35.62
Net Profit/(Net loss) for the current year	31.32	142.49

### **5.2.15 Disinvestment (Upto 2017-18)**

Not Applicable

### **5.2.16 Environment Management**

Not Applicable

### **5.2.17 Audit Checks**

- i) To check whether Revenue Recognition in Accounts in respect of Treasury Bills, Commercial Papers, Certificate of deposits, Zero Coupon Bonds, Government Securities, Corporate Bonds, Centralized Borrowing and Lending Obligation (CBLO) transactions, Pass through Certificates, Equity and Index Futures and Options, Interest Rate Swaps, Currency and Interest Rate Futures, Repo Transactions, Underwriting Commission/Fees, Front end Fees, Arrangers' Fees, Hedged Portfolio- Securities and Swap etc is on the basis of Accounting Policy of the Company
- ii) To examine the Company's Inventory comprising of Treasury Bills and Dated Government Securities held in the form of Subsidiary General Ledger (SGL) maintained with RBI, and to verify the said Stock with the Confirmation certificate received from RBI
- iii) To examine Stocks of other Securities held by the Company in de-materialized form with IL & FS, HDFC Bank and to verify the said Stock with the Confirmation certificates received from them
- iv) To examine whether all quoted securities acquired with the intention of trading are considered as stock in trade
- v) To examine whether all quoted securities (stock in trade) are grouped into Equity Shares, Preference Shares, Debentures & Bonds, Government Securities (SOLs, SPLs, T-Bills, FRBs, IIBs etc), Mutual Funds, Others etc
- vi) To examine whether Market Value of Fixed Income Securities is determined in accordance with the guidelines laid down by Fixed Income Money Market and Derivatives Association of India (FIMMDAI)
- vii) To examine whether Market Value of Equity Shares and Tax Free Bonds is determined by the prices obtained from the recognized stock exchanges
- viii) To examine whether, in line with RBI & FIMMDA guidelines, Certificate of Deposits (CDs) and Commercial Papers (CPs) of less than one year tenor are valued at carrying cost
- ix) To examine whether the outstanding swaps held for trading purpose are marked to market on the Balance Sheet date on the basis of swap yield rates announced by FIMMDA
- x) To examine whether the Securities under Held to Maturity (HTM) category are valued as per guidelines issued by RBI from time to time

- xi) To check whether the valuation of Securities acquired with the intention of trading is as per Accounting Policy.
- xii) Call Money lending rates are decided by the Managing Director. To compare the rates charged with reference to publications in the Financial Express & Economic Journals on day-to-day basis.
- xiii) To check thoroughly the interest calculations in respect of major lending.
- xiv) In respect of REPO transactions, its necessity with reference to Market conditions and individual abnormal losses incurred to be highlighted.
- xv) To check the figure of stock holdings as per financial ledger with the certificate furnished by Reserve Bank of India in SGL account.
- xvi) To check that interest paid on borrowings are commensurate with interest earned on lending.
- xvii) To check the background papers/working connected with daily bid and offer rates published by the Company in financial publications.
- (ix) To ensure that the Company follows the RBI & SEBI guidelines on trading securities and revenue from the operation is correctly accounted.
- (x) The methodology and correctness of the accounting of securities may be verified in audit. To see that the securities are physically verified at fixed intervals.
- (xi) The Company undertakes investment activities of its own surplus funds. Ensure that the financial interest of Mutual Fund holders are adequately safeguarded while investing the surplus funds also.
- xii) See whether any liability has developed on the Company due to its operations.
- xiii) To examine adequacy of Provisions, Provisions written back etc
- xiv) Review of the Statutory Auditors and Internal Auditors Reports.
- xv) Examine inter-corporate loan and investment if any

## **CHAPTER VI**

### **FINANCE-SUPPORT SERVICES**

#### **6.1 BARODA GLOBAL SHARED SERVICES LIMITED**

##### **6.1.1 Introduction**

Baroda Global Shared Services Ltd (BGSSL) is a wholly owned subsidiary of Bank of Baroda. The Company, Baroda Global Shared Services Ltd (BGSSL), is a state of the art centre located at the prime location of Gujarat International Finance Tec (GIFT) city, Gandhinagar (Gujarat). It has been set up to handle high volume of major back-office processes across the Bank of Baroda.

BGSS specializes in running the standardising back office processes and ensuring that high volumes of operations are carried out in timely and accurate manner. The Specialised staff at BGSSL has been trained on the global best practices and use the latest tools and technology to provide the best productivity levels with best in class Turn-around Time while also maintaining the highest standards of regulatory compliance.

The Company has been incorporated on 15 March 2017. The nature of Business of the Company is to provide Business Support Services to Bank of Baroda. The Company does not have any Subsidiary or Associate Company or Joint Venture. The Company's Registered Office is at Mumbai. The Business Place/Operations Centre is at GIFT City, Gandhinagar, Gujarat, and also at Hyderabad.

##### **6.1.2 Objectives**

Bank of Baroda (BOB) is one of the largest Public Sector Bank (PSB) in India with a Branch Network of over 5624 Branches in India and 106 Branches/Offices Overseas, including Branches of BOB Subsidiaries, distributed in 25 countries. BOB has implemented a robust technology infrastructure in India with a state of the art tier III Data Centre and a one to one Disaster Recovery Site in India. A large number of applications have been implemented to support its business operations in India and abroad. The Company, Baroda Global Shared Services Ltd., a wholly owned Subsidiary of Bank of Baroda, has been formed to perform back office functions of the Bank (BOB).

##### **6.1.3 Activities**

Established during FY 2017, the Company (BGSS) commenced its operations during the year 2017-18. The Company is providing services by helping Bank of Baroda to digitize the processes and centralize its back office operations at Shared Services Centre (SSC) at GIFT City, Gandhinagar, Gujarat. Currently the Company is engaged in non-voice (transaction processing) and voice (call centre) which are being scaled up. Significant progress has been achieved on centralization of trade finance and forex operations, account opening (liabilities) and retail loan processing. The goal is to map

complete foot print of Bank of Baroda branches (5400+) in line with centralized hub by which 24\*7 customer service can be provided to clients. A robust governance framework adhering to standard operating procedures (SOPs) and Risk and Control Self-Assessment (RCSA) framework has been set up at SSC to improve efficiency and strengthen internal controls and compliance under one roof. At the Company's SSC, a quality control unit has also been set up.

As per Schedule –I of the Annexure to the Master Service Agreement dated 18 October 2017 entered into between Bank of Baroda and BGSSL (the Company), the following is the scope of Services to be rendered by the Company to BOB:

- i) Processing of Account Opening Requests
- ii) Customer Service and Account Maintenance Activities, i.e, Change of Address, Change of mobile number, Bank Statement requests etc
- iii) Processing of Retail Credit applications
- iv) Inbound/Outbound Contact Centre
- v) Processing of Corporate Transactions across Trade, Forex, Cash Management etc
- vi) Any other services as may be approved by the Board and Regulatory framework from time to time.

Bank of Baroda (BOB) shall reimburse BGSSL the Base amount plus 10 *per cent* Mark up and GST on it as applicable. However, no reimbursement with respect to GST paid by BGSSL to its vendor would be made since the same would be available to BGSSL as Input Tax Credit. The Base Amount would be directly related expenses, viz., wages, salaries etc. However, other incidental expenses like Travelling Expenses, Sundry Charges, and Photo-copying etc would be reimbursed on actual basis without mark up.

#### **6.1.4 Organizational Set up**

The Board of Directors of the Company is responsible for the overall management, superintendence and control over the affairs of the Company as per the provisions of the Companies Act 2013. As on May 2018, the Company had two Independent Directors, two Nominee Directors, and a Company Secretary. The Company also had a Managing Director and Chief Executive Officer (MD & CEO). Appointment of the Vigilance Officer has been made by the Company as per the Whistle Blower/Vigil mechanism policy adopted by the Board (January 2018).

#### **6.1.5 Capital Structure**

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 1 crore equity shares of Rs 10 each aggregating to Rs 10 crore. The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 99,60,000 equity shares of Rs10 each aggregating to Rs 9,96,00,000. As on 31 March 2018, the Holding Company Bank of Baroda held all the 99,60,000 number of Equity Shares constituting 100 *per cent* Equity Holding in the Company.

### **6.1.6 Budget and Planning**

The Company was incorporated only on 15 March 2017 and no budget was prepared and the actual during 2017-18 is given below

(Rs in crore)

Year	2017-18
Particulars	Actual
Capital Expenditure	0.04
Revenue Expenditure	5.08
Revenue/Turnover	5.86
Profit for the year After Tax	0.57

### **6.1.7 Accounting System**

The Company's Accounting system is Centralized. The financial statements of the Company have been prepared to comply with the Generally Accepted Accounting Principles in India (Indian GAAP), including the Accounting Standards notified under the relevant provisions of the Companies Act 2013. The financial statements are prepared on accrual basis under the historical cost convention.

### **6.1.8 Manpower Analysis**

As on 31 March 2018, the Company had 12 Managerial employees (above Assistant Vice President) and 127 Non Managerial employees (below AVP level)

### **6.1.9 MOU Targets and Achievements**

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

### **6.1.10 Computerization**

Information Systems (IS) Audit is conducted by the Parent Bank (BOB).

### **6.1.11 Internal Audit**

The Company is having independent In-house Risk and Quality Department which conducts RCSA audit on regular basis (Quarterly).The Manual of Internal Audit is available with the Company.

### **6.1.12 Act, Rules, Documents**

- i) Companies Act, 2013
- ii) GST Act
- iii) Income Tax Act 1961

### **6.1.13 Operational Results**

The Revenue from Operations were as follows:

(Rs. in crore)

Particulars	2017-18
Service Income	5.25
<b>Total Revenue from Operations</b>	<b>5.25</b>

#### 6.1.14 Financial Working Results

(Rs. in crore)

Particulars	2017-18
Revenue from Operations	5.25
Other Income	0.60
<b>Total Income</b>	<b>5.86</b>
Total Expenses	5.08
Profit Before Exceptional items	0.78
Exceptional items	--
<b>Profit Before Tax</b>	<b>0.78</b>
Tax	0.20
<b>Profit After Tax</b>	<b>0.57</b>

#### 6.1.15 Disinvestment (Upto 2017-18)

Not Applicable

#### 6.1.16 Environment Management

Not Applicable

#### 6.1.17 Audit Checks

- i) To examine Revenue from Business Process Outsourcing Operations, which arises from both time based and unit price client contracts. Such revenue is recognized on completion of the related services and is billable in accordance with the specific terms of Contracts with clients.
- ii) To examine the Company's Performance and Compliance in accordance with the terms and conditions of Master Services Agreement entered into between Bank of Baroda and the Company (BGSSL).
- iii) To examine compliance with Standard Operating Procedures (SOPs) for Account Management Services (RLBO) , Global Trade Services (TFBO) , Retail Assets (CPC) etc
- iv) Risk and Control Self-Assessment (RCSA) is the process through which Operational Risks and effectiveness of Controls are assessed and examined. It is an independent Process to evaluate each unit's processes and mechanisms to ensure Internal Controls are effectively functioning in an Organization as proposed. Audit to examine the efficacy of the same.



## 6.2 BARODA SUN TECHNOLOGIES LIMITED

### 6.2.1 Introduction

Baroda Sun Technologies Ltd was incorporated on 5 July 2017 under the Companies Act 2013. The Company is a wholly owned subsidiary of Bank of Baroda. The Company has no Branches. The Company has no Subsidiary Company/Associate Company/Joint Venture Company. The Company's Registered Office is at Mumbai. The Company's Nature of Business includes Business Solution, Software Product and Project Management for Bank of Baroda.

### 6.2.2 Objectives

The Principal Business Activities of the Company comprise of Systems integration, systems maintenance, packaged software implementation, packaged IT Software services and support services

The following are the objects to be pursued by the Company

- i) To provide, render system integration/consultancy/services on matters relating to IT enabled business solutions/IT software product implementation across various lines of business for Bank of Baroda (BOB).
- ii) To provide programme management/project management services to implement enterprise wide IT Projects of BOB
- iii) To develop financial products and solution to cater various business needs across different business verticals of the Bank
- iv) To interface with the industry including the startups fin-techs to be aware and updated about ongoing innovations and advise on the desirability or otherwise of implementing or responding to such developments
- v) To act as a catalyst for innovation, analytics, big systems and new ideas for IT related areas.

### 6.2.3 Activities

During the year 2017-18, Bank of Baroda (BOB) set up a wholly owned IT subsidiary (Baroda Sun Technologies Ltd). The Bank (BOB) is in the process of setting up an IT Centre of Excellence (ITCoE) to identify new emerging trends and provide technology differentiation. The ITCoE would provide design thinking skills, process design, architectural skills and core development capacity in current and future technology, helping the business to leverage technology for realizing business outcomes. The Company was under formation phase as on 31 March 2018. There were no activities in the Company during FY 2017-18.

### 6.2.4 Organizational Set up

The Company functions under the overall management, superintendence and control of the Board of Directors under the provisions of the Companies Act 2013. The Key Managerial Personnel of the Company comprise of Chairperson and Director and two

other Directors, as on 31 March 2018. The Company's Financial Statements are authenticated by three signatories of the Board of Directors comprising of Chairman and two Directors.

### **6.2.5 Capital Structure**

The Authorized Share Capital of the Company as on 31.03.2018 is 1,00,000 equity shares of Rs 10 each aggregating to Rs 10,00,000. The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 50,000 equity shares of Rs 10 each aggregating to Rs 5,00,000. As on 31 March 2018, the Holding Company Bank of Baroda held all the 50,000 number of Equity Shares constituting 100 *per cent* Equity Holding in the Company.

### **6.2.6 Budget and Planning**

As the Company was incorporated only in FY 2017-18 there was no budget planning and the actual expenditure is tabulated below

(Rs in lakh )

Years	2017-18
Particulars	Actual
Capital Expenditure	0
Revenue Expenditure	1.02
Revenue/Turnover	0
Profit for the year After Tax	(0.75)

### **6.2.7 Accounting System**

The Company has Centralized system of Accounting. The Company's Financial Statements are prepared to comply with the Generally Accepted Accounting Principles (GAAP) in India, including Accounting Standards notified under the relevant provisions of the Companies Act, 2013. The financial statements are prepared on accrual basis under historical cost convention.

### **6.2.8 Manpower Analysis**

As on 31 March 2018, the Company did not have any Manpower since the recruitment for various posts was under process.

### **6.2.9 MOU Targets and Achievements**

Not Applicable, since the Company is a Subsidiary of a Nationalized bank (BOB) and is this not a Central Public Sector Enterprise.

### **6.2.10 Computerization**

The Company was in Formation phase. (as of March 2018). However, the main object of the Company itself is to provide, render system integration and consultancy services

on matters relating to IT enabled business solutions/IT software product implementation across various lines of business for Bank of Baroda.

#### **6.2.11 Internal Audit**

Internal Audit of the Company was conducted by Outside Agency for FY 2017-18. Manual of Internal Audit is not available with the Company.

#### **6.2.12 Act, Rules, Documents**

The Companies Act 2013, and further, the Acts, Rules and other Regulations specific to the business of the Company as applicable.

#### **6.2.13 Operational Results**

The Company had not yet commenced Operations as on 31 March 2018. The Company is newly incorporated Company and has not fully commenced its operations.

#### **6.2.14 Financial Working Results**

(Rs. in lakh)

Particulars	2017-18
Revenue from Operations	0
Other Income	0
<b>Total Income</b>	<b>0</b>
Total Expenses	1.02
Profit/ (Loss) Before Exceptional items	(1.02)
Exceptional items	0
<b>Profit/ (Loss) Before Tax</b>	<b>(1.02)</b>
Tax	(0.26)
<b>Profit/ (Loss) After Tax</b>	<b>(0.75)</b>

#### **6.2.15 Disinvestment (Upto 2017-18)**

Not Applicable

#### **6.2.16 Environment Management**

Not Applicable

#### **6.2.17 Audit Checks**

- i) To examine whether Business Process Outsourcing Activity related service rendered to Bank of Baroda is as per Master Agreement entered into with BOB for providing Business Solution, Software Product and Project Management Services to BOB
- ii) To examine whether Revenue from IT Services is recognized either on time and material basis or fixed price basis or based on certain measurable criteria as per relevant contracts.

- iii) To examine whether Revenue on time and Material Contracts is recognized as and when services are performed and is billable in accordance with the specific terms of the Contracts with the clients.
- iv) To examine the Preliminary expenses in the formation of the Company
- v) To examine Revenue realization from BPO service rendered to BOB, and any other external BPO service contracts, if any
- vi) To examine Related Party Transactions with BOB.
- vii) The Company's core function is to act as a Data Centre of BOB. Data Centre is a Centralized Repository, either physical or virtual, for the storage, management and dissemination of data and information organized around a particular body of knowledge or pertaining to a particular business. The following are the checks to be exercised in respect of Audit of a Data Centre
  - a) To review the Data Centre's Disaster Recovery Plan (DRP)
  - b) To research all the Operating Systems, Software Applications and Data Centre Equipments operating within the Data Centre
  - c) To review the Company's Information Technology Policies and Procedures
  - d) Whether the Data Centre had adequate physical and logical access Controls
  - e) Whether the Back-up and Restore procedures are adequate so as to restore the data operations in the event of a disaster.
  - f) Whether there is a Back-Up Data Centre at a separate location that allows The Company to instantaneously continue operations in the event of system failure.

## **6.3 BOB GLOBAL SERVICES LIMITED**

### **6.3.1 Introduction**

BOB Global Services Limited is a wholly owned subsidiary of BOB Capital Markets Limited. The Company was incorporated on 07.06.2016. After incorporation, Bank of Baroda had written to Reserve Bank of India seeking their permission for setting up step down subsidiary, which was declined. In view of above, an application under Fast Track Scheme was submitted to Registrar of Companies (Ministry of Corporate Affairs) on 25.10.2016 to strike off the Company's name from the Register of Companies maintained by ROC.

The Company received the intimation from the Office of the Registrar of Companies, Mumbai dated 16.03.2017 stating that the name of BOB Global Services Ltd would be struck off from the Register and the said Company would be dissolved.

### **6.3.2 Objectives**

As per Ministry of Corporate Affairs Database, the Company's Activities have been stated under Code 74999-Business Services.

### **6.3.3 Activities**

Since the Company, immediately on incorporation in the year 2016, decided to dissolve, and accordingly an application for Closure of the Company was made in October 2016 itself, no activities were held by the Company. The Company did not open a Bank Account, nor a single monetary transaction was entered.

### **6.3.4 Organizational Set up**

The Company had three Directors. However, even the first meeting of the Board of Directors of the Company was not held since the Company went for Closure immediately after incorporation.

### **6.3.5 Capital Structure**

The Authorized Equity Share Capital of the Company was Rs 1,00,00,000. The Company's Issued, Subscribed and Paid Up Equity Share Capital was Rs 5,00,000.

### **6.3.6 Operational Results**

No transaction had taken place in the Company since its inception till closure.

### **6.3.7 Financial Working Results**

The Company has not prepared its Accounts for FY 2016-17 and 2017-18.

## **6.4 CORDEX INDIA PRIVATE LIMITED**

### **6.4.1 Introduction**

CORDEX India Private Limited was formed on 20 October 2010 as a Private Limited Company under the Companies Act 1956. The Company is owned by fourteen Indian banks<sup>3</sup>- both Public and Private Sector - on an equal basis.

Credit and Operational Risk Data Exchange (CORDEX), incorporated as CORDEX India Private Limited, is a Data Pool Consortium of Indian Banks. It is dedicated to help Member Banks in the management and measurement of Operational and Credit risk for Banks as per the guidelines of Reserve Bank of India. The Company uses SAS & Oracle software for carrying out its operations. The Registered Office of the Company is at Mumbai. The Company does not have any Subsidiaries, Joint Ventures or Associate Companies.

### **6.4.2 Objectives**

The main objective of the Company is to function as a Data Pooling Company (for Banks). The Company will be a Loss Data Consortium which will provide industry-wide data for benchmarking individual Bank's operational skills and improving the Risk Management processes/practices.

### **6.4.3 Activities**

The Principal Business Activity of the Company is Computer Programming, Consultancy and related activities, which constituted 100 *per cent* of the total Turnover of the Company as on 31.03.2018. The Business of the Company is to collect, consolidate, analyze and share such data without limitations with authorized persons on anonymity basis at an industry level, relating to financial information, current losses, probability of default, risk exposure limits, risk grading, providing current and historic operational risk losses and events, risk perception. The Company is also exploring the possibilities of creating more business opportunities, which have not yet crystallized as on 31 March 2018.

During the year 2017-18, the implementation of the Project saw momentum after slight delay in the previous years. All the member Banks were able to get connected to the Company's Data Centre and upload and download the data online. The Company received data from member banks till 31 March 2017. First set of Reports were published and made available to member banks. The Business Model of the Company is to recover revenue expenditure from the members. However, the Company has requested for additional contribution of Rs 1 crore each instead of yearly contribution towards revenue expenditure, for which the response of member Banks was awaited. A formula for sharing of expenses as service charges has been approved by the Company's Board on 5 March 2015. The Company collected charges from the

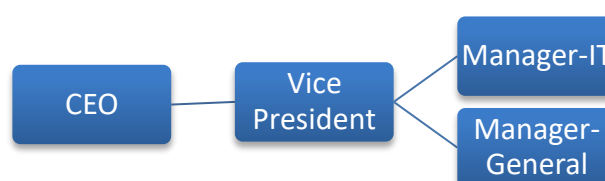
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<sup>3</sup> Andhra Bank, Bank of Baroda, Bank of India, Canara Bank, Central Bank of India, ICICI Bank, IDBI Bank, Indian Overseas Bank, Oriental Bank of Commerce, Punjab National Bank, State Bank of India, Syndicate Bank, Union Bank of India & Vijaya Bank)

shareholder members from the year 2016-17 onwards. During the year 2018-19, the Company collected charges from 13 out of 14 member banks for the year 2018-19. As decided by the Board, the charges from Indian Overseas Bank would be due and collected in the subsequent Financial Year.

#### 6.4.4 Organizational Set up

The supervision of the overall operations and activities of the Company vests with the Board of Directors. As on 31 March 2018, the Board of Directors of the Company consisted of Chairman (nominated by Union Bank of India) and 15 Directors (nominated by the Member Banks) including the Managing Director (MD) & Chief Executive Officer (CEO). In order to execute the day to day operations, the necessary powers are delegated by the Board to the Managing Director & CEO. The Organogram of the Company is attached alongside.



The following Policies have been approved by the Board of Directors of the Company and valid presently (March 2018) to cover the operations and risk management of the Company

- i) IT Security Policy
- ii) Data Confidentiality Policy
- iii) New member admission policy
- iv) Personnel Policy
- v) Expenditure Policy
- vi) Dividend Policy

#### 6.4.5 Capital Structure

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 3,000 Equity shares of Rs 1,00,000 each aggregating to Rs 30 crore. The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 1,400 equity shares of Rs 1,00,000 each aggregating to Rs 14 crore.

As on 31 March 2018, a total of 14 Banks (Andhra Bank, Bank of Baroda, Bank of India, Canara Bank, Central Bank of India, ICICI Bank Ltd, IDBI Bank Ltd, Indian Overseas Bank, Oriental Bank of Commerce, Punjab National Bank, State Bank of India, Syndicate Bank, Union Bank of India and Vijaya Bank) each held 100 number of Equity Shares of Rs 1,00,000, each constituting 7.14 *per cent* Equity Holding in the Company.

#### 6.4.6 Budget and Planning

(Rs in crore)

Years	2015-16		2016-17		2017-18	
Particulars	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	5.50	0.27	4.75	0.80	3.13	0.75
Revenue Expenditure	0.91	0.69	0.86	0.70	0.85	0.68
Revenue/Turnover	NA	1.61	NA	2.55	NA	2.06
Profit for the year Before Tax	--	0.92	--	1.85	--	1.38

#### 6.4.7 Accounting System

The Company has a centralized Tally accounting system for upkeep of the accounts. The Company maintains accounts and prepares financial statements in accordance with the Indian GAAP, Accounting Standards notified under Companies (Accounting Standards) Rules 2006 and the relevant provisions of the Companies Act 2013.

#### 6.4.8 Manpower Analysis

The Company had three employees as on 31 March 2018, which consisted of two managerial employees and one non – managerial employee.

#### 6.4.9 MOU Targets and Achievements

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

#### 6.4.10 Computerization

The Computerization in the Company is under implementation. The ERP/IT Systems in the Company are Tally/SAS and Oracle.

#### 6.4.11 Internal Audit

The Company conducts internal audit by outsourcing the same to independent firms of Chartered Accountants. The periodicity of such audit in 2015-16 & 2016-17 was half-yearly whereas the same for 2017-18 was yearly. The Company has adequate internal control for the level of operations currently undertaken. The accounts are maintained in electronic format and expenditures approved as per delegation. The accounts are subject to Internal Audit by an independent Audit Firm.

#### 6.4.12 Act, Rules, Documents

- i) Companies Act
- ii) GST Act
- iii) Income Tax Act
- iv) Information Technology Act

#### 6.4.13 Operational Results

During FY 2017-18, implementation of the Company's Project (Data Pooling for Banks) saw momentum after slight delay in the previous years. All the member banks were able to get connected to the Company's Data Centre and upload and download the



data online. The Company received data from member banks till 31 March 2017. First set of reports were published and made available to the member banks.

During the year 2017-18, the Company has collected Service Charges from the Members as per Article 3.1.a of the Shareholders' Agreement dated 8 December 2010, vide which Promotor Banks were required to pay annual recurring fee and from Non Shareholder Banks which were required to pay an Annual Recurring Fee in addition to one time admission fee as per Article 3.1.b of the Shareholders' Agreement. Accordingly, a formula of sharing expenses, as service charges, had been approved by the Board (5 March 2015). The Company collected charges from the shareholder members from the year 2016-17 onwards.

Member Banks have contributed Rs 88.27 lakh being subscription charges towards Contribution of Revenue and Operating charges in FY 2017-18, as against Rs 139.50 lakh in FY 2016-17. The Company was able to manage its operating expenses from Interest Income and had made surplus.

The Profit of the Company for the year ended 31 March 2018 was Rs 24.05 lakh as against Profit for the previous year at Rs. 42.32 lakh. The Earnings Before Depreciation for the year ended 31 March 2018 was Rs. 137.43 lakh as against Rs.184.08 lakh in the previous year 2016-17.

The Business Model of the Company is to recover revenue expenditure from the members. However, the Company has requested (members) for additional capital contribution of Rs 1.00 crore each instead of yearly contribution towards revenue expenditure. The Company was yet to receive their (members) response thereto as on 31 March 2018.

The Company, therefore, continued recovering revenue expenditure including FMC of the Project, from members during 2018-19, as per shareholders' agreement and as such would be able to cover all revenue costs of the year.

A formula for sharing of expenses as service charges has been approved by the Company's Board on 5 March 2015. The Company collected charges from the shareholder members from the year 2016-17 onwards. During the year 2018-19, the Company collected charges from 13 out of 14 member banks for the year 2018-19. As decided by the Board, the charges from Indian Overseas Bank would be due and collected in the subsequent Financial Year.

#### 6.4.14 Financial Working Results

(Rs. in crore)

Particulars	2017-18	2016-17
Revenue from Operations	0.88	1.39
Other Income	1.17	1.15
<b>Total Income</b>	<b>2.05</b>	<b>2.54</b>
Total Expenses	1.81	2.12
Profit Before Exceptional items	0.24	0.42
Exceptional items	--	--

<b>Profit Before Tax</b>	0.24	0.42
<b>Tax</b>	(0.07 <sup>4</sup> )	0.27
<b>Profit After Tax</b>	<b>0.31</b>	<b>0.15</b>

#### **6.4.15 Disinvestment (Upto 2017-18)**

Not Applicable

#### **6.4.16 Environment Management**

Not Applicable

#### **6.4.17 Audit Checks**

- i) Whether the Company has collected Service Charges from the Members as per Article 3.1.a of the Shareholders' Agreement dated 8 December 2010, vide which Promotor Banks were required to pay annual recurring fee and from Non Shareholder Banks which were required to pay an Annual Recurring Fee in addition to one time admission fee as per Article 3.1.b of the Shareholders' Agreement.
- ii) To examine the formula of sharing expenses, as service charges, as approved by the Board.
- iii) To examine implementation of the Company's Project (Data Pooling for Banks), any delay in execution thereof, cost over-runs etc
- iv) To examine whether the Company has been effectively executing its Business to collect, consolidate, analyze, and share such data without limitations with authorized persons on anonymity basis at an industry level, relating to financial information, current losses, probability of default, risk exposure limits, risk grading, providing current and historic operational risk losses and events, risk perception.

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<sup>4</sup>Deferred Tax

## 6.5 IDBI INTECH LIMITED

### 6.5.1 Introduction

IDBI Intech Limited (INTECH), a Company incorporated on 3 March 2000, is a wholly owned subsidiary of IDBI Bank, which is India's leading Public Sector Bank. IDBI Intech has been set up to serve BFSI<sup>5</sup> sector, by providing state of the art innovative IT solutions and services besides providing all technology related services to entire IDBI group and other Organizations. The strategic support of the IDBI Bank Group is the foundation of its stability. With over 700 qualified, experienced and dedicated domain experts from Banking and Technology arena, IDBI Intech delivers the products that stand out because of their quality features scoring above the competitors' products. IDBI Intech continuously explores the external environment, to understand the emerging technologies, changing business requirements and innovative solutions.

The Company's Registered Office is at Navi Mumbai. The Company has Development Solutions Centres at Chennai, New Delhi, Hyderabad and Pune.

### 6.5.2 Objectives

The Company's main objective is to render Information Technology (IT) related services. Intech has been the backbone of IDBI Bank Ltd and its Subsidiaries and Associate Companies, by providing the End to End IT Services. Besides, the Company also provides IT related Services to external clients (other than IDBI Bank).

### 6.5.3 Activities

The Principal Business Activities of the Company as on 31.03.2018 were IT Services (constituting 84.04 *per cent* of the Turnover of the Company) and Call Centre Services (constituting 13.63 *per cent* of the Turnover of the Company).

The End to End IT Services provided by Intech include development and customization of IT Products, procurement of hardware and software, management of Data Centre, Disaster Recovery (DR) and Near DR sites, IT Consultancy services etc to name a few. The scope of work under IT Advisory and Consultancy Contract entered into with IDBI Bank includes *inter alia* the following

- i) IT Advisory & Consultancy Services
- ii) ATM Implementation Services
- iii) Manpower Services
- iv) Customer Care Services
- v) Training Services

The Company also implements Projects for external clients. Some of the Projects implemented by the Company for external clients during the period from April 2017 to March 2018 were as follows:

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<sup>5</sup>Banking Financial Services and Insurance

- a) I-AML implementation for Fino Payments Bank and Oriental Bank of Commerce
- b) Finacle Training for Mumbai Branch of Emirates NBD, a Dubai based Bank
- c) NEFT Customization for Oriental Bank of Commerce, ICICI Bank and Bank of Bahrain & Kuwait.

The following Projects were under implementation as on March 2018

- a) i-AML for NSDL Payments Bank and IDBI Federal Life Insurance Co Ltd
- b) i-IRAC for South Indian Bank
- c) i-IRAC for Tamilnad Mercantile Bank
- d) i-Connect NEFT for Oriental Bank of Commerce
- e) i-Connect NGRTGS for J&K GrameenBank

In addition thereto, in order to have a strategic advantage, the Company has also entered into collaborative partnerships and agreements with various renowned IT Companies.

As per the Company's Business Plan for FY 2018-19, the Company was targeting to increase the proportion of operating income from external clients from the existing level of 28.06 *per cent* in FY 2017-18 to 38 *per cent* during FY 2018-19.

The following are some of the IT Services provided by the Company

a) Innovative Products

- i) Abhay- Card Limit Controller App
- ii) i-BUS – Mini Enterprise Service Bus
- iii) i-FBA- Facebook Banking
- iv) i-VAULT – AadhaarData Vault

b) Banking Products

- i) i-AML – Anti Money Laundering Solution
- ii) i-AMS – Audit Management System
- iii) i@Connect- Middleware for RTGS/NEFT/SFMS/SWIFT
- iv) i- RAC – NPA Management
- v) i – OMS- Offsite Monitoring System
- vi) i- CCM – Currency Chest Management
- vii) i- LMS- Locker Management System
- viii) Board Meeting Automation Solution

c) Services

- i) Data Centre Set-up& Management, ii) Training & Certification, iii) BPO,
- iv) Manpower Supply and v) Software Testing

Some of the clients of the Company are:

i) Reserve Bank of India, ii) IDBI Bank, iii) LIC of India, iv) Central Bank of India, v) ICICI Bank, vi) Andhra Bank, vii) Oriental Bank of Commerce, viii) South Indian Bank, ix) PMC Bank, x) Tamilnad Mercantile Bank Ltd, xi) DCB Bank, xii) Bank of Maharashtra, xiii) Guaranty Trust Bank Plc, xiv) BBK Group, xv) Fidelity Bank, xvi) Bank Sohar, xv) Fino Payments Bank, xvi) Equity Bank, xvii) NSDL Payments Bank Ltd, xviii) Emirates NBD, xix) J&K Grameen Bank, xx) IDBI Federal Life Insurance Co Ltd, xxi) KarurVysya Bank, xxii) Dhanlaxmi Bank, xxiii) IDBI Mutual, xxiv) Canara Robeco Mutual Fund, xxv) IDBI Capital and xxvi) S&IB

#### **6.5.4 Organizational Set up**

The Company has a Board of Directors for the overall Management, Superintendence and Control over the Affairs of the Company in accordance with the provisions of Companies Act, 2013. The Company has a Managing Director (MD) and Chief Executive Officer (CEO), as per the provisions of the Companies Act 2013. The Company's Board of Directors consists of the Chairman, MD & CEO, and two Independent Directors. The Senior Vice President- Admin & HR (Human Resources) is the Chief Financial Officer (CFO) of the Company. The Company also has two Executive Vice Presidents (EVPs) –for Technology Services and Business Solutions Group. The Company also has a Company Secretary.

The Company has various Committees of the Board of Directors such as Audit Committee, Nomination & Remuneration Committee, Corporate Social Responsibility Committee etc. As on 31 March 2018, there were 1348 officials including the Managing Director (MD) & Chief Executive Officer (CEO), who was assisted by Vice President- VP (3), Chief Finance Officer- CFO & Sr. VP (1), SVP (1), EVP (2), Management Trainee (13), Manager (1) and Project Manager (27) and Other Staff (1299). The MD-CEO is on deputation from IDBI Bank.

#### **6.5.5 Capital Structure**

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 7,50,00,000 equity shares of Rs 10 each aggregating to Rs 75,00,00,000 and 25,00,000 preference shares of Rs 100 each aggregating to Rs 25,00,00,000. The total Authorized Share capital of the Company is thus Rs 100 crore (Equity Capital- Rs 75 crore and Preference Capital- Rs. 25 crore). The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 1,31,28,207 Equity shares of Rs 10 each aggregating to Rs. 13,12,82,070. As on 31 March 2018, the Holding Company IDBI Bank Ltd held all the 1,31,28,207 Equity Shares constituting 100 *per cent* Equity Holding in the Company.

#### **6.5.6 Budget and Planning**

(Rs in crore)

Years	2015-16	2016-17	2017-18
Particulars	Actual	Actual	Actual
Capital Expenditure	0.13	3.16	0.30
Revenue Expenditure	52.50	59.82	75.68
Revenue/Turnover	58.49	81.21	80.31
Profit for the year After Tax	4.22	13.95	3.01

### 6.5.7 Accounting System

The Company has a Centralized system of Accounting. The Accounts are maintained through Tally Software. The Financial Statements of the Company are prepared under historical cost convention on the accrual basis of accounting in accordance with the Generally Accepted Accounting Principles (GAAP).

### 6.5.8 Manpower Analysis

As on 31 March 2018, the Company had 93 Managerial and 1254 Non Managerial Employees.

### 6.5.9 MOU Targets and Achievements

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

### 6.5.10 Computerization

The Company has Tally ERP/IT System for Accounting Operations

### 6.5.11 Internal Audit

The Internal Audit of the Company has been conducted by an Outside Professional Agency on Quarterly basis for the period 2015-16 to 2017-18. The Company does not have a Manual of Internal Audit.

### 6.5.12 Act, Rules, Documents

- i) Companies Act 2013
- ii) Income Tax Act 1961
- iii) GST Act 2017
- iv) Labour Laws as applicable
- v) Information Technology Act

### 6.5.13 Operational Results

The Revenue from Operations were as follows:

(Rs. in crore)

Particulars	2017-18	2016-17
Sale of Products		
Income from Sale of Software	1.63	0.27
Sale of Services		
Income from Information Technology (IT) Services	65.86	67.87

Income from National Contact Centre	10.94	9.01
Total Revenue from Operations	78.44	77.15

#### 6.5.14 Financial Working Results

(Rs. in crore )

Particulars	2017-18	2016-17
Revenue from Operations	78.44	77.15
Foreign Exchange Gain	--	--
Other Income	1.86	4.06
<b>Total Income</b>	<b>80.31</b>	<b>81.21</b>
Total Expenses	75.68	59.82
Profit Before Exceptional items	4.62	21.39
Exceptional items	--	--
<b>Profit Before Tax</b>	<b>4.62</b>	<b>21.39</b>
<b>Profit After Tax</b>	<b>3.01</b>	<b>13.95</b>

#### 6.5.15 Disinvestment (Upto 2017-18)

Not Applicable

#### 6.5.16 Environment Management

Not Applicable

#### 6.5.17 Audit Checks

- i) To check whether the Company is designing, developing, structuring and innovating System and Applications Software for various purposes as enumerated in the Memorandum of Association. Agreements with various Clients for Software Development/Design etc to be examined for compliances with various clauses thereof
- ii) To review the Company's overall functioning and operations as regards sale of software, applications, banking systems etc and receipt/payments as per the terms and conditions of the Purchase Order.
- iii) IDBI Intech Ltd (Company) entered into Advisory & Consultancy Services (ACS) contract (January 2018) with IDBI Bank Ltd. The scope of work, *interalia*, included rendering of services related to IT Infrastructure and Support, IT Consultancy Services, IT Applications and Server Hosting, Technology related Support Services, Manpower Assistance and Exchange of Staff for 2017-18. The annual fees were fixed at Rs. 45.24 crore (exclusive of Tax) for the year 2017-18. The Company has not raised any invoice post March 2018 since the said contract was not renewed. The same to be examined in Audit, i.e, Scope and Performance of Advisory and consultancy Services Contract between IDBI Intech and IDBI Bank
- iv) To examine whether there is any Procurement Policy (Board approved) for IT Assets and compliance therewith

- v) To examine performance of Service Level Agreements with various Banks and other institutions/external clients (other than IDBI Bank) for rendering IT Services
- vi) To examine various Revenue Generation Contracts (Sale of Software, IT Services, National Contact Centre etc)
- vii) To examine performance of the Company in the context of various services provided by the Company such as development and customization of IT Products, Procurement of Hardware and Software, Management of Data Centre, Disaster Recovery (DR) and Near DR sites, IT Consultancy service etc
- viii) To examine Business Development Plans of the Company and achievement of targets
- ix) To examine write-offs in accordance with Income Reversal & Write-Off Policy as approved by the Board on 16.04.2014
- x) To examine whether Revenue from Contracts priced on time and material basis are recognized when services are rendered and related costs are incurred.
- xi) To examine whether Revenue from sale of Products is recognized on achievement of milestone basis and on transfer of property of goods as per agreed terms
- xii) To examine whether Annual Technical Services Revenue is recognized proportionately over the period in which the services are rendered
- xiii) To examine whether Revenue from Contract Centre is recognized upon receipt of confirmation of sale
- xiv) To examine whether appropriate penal charges are levied as per the terms and conditions of the Purchase Orders where applicable.



## **6.6 NATIONAL FINANCIAL HOLDINGS COMPANY LIMITED**

### **6.6.1 Introduction**

National Financial Holdings Company Ltd, a Union Government Company, was incorporated on 7 June 2012. The Company does not have any Holding, Subsidiary and Associate Companies. All the Equity Shares in the Company are held by Central Government. The Company's Registered Office is at Mumbai.

### **6.6.2 Objectives**

The Unit Trust of India Act, 1963 has been repealed by Government of India viz. "The Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002". In exercise of the powers conferred under the Repeal Act, the Central Government vide its notification dated 15th January 2003 had notified 1st February 2003 as the "Appointed day" for the purpose of transfer and vesting the undertaking of the erstwhile UTI into two entities viz Specified Undertaking of Unit Trust Of India (SUUTI) and UTI Mutual Fund.

The National Financial Holdings Company Ltd (The Company) was incorporated as a Government of India Company on 7 June 2012 in furtherance to the decision of the Union Cabinet on 23 March 2012 to wind up the SUUTI and to incorporate Government of India Company which would hold and manage the assets and properties as well as discharge all liabilities of SUUTI.

### **6.6.3 Activities**

The Principal Business Activity of the Company is 'Other Financial Services'. However, as on 31.03.2018, the Company had not yet commenced its operations and its entire income was on account of interest on fixed deposits kept with Axis Bank Ltd., Mumbai.

The Board of Directors of the Company, at its Meeting held on 30 June 2017 had passed a Resolution that the Company should be closed as it was not carrying on any business and there were no business plans for the Company in future. Hence, it was decided at the said Board Meeting that the Company should be closed after obtaining the approval of the Government of India.

### **6.6.4 Organizational Set up**

The Company is managed by a Board of Directors, consisting of three Directors as on 31.03.2018. One of the Directors of the Company is Joint Secretary, Department of Investment and Public Asset Management, Ministry of Finance, Government of India. The provisions of Section 149 of the Companies Act 2013 pertaining to appointment of Independent Directors are not applicable to the Company. The Company does not have a Risk Management Policy since it has not yet commenced operations as on 31 March 2018.

### **6.6.5 Capital Structure**

The Authorized Equity Share Capital of the Company as on 31.03.2018 is one crore equity shares of Rs 10 each aggregating to Rs10 crore.

The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 10 lakh equity shares of Rs 10 each aggregating to Rs 1,00,00,000.

As on 31 March 2018, all the 10 lakh number of Equity Shares constituting 100 *per cent* Equity Holding in the Company was held by the Government of India.

#### **6.6.6 Budget and Planning**

(Rs. in lakh)

Years	2015-16	2016-17	2017-18
Particulars	Actual	Actual	Actual
Capital Expenditure	--	--	--
Revenue Expenditure	3.56	3.70	3.69
Revenue/Turnover	8.43	7.01	6.83
Profit for the year After Tax	3.34	2.28	0.24

#### **6.6.7 Accounting System**

The Company prepares the financial statements under historical cost convention in accordance with generally accepted accounting principles and the accounting standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act 2013.

#### **6.6.8 Manpower Analysis**

The Company did not have any full time employees as at 31 March 2018.

#### **6.6.9 MOU Targets and Achievements**

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

#### **6.6.10 Computerization**

Not Applicable, since there are no Business Plans for the Company and the Company has not commenced its operations.

#### **6.6.11 Internal Audit**

The Board of the Company has adopted internal financial control policies and procedures for ensuring the orderly and efficient conduct of its business, including adherence to the Company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and timely preparation of reliable financial disclosures.

However, the provisions of Section 177 of the Companies Act 2013 (Audit Committee) are not applicable to the Company.

#### **6.6.12 Act, Rules, Documents**

- i) Companies Act 1956

- ii) SUUTI Act 2002

### 6.6.13 Operational Results

As on 31.03.2018, the Company had not yet commenced its operations and its entire income was on account of interest on fixed deposits kept with Axis Bank Ltd., Mumbai.

As on 31.03.2018, the Fixed Deposit (including Interest accrued thereon) was Rs 1,01,73,715 as per the Company's Balance Sheet as at 31.03.2018. The Fixed Deposit with Bank had a maturity of more than 12 months.

### 6.6.14 Financial Working Results

(Rs in lakh )

Particulars	2017-18	2016-17
Revenue from Operations	0	0
Other Income (Interest Income on FDRs)	6.83	7.01
<b>Total Income</b>	<b>6.83</b>	<b>7.01</b>
Total Expenses	3.69	3.70
Profit Before Exceptional items	3.13	3.30
Exceptional items (Prior Period Exp)	2.03	--
<b>Profit Before Tax</b>	<b>1.10</b>	<b>3.30</b>
Tax	0.86	1.02
<b>Profit After Tax</b>	<b>0.24</b>	<b>2.28</b>

### 6.6.15 Disinvestment (Upto 2017-18)

Not Applicable

### 6.6.16 Environment Management

Not Applicable

### 6.6.17 Audit Checks

- i) To examine why the Company has not yet commenced operations (March 2018) despite being incorporated in June 2012
- ii) To examine Cabinet and Ministry of Finance decisions in respect of SUUTI and in respect of the Company
- iii) To examine Investment Policy of the Company and booking of Interest Income
- iv) To examine booking of Prior Period expenses
- v) To examine whether the objectives for which the Company was set up have been affected due to non commencement of operations (March 2018) and to what extent, along with financial implications, if any, thereof.
- vi) To examine infructuous expenditure incurred on the establishment and administrative costs incurred since the date of incorporation of the Company, in view of the fact that the Company has not yet commenced its operations.

## 6.7 NATIONAL E-GOVERNANCE SERVICES LIMITED

### 6.7.1 Introduction

National E-Governance Services Ltd was incorporated on 24 June 2016. The Company's Registered Office is at Mumbai and the Administrative Office is at Bengaluru. The main object of the Company is to perform the role of Information Utility under the Insolvency and Bankruptcy Code 2016.

During the year 2017-18, the Company incorporated two Subsidiaries, viz., NESL Asset Data Ltd (incorporated on 8 September 2017) and NESL E-Infrastructure Ltd (incorporated on 18 December 2017).

### **6.7.2 Objectives**

The main objective of the Company is to accept, store and make readily available authenticated financial information submitted by creditors that helps establish defaults as well as verify claims under the Insolvency and Bankruptcy Code (IBC), 2016 expeditiously and thereby facilitate completion of the insolvency resolution transactions under IBC in a time-bound manner.

### **6.7.3 Activities**

The Principal Business Activity of the Company comprising 100 *per cent* of the Turnover of the Company is to act as an Information Utility. The Company (NeSL) is an Information Utility (IU) Company registered with the Insolvency and Bankruptcy Board of India (IBBI) vide Registration Certificate dated 25 September 2017. The Company has since on-boarded a few thousand Contracts largely of financial creditors and some operational creditors. During the year 2017-18, the Company has established IU Web Portal and the same became active. The IU services have been extended to Banks and Financial institutions and other operational creditors. Since then, the Web Portal is being actively used by Banks and Financial institutions for loans provided to the Corporates, with request for subsequent authentication. During the year 2017-18, the Company earned a Revenue of Rs 1.40 lakh and an Interest Income on Deposits to the extent of Rs 4.55 crore.

### **Conceptual Framework of an Information Utility**

Insolvency and Bancruptcy Code (IBC) sets the objectives for the key economic reform of addressing insolvency and to improve the ease of doing business. The highlights are:

- Low time to resolution
- Low loss in recovery
- Higher levels of debt financing across more debt instruments
- To promote entrepreneurship
- Consolidate and amend the laws relating to Restructuring and insolvency resolution of Corporates, partnership firms and individuals

Information utility (IU) is designed as an institution for enforcement of contracts and is a pioneering effort. The following are the main functions of an IU:

- 1) To provide undisputed information for initiation of insolvency process

- 2) To act like a Credit Repository
- 3) To accept financial information from financial creditors and operational creditors
- 4) To provide a platform for the creditors and debtors-submission and authentication

IU is a Cost effective tool for

- Proof of Borrower;
- Proof of borrowing;
- Proof of Security interest; and
- Proof of Default.

As the first information Utility, NeSL will constitute a key pillar of the insolvency and bankruptcy ecosystem of India, the other three being the Adjudicating Authority (National Company Law Tribunal and Debt Recovery Tribunal), the Insolvency and Bankruptcy Board of India (IBBI) and Insolvency Professionals.

NeSL will function under regulatory supervision of IBBI and serve the needs of the financial system by providing data to Insolvency Resolution Professionals on fact of borrowing, fact of default and security interest data while adhering to both networking principles and the highest information security. NeSL will provide the mandatory core services by undertaking the Legal Entity Registration Process and Information Authentication.

An Information Utility is a professional organization (which is registered with IBBI under Section 210 of IBC, 2016 as per the eligibility criteria prescribed) that will collect financial information, get the same authenticated by other parties connected to the debt & store the same and provide access to the Resolution Professionals, Creditors and other stake holders in the Insolvency Resolution Process, so that all stake holders can make decisions based on the same information.

- The New Law IBC,2016 consolidates the existing framework and creates a new institutional structure, by setting up of Information Utility Companies, which will store all the credit information of Corporates/entities/persons. The Certificate & data furnished by IUs are accepted by NCLT/DRTs as legal evidence.
- This IU set-up is expected to contribute significantly for reduction of NPAs in banking sector, as the code aims to resolve the insolvencies in a time bound manner.
- The information utilities shall act as a regulated information agency which shall accept, electronically record, get authentication, maintain and provide access to financial information to the persons as may be specified in the Act, e.g., creditors, Adjudicating Authority and other persons having interest in the information.

IUs provide the core services and other services under IU Regulations in accordance with IBC Code. (Section 3(9). “Core services” means services rendered by an information utility for-

- a) Accept electronic submission of financial information.

- b) Safe and accurate recording of financial information.
- c) Authenticating and verifying the financial information submitted by a person.
- d) Providing access to information stored with the information utility to persons as may be specified.

The obligations & functions of IU are as under

- Create and store information in a universally acceptable format
- Accept electronic submissions of financial information from persons who are under obligation to submit the financial information under sub section (1) of Section 215 of IBC, 2016, in such form and manner as may be specified by Regulations
- Accept in specified form and manner, electronic submission of financial information from persons who intend to submit such information
- Meet such minimum service quality standards as may be specified by the Regulations
- Get the information received from various persons authenticated by all concerned parties before storing such information
- Provide access to the financial information stored by it to any person who intends to access such information in such manner as may be specified by Regulations
- Publish such statistical information as may be specified by Regulations
- Have inter-operability with other information utilities

#### **6.7.4 Organizational Set up**

The Board of Directors of the Company is responsible for the overall Management, Superintendence, and Control over the affairs of the Company under the provisions of the Companies Act, 2013. The Key Managerial Personnel of the Company are Managing Director/Chief Executive Officer (MD/CEO), one Executive Director, one Chief Technical Officer (CTO), one Chief Financial Officer (CFO), and a Company Secretary/Compliance Officer. The Board consists *inter alia* of three Nominee Directors and five Independent Directors. The functional units viz. i) Institutional Support, ii) Systems, iii) IU Marketing, iv) Human Resources and v) information utility of the Company are headed by a Vice President

The Company also has a Technology Committee and Advisory Committee consisting of eminent personalities from Finance, IT and Risk Management backgrounds.

#### **6.7.5 Capital Structure**

The Authorized Share Capital of the Company as on 31.03.2018 is 10 crore equity shares of Rs 10 each aggregating to Rs 100 crore. The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 7,50,00,000 Equity shares of Rs 10 each aggregating to Rs 75 crore. As on 31 March 2018, the following were the particulars of the Equity shareholders, holding more than 5per cent Equity Holding in the Company.

Name of the Shareholder	No. of Equity Shares	Equity % Holding
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Life Insurance Corporation	45,00,000	6.00 %
State Bank of India	75,00,000	10.00 %
Canara Bank	75,00,000	10.00 %
Bank of Baroda	75,00,000	10.00 %
Dena Bank	30,00,000	4.00 %
New India Assurance Co Ltd	37,50,000	5.00 %
Union Bank of India	37,50,000	5.00 %
Central Depository Services (India) Ltd	30,00,000	4.00 %
ICICI Bank	74,25,000	9.90 %
Axis Bank	71,25,000	9.50 %
Karnataka Bank Ltd	45,00,000	6.00 %
HDFC Holdings Ltd	37,50,000	5.00 %
Indian Bank	37,50,000	5.00 %
Punjab National Bank	37,50,000	5.00 %

Apart from above, National Bank for Agricultural and Rural Development (NABARD), United India Insurance Company Ltd and Small Industries Development Bank of India (SIDBI) held 2 per cent, 2 per cent and 1.6 per cent equity holding respectively in the Company as on 31.03.2018.

#### 6.7.6 Budget and Planning

(Rs in crore)

Years	2016-17	2017-18
Particulars	Actual	Actual
Capital Expenditure	0.09	6.86
Revenue Expenditure	1.95	7.33
Revenue/Turnover	--	0.01
Profit / (Loss) for the year After Tax	(0.62)	(2.37)

#### 6.7.7 Accounting System

During the year 2017-18, the Company prepared its Financial Statements in accordance with the Indian Accounting Standards (Ind AS) notified under the Companies Act 2013, as prescribed under Section 133 of the Companies Act, 2013 read with Rule 3 of the Companies (Indian Accounting Standard) Rules, 2015, and the Companies (Indian Accounting Standards) Amendment Rules, 2016. The Accounts for the year 2017-18 were the first standalone Financial statements of the Company that were prepared in accordance with Ind AS. The Company was incorporated on 24 June 2016, and prepared its first Balance Sheet on 31 March 2017. For the year ended 31 March 2017, the Company prepared its Financial Statements in accordance with the Accounting Standards notified under Section 133 of the Companies Act 2013, read together with Rule 7 of the Companies (Accounts) Rules, 2014. The Accounting System of the Company is Centralized.

#### 6.7.8 Manpower Analysis

As on 31 March 2018, the Company had 20 Managerial and 2 Non Managerial (MTC on daily basis) employees.

### 6.7.9 MOU Targets and Achievements

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

### 6.7.10 Computerization

The ERP/IT system in the Company was Information Utility (IU) Software and Tally ERP.

### 6.7.11 Internal Audit

During 2017-18, the Internal Audit of the Company was conducted by an outside professional agency on Annual basis. The Company does not have a Manual of Internal Audit.

### 6.7.12 Act, Rules, Documents

- i) Companies Act 2013
- ii) Insolvency and Bankruptcy Code 2016
- iii) Insolvency & Bankruptcy Board of India (Information Utility) Regulations, 2017

### 6.7.13 Operational Results

The Revenue from Operations were as follows:

(Rs. in crore )

Particulars	2017-18	2016-17
IU Fee- Rs 63,640	0.01	--
Technical Fee- Rs 76,500 , Total Rs 1,40,140		--
<b>Total Revenue from Operations</b>	<b>0.01</b>	<b>--</b>

### Cost of Services (expenditure)

(Rs in crore )

Particulars	2017-18	2016-17
IU Annual Fee	0.50	--
IU Technology Services	0.50	--
<b>Total</b>	<b>1.00</b>	<b>--</b>

### 6.7.14 Financial Working Results

(Rs.in crore)

Particulars	2017-18	2016-17
Revenue from Operations	0.01	---
Other Income	4.55	1.06
<b>Total Income</b>	<b>4.56</b>	<b>1.06</b>
Total Expenses	7.69	1.96
Profit/ (Loss) Before Exceptional items	(3.12)	(0.90)
Exceptional items	--	--
<b>Profit/ (Loss) Before Tax</b>	<b>(3.12)</b>	<b>(0.90)</b>



Tax	0.77	0.27
<b>Profit/(Loss) After Tax for the Period from Continuing Operations</b>	<b>(2.35)</b>	<b>(0.62)</b>
Other Comprehensive Income/(Comprehensive Loss)	(0.01)	--
<b>Loss for the Period</b>	<b>(2.37)</b>	<b>(0.62)</b>

#### **6.7.15 Disinvestment (Upto 2017-18)**

Not Applicable

#### **6.7.16 Environment Management**

Not Applicable

#### **6.7.17 Audit Checks**

- i) The Company provides Information Utility (IU) services to its clients. The services include receiving of data/documents related to loans/advances submitted by financial creditors, operational creditors, operational debtors, and other participants such as resolution professionals. Revenue from Information Utility Services is recognized as the services are performed over time on a monthly basis. Revenue from a Contract is not recognized for the month if the information is submitted by the clients during the last four working days of the month. To examine the same in Audit, viz., Agreements entered into by the Company with various clients for IU Services etc.
- ii) To examine compliance with relevant provisions for IUs (Information Utility) under IBC Code.
- iii) Whether the Company has complied with the provisions of Insolvency & Bankruptcy Board of India (Information Utility) Regulations, 2017
- iv) Whether the Company, as an IU, has established adequate procedures and facilities to ensure that its records are protected against loss or destruction;
- v) Whether the Company has adopted secure systems for information flows;
- vi) Whether the Company has system to protect its data processing systems against unauthorized access, alteration, destruction, disclosure or dissemination of information;
- vii) Whether the Company transfers all the information submitted by a user, and stored with it to another information utility on the request of the user.
- viii) An information utility shall not- (a) outsource the provision of core services to a third-party service provider; (b) use the information stored with it for any purpose other than providing services under these Regulations, without the prior approval of the Board; (c) seek data or details of users except as required for the provision of the service. Whether the Company has complied with the above Regulatory provisions.

- ix) Whether the Financial Assets of the Company are periodically reviewed for Credit, Liquidity and Market Risks.
- x) Whether the Company reviews its investments in Mutual Fund and its performance periodically so as to guard against interest risk by reallocating such investments to other alternatives.

## **6.8 NESL ASSET DATA LIMITED**

### **6.8.1 Introduction**

NESL Asset Data Ltd was incorporated on 8 September 2017. The Company is a wholly owned subsidiary of National E-Governance Services Ltd. The Company's Registered Office is at Mumbai and the Administrative Office is at Bengaluru.

### **6.8.2 Objectives**

The main object of the Company is to carry out the business of Asset Aggregation activity under the Reserve Bank of India (RBI) Master Directive. The Company has received in principle approval, in November 2017, from RBI to function as an Account Aggregator<sup>6</sup>, vide RBI master directions for Account Aggregator. The Company is in the process of setting up infrastructure for the business.

The Company is in the business of Asset Aggregation across the Personal Assets (Caste Certificate, Academic credentials), Financial Assets (Bank Deposits, Insurance Policies, Capital Market Instruments, Mutual Fund schemes, Pension Funds, and Real Assets (Immoveable Property, vehicles etc). The Company could ultimately become India's Information Infrastructure institution and thus contribute in credit market efficiency, besides serving the citizens in a Cost effective mode to get single view of their various assets. The Company intends to register itself as an Account Aggregator Company with RBI and has submitted an application to that effect in FY 2017-18. RBI has duly granted in principle approval to the Company with effect from 20 November 2017 for establishing an Account Aggregator.

The Duties and Responsibilities of an Account Aggregator as per RBI Master Directions 2016 are as follows:

- a) Account Aggregator shall provide services to a customer based on the customer's explicit consent.
- b) Account Aggregator shall ensure that the providing of services to a customer shall be backed by appropriate agreements/ authorizations between the Account Aggregator, the customer and the financial information providers.
- c) Account Aggregator shall not support transactions by customers.
- d) Account Aggregator shall ensure appropriate mechanisms for proper customer identification.
- e) Account Aggregator shall share information only with the customer to whom it relates or any other financial information user as authorized by the customer in accordance with the terms of the consent provided by the customer.

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<sup>6</sup>"Account Aggregator" means a non-banking financial company as notified under in sub-clause (iii) of clause (f) of section 45-I of the RBI Act, that undertakes the business of an account aggregator, for a fee or otherwise, as defined at clause (iv) of sub-section 1 of section 3 of RBI Account Aggregator Master Directions, 2016.

f) Account Aggregator shall not undertake any other business other than the business of account aggregator. Deployment of investible surplus by an Account Aggregator in instruments, not for trading, shall however be permitted.

g) No financial information of the customer accessed by the Account Aggregator from the financial information providers shall reside with the Account Aggregator.

h) Account Aggregator shall not use the services of a third party service provider for undertaking the business of account aggregation.

i) User authentication credentials of customers relating to accounts with various financial information providers shall not be accessed by the Account Aggregator.

j) Account Aggregator shall have a Citizen's Charter that explicitly guarantees protection of the rights of a customer. The Account Aggregator shall not part with any information that it may come to acquire from/ on behalf of a customer without the explicit consent of the customer.

k) In the event of any difference in position of financial information in the statement generated by/from the Account Aggregator and the books of the financial information provider, the position as reflected in the records of the financial information provider shall be considered as correct.

### **6.8.3 Activities**

During the year 2017-18, the Company was in the process of setting up infrastructure for the business. The Principal Business Activity of the Company is 'Account Aggregator'.

### **6.8.4 Organizational Set up**

The Board of Directors of the Company is responsible for the overall Management, Superintendence and Control over the affairs of the Company. The Company's Executive Vice President is the Chief Financial Officer of the Company.

### **6.8.5 Capital Structure**

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 30,00,000 equity shares of Rs 10 each aggregating to Rs 3 crore. The Company's Issued, Subscribed and Paid up Equity Share Capital as on 31 March 2018 was 30,00,000 equity shares of Rs 10 each aggregating to Rs 3 crore. As on 31 March 2018, the Holding Company National E-Governance Services Ltd held all the 30,00,000 number of Equity Shares in the Company constituting 100 *per cent* Equity Holding in the Company.

### **6.8.6 Budget and Planning**

As the Company commenced operation from September 2017 onwards, the figures for 2017-18 are given below

(Rs in crore)Years	2017-18
Particulars	Actual
Capital Expenditure	
Revenue Expenditure	0.17

Revenue/Turnover	--
Profit/(Loss) for the year	(0.05)

### **6.8.7 Accounting System**

The Company has a Centralized system of Accounting. The Company maintains its Accounts under Tally ERP-9 system. The Financial Statements of the Company for FY 2017-18 were drawn from 8 September 2017 to the period ending 31 March 2018. The Financial Statements of the Company were prepared in accordance with Indian Accounting Standards (Ind AS) notified u/s 133 of the Companies Act 2013, read with Rule 3 of the Companies (Indian Accounting Standards) Rules, 2015, and Companies (Indian Accounting Standards) Amendment Rules, 2016. The Company maintains its Books of Accounts at its Administrative Office at Bengaluru.

### **6.8.8 Manpower Analysis**

As on 31 March 2018, the Company did not have any Managerial or Non Managerial Employees. The Company used Staff from NeSL, parent company, on cost sharing basis.

### **6.8.9 MOU Targets and Achievements**

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

### **6.8.10 Computerization**

The Company uses Tally ERP system. As per RBI Master Directives on Account Aggregator, Business of an Account Aggregator will be entirely Information Technology (IT) driven.

- (a) Account Aggregator shall adopt required IT framework and interfaces to ensure secure data flows from the Financial Information providers to its own systems and onwards to the Financial Information users.
- (b) Account Aggregator shall not request or store customer credentials (like passwords, PINs, private keys) which may be used for authenticating customers to the Financial Information providers. Access by Account Aggregators to customer's information shall only be based on consent-based authorisation.
- (c) The technology should also be scalable to cover any other financial information or financial information provider as may be specified by the Bank in future.
- (d) There shall be adequate safeguards built in its IT systems to ensure that it is protected against unauthorised access, alteration, destruction, disclosure or dissemination of records and data.
- (e) Appropriate measures for Disaster Risk Management and Business Continuity shall be in place.
- (f) Information System Audit of the internal systems and processes shall be in place and shall be conducted at least once in two years by CISA certified external auditors.

Report of the external auditor shall be submitted to the Regional Office of the Department of Non-Banking Supervision of the Bank, under whose jurisdiction the Registered Office of the Account Aggregator is located, within one month of submission of the report by the external auditor.

#### **6.8.11 Internal Audit**

The Internal Audit of the Company is conducted by an Outside Agency on Annual basis. The Company does not have Manual of Internal Audit.

#### **6.8.12 Act, Rules, Documents**

- i) Companies Act 2013
- ii) RBI Guidelines and Directives in respect of Account Aggregators

#### **6.8.13 Operational Results**

The Company was incorporated on 8 September 2017.

The Company was in the process of setting up infrastructure for the business during FY 2017-18. The Company had not started Commercial Operations, nor did it own any Trading Assets for the period ending 31 March 2018. Thus, the Company did not have any Revenue from Operations during FY 2017-18.

#### **6.8.14 Financial Working Results**

(Rs. in crore)

Particulars	2017-18
Revenue from Operations	--
Other Income	0.10
<b>Total Income</b>	<b>0.10</b>
Total Expenses	0.17
Profit/ (Loss) Before Exceptional items	(0.06)
Exceptional items	--
<b>Profit/ (Loss) Before Tax</b>	<b>(0.06)</b>
Tax	0.01
<b>Profit/ (Loss) After Tax</b>	<b>(0.05)</b>

#### **6.8.15 Disinvestment (Upto 2017-18)**

Not Applicable

#### **6.8.16 Environment Management**

Not Applicable

#### **6.8.17 Audit Checks**

- i) To examine agreements/ authorisation between the Company (rendering the services as an Account Aggregator), the customer and the Financial information providers, and the Realization of Revenue there from.
- ii) The Company generates Revenue for rendering Aggregation Services to clients (individuals, Companies, Banks, and others), who are charged fees for each transaction of access to information, creation and updation of information. To

examine whether the Revenue is recognized for each such event of access, creation, Updation or other such account aggregator services provided to the clients.

- iii) To examine whether the Company complies with the RBI Guidelines in respect of Accounts Aggregator.
- iv) To examine expenses incurred by the Holding Company National E-Governance Services Ltd on behalf of the Company and the expenses reimbursable by the Company to its Holding Company National E-Governance Services Ltd
- v) To examine Preliminary expenses accounting and treatment

## **6.9 NESL E-INFRASTRUCTURE LIMITED**

### **6.9.1 Introduction**

NESL E-Infrastructure Ltd was incorporated on 18 December 2017. The Registered Office of the Company is at Mumbai and the Administrative Office is at Bengaluru. The Company is a wholly owned Subsidiary Company of National E-Governance Services Ltd. The Nature of Business of the Company is rendering Central Know Your Customer Services (CKYC) Services.

### **6.9.2 Objectives**

The main object of the Company is to function as a digital locker<sup>7</sup> service provider, digital repository for digital locker authority, offer services of Aadhar based authentication user agency, Know Your Customer user agency, offer services of electronic signatures by enrolling as a certifying authority and other e-infrastructure services. In the year 2017-18, the Company has started providing CKYC Services.

The Company has been incorporated with an objective of delivering e-governance services across various business segments like Aadhar, eKYC, e-sign platform and related services. Accordingly, the Company executed a Memorandum of Understanding (MOU) with the Holding Company (National E Governance Services Ltd- NeSL) for taking over the said business from the Holding Company, which was earlier being managed by NeSL. With effect from January 2018, all the Contracts and arrangements with regard to eKYC business of NeSL are now vested and executed by (NEIL) the Company. As on 31 March 2018, the Company had about 5 entities, which have been on-boarded to provide e-KYC Authentication and allied activities.

### **6.9.3 Activities**

The Company has been incorporated in December 2017. In the year 2017-18, the Company has started providing CKYC Services.

### **6.9.4 Organizational Set up**

The Board of Directors of the Company is responsible for the overall management, superintendence and control over the affairs of the Company. The Financial Statements of the Company are authenticated by two Directors of the Company. The Company also has a Chief Executive Officer (CEO).

### **6.9.5 Capital Structure**

The Authorized Share Equity Share Capital of the Company as on 31.03.2018 is 10,00,000 equity shares of Rs 10 each aggregating to Rs 1 crore. The Company's

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<sup>7</sup>Digital Locker is one of the key initiatives under Digital India Programme of the Government of India, aimed at minimizing the usage of physical documents and enable sharing of e-documents across agencies. With the help of Digital Locker, the sharing of the e-documents would be done through registered Repositories, thereby ensuring the authenticity of the documents online. Residents can also upload their own electronic documents and digitally sign them using the e-sign facility. These digitally signed documents can be shared with Government Organizations or other entities. A Repository is a collection of e-documents which are uploaded by issuers in a standard format and exposing a set of standard API (Application Process Interface) for secure and real time search and access



Issued, Subscribed and Paid up Equity Share Capital as on 31 March 2018 was 10,00,000 equity shares of Rs 10 each aggregating to Rs 1 crore. As on 31 March 2018, the Holding Company M/s NESL Infrastructure Ltd held all the 10,00,000 number of Equity Shares in the Company constituting 100 per cent Equity Holding in the Company.

#### **6.9.6 Budget and Planning**

As the Company was incorporated in December 2017, the budget and actual for 2017-18 are given below

(Rs in crore)

Years	2017-18
Particulars	Actual
Capital Expenditure	--
Revenue Expenditure	0.61
Revenue/Turnover	0.65
Profit for the year	0.04

#### **6.9.7 Accounting System**

The Company was incorporated on 18 December 2017. The Financial Statements for FY 2017-18 were the first financials of the Company drawn from 18 December 2017 to the period ended 31 March 2018. The Financial Statements of the Company are prepared in accordance with Indian Accounting Standards (Ind AS) notified under section 133 of the Companies Act 2013, read with Rule 3 of the Companies (Indian Accounting Standards) Rule 2015, and the Companies (Indian Accounting Standards) Amendment Rules 2016. The Financial Statements are prepared on the historical cost convention except for certain financial instruments that are measured at fair values at the end of each reporting period under IndAS.

The Company's Accounting system is Centralized. The Books of Accounts of the Company are maintained at its Administrative Office at Bangalore.

#### **6.9.8 Manpower Analysis**

As on 31 March 2018, the Company did not have any Managerial and Non Managerial Employees. The Company used Staff from NeSL, the parent Company.

#### **6.9.9 MOU Targets and Achievements**

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

#### **6.9.10 Computerization**

The Company had Tally ERP-9 system for Accounts.

#### **6.9.11 Internal Audit**

Internal Audit of the Company is conducted on an Annual basis by an Outside Agency. The Company does not have any Manual on Internal Audit.

### 6.9.12 Act, Rules, Documents

- i) Insolvency and Bankruptcy Code 2016
- ii) Companies Act 2013

### 6.9.13 Operational Results

The Revenue from Operations were as follows:

(Rs. in crore)

Particulars	2017-18
Central Know Your Customer Services Income	0.65
<b>Total Revenue from Operations</b>	<b>0.65</b>

### Cost of Services (expenditure)

(Rs. in crore)

Particulars	2017-18
Offsite data entry & cropping work	0.04
Onsite data entry & cropping work	0.16
Subscription charges for trackwizz CKYC	0.28
Other operating expenses	0.08
<b>Total</b>	<b>0.56</b>

### 6.9.14 Financial Working Results

(Rs.in crore)

Particulars	2017-18
Revenue from Operations	0.65
Other Income	0
<b>Total Income</b>	<b>0.65</b>
Total Expenses	0.61
Profit Before Exceptional items	0.05
Exceptional items	--
<b>Profit Before Tax</b>	<b>0.05</b>
Tax	0.01
<b>Profit After Tax</b>	<b>0.04</b>

### 6.9.15 Disinvestment (Upto 2017-18)

Not Applicable

### 6.9.16 Environment Management

Not Applicable

### 6.9.17 Audit Checks

- i) To examine Revenue from CKYC Services, based on Certificate for completion of service as issued by the Customer, which is a significant event to recognize revenue.

- ii) To examine functions and performance of the Company in respect of digital locker services, digital repository, services for Aadhar based authentication user agency/KYC User Agency, services in respect of enrolling as a certifying authority for electronic signatures, CKYC Services etc.
- iii) To examine Contracts related to Offsite and Onsite data entry and cropping work forming part of Cost of Services
- iv) To examine Accounting treatment of Preliminary Expenses incurred on formation of the Company
- v) To examine expenses paid by Holding Company (M/s National E Governance Services Ltd) and reimbursable thereto
- vi) To examine whether there is a periodical review of Liquidity Risks in respect of unbilled revenue, managed and monitored through ageing, confirmations, and follow-up with customers so as to mitigate possibilities of default.

## **6.10 RESERVE BANK INFORMATION TECHNOLOGY PRIVATE LIMITED (ReBIT)**

### **6.10.1 Introduction**

Reserve Bank Information Technology Private Limited (ReBIT) was incorporated on 4<sup>th</sup> July, 2016 as a private limited company under the Companies Act, 2013. The Company is a wholly owned subsidiary of Reserve Bank of India (RBI) and is engaged in providing information technology services, including Cyber Security, Systems Audit etc to meet the requirements of Reserve Bank of India (RBI) and the Indian Financial System. The Company's Registered Office is at Navi Mumbai.

### **6.10.2 Objectives**

The Objective of the Company is to provide 'IT Consulting and Support Services' to Reserve Bank of India.

### **6.10.3 Activities**

The Company is a wholly owned subsidiary of Reserve Bank of India (RBI) and is engaged in providing information technology services, including but not limited to Cyber Security to meet the requirements of RBI and the Indian Financial System. The Company had booked the revenue of Rs. 9.64 crore during the year 2017-18 for providing "IT Consulting and Support Services" based on the total cost charged to the statement of profit and loss (excluding current & deferred tax) of the Company with a mark-up of 10% on the same. The income was booked based on the invoice raised by the Company to Reserve Bank of India. However, the Company had not executed the agreement with the Reserve Bank of India till March 2018.

The Master Services Agreement made between ReBIT and Reserve Bank of India (*which was yet to be executed*) envisages a specialized outfit to take care of the Information Technology (IT) requirements, including cyber security, system audits, engaged to advise, implement and manage Internet-facing IT Projects and other related areas and needs of the Reserve Bank of India and Financial Sector.

According to the agreement, ReBIT will provide cost estimates to RBI Nodal Department for the purposes of preparing its overall budget estimate including those in respect of each Scope of Work (SOW) to be executed pursuant to this Agreement. The cost estimation will follow activity based budgeting in line with the budgeting exercise in RBI. If agreed under the relevant SOW, RBI shall pay ReBIT in advance upon presentation of invoices based on the cost estimates provided by ReBIT, in instalment keeping note of the milestones laid down in the SOW.

As on June 2018, work was being done on various projects including RBI LAN up-gradation project, CMTS (Compliance Management and Tracking System), the Project Portfolio Management (PPM), Centralized Information Management System (CIMS) Project, set up of the Big Data Analytics Centre of Excellence (COE) and building interfaces for cloud management.

The Company is in the process of shifting from the present rental premises to its own premises in Navi Mumbai (Jui Nagar).

#### **6.10.4 Organizational Set up**

The Company functions under the overall superintendence, management and control of the Board of Directors under the provisions of the Companies Act 2013. The Board of Directors of the Company consists of nine Board Members including the Chairman of the Company. The Company has a duly constituted Audit Committee and Nomination & Remuneration Committee under the provisions of the Companies Act 2013. The Company also has a Finance Manager and Compliance Officer and a Practicing Company Secretary. There are four Senior Vice Presidents (Sr VPs) and one VP. In January 2017, the Company started its Recruitment drive, after having its core management team in place.

#### **6.10.5 Capital Structure**

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 50 crore equity shares of Rs 10 each aggregating to Rs 500 crore. The Company Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 5 crore equity shares of Rs 10 each aggregating to Rs 50 crore. As on 31 March 2018, the Holding Company Reserve Bank of India held all the 5 crore Equity Shares constituting 100 *per cent* Equity Holding in the Company.

#### **6.10.6 Budget and Planning**

(Rs. in crore)

Years	2016-17		2017-18	
	Budget	Actual	Budget	Actual
Capital Expenditure	NA--	0.04	3.23	0.96
Revenue Expenditure	NA--	5.09	18.26	8.76
Revenue/Turnover	NA--	5.00	21.50	9.90
Profit (Loss) for the year After Tax	NA--	(0.39)	NA	0.81

(Budget is Not Applicable for FY 2016-17 since the Company was incorporated only on 4 July 2016.)

#### **6.10.7 Accounting System**

The Company has a Centralized System of Accounting. The Financial Statements of the Company are prepared in conformity with the Generally Accepted Accounting Principles in India (Indian GAAP) so as to comply in all material respects with applicable Accounting Standards prescribed under Section 133 of the Companies Act 2013, on Historical Cost convention using Accrual method of Accounting. Revenue from IT Consulting and Support Services is recognized on the basis of the terms of Agreement on a cost plus mark-up model.

### 6.10.8 Manpower Analysis

As on 31 March 2018, the Company had 44 Employees consisting of Chief Executive Officer, 4 Sr. Vice Presidents, 1 Vice President, 4 Associate Vice Presidents, 26 manager level personnel and 8 Analysts.

### 6.10.9 MOU Targets and Achievements

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

### 6.10.10 Computerization

The following are the ERP/IT Systems in the Company

- i) Employee Self Service Portal (Grey HR Portal)
- ii) Tally
- iii) E Mail system
- iv) IT Infrastructure

### 6.10.11 Internal Audit

The Company has entrusted Internal Audit to an Outside Agency of Professional Firm from FY 2017-18. Internal Audit is conducted on a Quarterly basis. Manual of Internal Audit is available with the Company.

### 6.10.12 Act, Rules, Documents

- i) Companies Act 2013 and the Rules made thereunder
- ii) Income Tax Act 1961 and the Rules made thereunder
- iii) GST Act 2016
- iv) Information Technology Act 2008

### 6.10.13 Operational Results

The Revenue from Operations were as follows:

(Rs in crore)

Particulars	2017-18	2016-17
Consulting and Support Services rendered to RBI	9.64	5.00
<b>Total Revenue from Operations</b>	<b>9.64</b>	<b>5.00</b>

### 6.10.14 Financial Working Results

(Rs in crore)

Particulars	2017-18	2016-17
Revenue from Operations	9.64	5.00,
Other Income	0.26	---
<b>Total Income</b>	<b>9.90</b>	<b>5.00</b>
Total Expenses	8.76	5.09
Profit / (Loss) Before Exceptional items	1.13	(0.08)

Exceptional items	--	--
<b>Profit/ (Loss) Before Tax</b>	<b>1.13</b>	<b>(0.08)</b>
Tax	0.32	0.30
<b>Profit/ (Loss) After Tax</b>	<b>0.81</b>	<b>(0.39)</b>

#### **6.10.15 Disinvestment (Upto 2017-18)**

Not Applicable

#### **6.10.16 Environment Management**

Not Applicable

#### **6.10.17 Audit Checks**

- i) To examine provisions of Contract entered into between the Company and RBI for IT Consulting and Support Services rendered to RBI, whether Revenue is booked as per the terms thereof
- ii) To examine whether the Company was regular in depositing with appropriate authorities, undisputed statutory dues including provident fund, income tax, service tax/ GST. The delays may be examined along with reasons.
- iii) To examine the steps taken by the Company to ensure elimination of the critical/high and medium risk areas in a structured manner quickly.
- iv) To examine Systems Audit compliance involving IT examination of regulated entities.
- v) ReBIT's Systems Audit Vertical assists RBI in performing Risk based supervision of regulated entities through Security Audits. To examine efficacy of the said Audit
- vi) To examine compliance with the matters observed while conducting various audits including open source intelligence, payment systems, and forensics of SWIFT incidents.

## **6.11 SBI INFRA MANAGEMENT SOLUTIONS PVT LIMITED**

### **6.11.1 Introduction**

SBI Infra Management Solutions (P) Ltd is a wholly owned subsidiary of State Bank of India and has been incorporated on 17 June 2016 with the objective to undertake activities which are currently being performed by the Premises and Estate Department of State Bank of India (SBI). The Company does not have any Subsidiary, Associate and Joint Venture Company. The Registered Office of the Company is situated at Mumbai.

### **6.11.2 Objectives**

The Company's Objective is to cater its services to SBI to develop and maintain infrastructure as also facility management services by using industry best practices, energy conservation and green initiatives with the focus on efficiency improvement, customer delight and utilization of resources and technology to ensure SBI's unique status as a socially responsible organization. The Nature of Business of the Company is thus Real Estate Management Consultancy Service to SBI.

### **6.11.3 Activities**

The Principal Business Activity of the Company is 'Real Estate Activities on a Fee or Contract basis', which comprises 100 *per cent* of the turnover of the Company. The Company commenced its pilot operations with effect from 8 March 2017 at six centres in India, i.e, at Greater Mumbai and Navi Mumbai, Twin City Ahmedabad and Gandhinagar, Greater Chennai, Kolkatta Metropolitan area, Greater Hyderabad and Delhi NCR. After successful run of pilot projects, the Company has extended the activities related to premises and estate irrespective of value to all the six circles of SBI (situated at aforesaid six centres) and Corporate Centre establishment from January 2018. The Company is at present (March 2018) handling more than 450 Projects of construction, interior, retrofitting, purchasing and leasing among others.

The Company is also expanding its operations further on pan India basis from July 2018. The Company has set the target of completing the Projects and other activities amounting to Rs 1500 crore from its operations in FY 2020.

### **6.11.4 Organizational Set up**

The Company is headed by a Chairman. The Managing Director (Global Banking and Subsidiaries), State Bank of India, has been appointed as Ex-Officio Chairman of the Company with effect from 28 July 2017. The Board of Directors is responsible for the overall management, superintendence and control over the affairs of the Company under the provisions of the Companies Act, 2013. The Holding Company appointed two Nominee Directors on the Board of the Company in FY 2017-18, of whom one of the Nominee Directors has been appointed as Managing Director and Chief Executive Officer of the Company with effect from 10 January 2018.



### 6.11.5 Capital Structure

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 10 crore equity shares of Rs 10 each aggregating to Rs.100 crore. The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 1,00,00,000 equity shares of Rs 10 each aggregating to Rs. 10 crore. As on 31 March 2018, the Holding Company State Bank of India held 100 *per cent* Equity Holding in the Company.

The Company is in the initial phase of its operations and is expected to come in profit by the Financial Year 2022. Hence, the Company is in requirement of an increase in its subscribed capital in order to meet the operative expenses. As per Board Agenda items for 9<sup>th</sup> Board Meeting (23 April 2018) of the Company, the Company proposed to issue further shares in order to increase its subscribed share capital and accordingly to offer three crore Equity Shares of Rs 10 each at par to the existing Equity Shareholders of the Company on Right basis, in the Ratio of three Equity Shares for every one Equity Share held by the existing Shareholders as on Record Date (27 April 2018)

### 6.11.6 Budget and Planning

(Rs. in crore)

Particulars	Actual	Actual
Capital Expenditure	0.09	0.13
Revenue Expenditure	1.16	6.04
Revenue/Turnover	0.27	1.39
Profit/(Loss) for the year Before Tax	(0.89)	(4.65)

### 6.11.7 Accounting System

The Accounts of the Company are Centralized. The Company maintains the Accounts in Tally ERP-9 Software. The Company prepares the Financial Statements in accordance with the generally accepted Accounting Principles in India under the Historical Cost convention on accrual basis in accordance with Generally Accepted Accounting Principles (GAAP) in India. GAAP comprises of mandatory Accounting Standards as prescribed under Section 133 of the Companies Act, 2013, read with Rule 7 of the Companies (Accounting) Rules, 2014.

### 6.11.8 Manpower Analysis

As on 31 March 2018, the Company had 63 Employees, of which 59 were Managerial and 4 were Non Managerial. The Managerial Staff (except one Official) is deputed from State Bank of India, Holding Company.

### 6.11.9 MOU Targets and Achievements

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

### 6.11.10 Computerization

The Company has Tally ERP9 System for Accounting.

### 6.11.11 Internal Audit

The Company does not have a Manual of Internal Audit. Further, as per Data Sheet submitted by the Company, no Internal Audit has been conducted for FY 2016-17 and FY 2017-18.

As per the Independent Auditors' Report (Statutory Auditors) on Internal Financial Controls over Financial Reporting under Clause (i) of Sub Section 3 of Section 143 of the Companies Act, 2013, the Company has, in all material respects, an adequate internal financial control system over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31 March 2018.

#### 6.11.12 Act, Rules, Documents

- i) Companies Act 2013
- ii) RERA (Real Estate Regulatory Authority) Act, 2016

#### 6.11.13 Operational Results

The Revenue from Operations were as follows:

(Rs.in crore)

Particulars	2017-18	2016-17
Management and Consultancy Fees (including expenses recoverable Rs 13,17,949)	0.79	---
Income from Tender Application	0.26	--
<b>Total Revenue from Operations</b>	<b>1.06</b>	<b>---</b>

#### 6.11.14 Financial Working Results

(Rs. in crore)

Particulars	2017-18	2016-17
Revenue from Operations	1.06	--
Other Income	0.33	0.27
<b>Total Income</b>	<b>1.39</b>	<b>0.27</b>
Total Expenses	6.04	1.16
Profit Before Exceptional items	(4.65)	(0.89)
Exceptional items	--	--
<b>Profit Before Tax</b>	<b>(4.65)</b>	<b>(0.89)</b>
Tax	0.08	(0.22)
<b>Profit After Tax</b>	<b>(4.73)</b>	<b>(0.66)</b>

#### 6.11.15 Disinvestment (Upto 2017-18)

Not Applicable

#### 6.11.16 Environment Management

Not Applicable

#### 6.11.17 Audit Checks

- i) To examine the performance of the Company in handling around 450 Projects of Construction, interior, retrofitting, purchasing and leasing among others is efficient, economical and effective.

- ii) To examine whether the Company recognizes Revenues from Management and Consultancy Fees as and when the agreed scope of work is completed and the said contractual work is awarded to the vendor by SBI, the Holding Company.
- iii) To examine whether direct expenses incurred during tendering process are recovered from SBI, as and when incurred by the Company.
- iv) To examine whether Income from Tender Application is recognized on receipt basis.
- v) To examine whether GST collected on behalf of the Government is excluded from Revenue.
- vi) To examine Cost of Consumption comprising of Project Cost for Real Estate Service, E-Auction Service and Tender Advertisement
- vii) To examine compliance with the provisions of RERA, 2016
- viii) To examine the provisions in respect of lease agreement and other agreement with vendors

## **6.12 SBI PAYMENT SERVICES PVT LIMITED**

### **6.12.1 Introduction**

SBI Payments Services Private Limited (Company) is a wholly owned non-banking subsidiary of State Bank of India (SBI). The Company was incorporated on the 12 February 2010. It provides support services to the Merchant Acquiring Business (MAB) vertical of SBI. The Registered Office of the Company is at Mumbai. The Company does not have any Subsidiaries, Joint Ventures and Associate Companies.

### **6.12.2 Objectives**

The Company's objective is to provide support services to the Merchant Acquiring Business (MAB) vertical of SBI. With the objective of enlarging its customer base by providing innovative services, SBI had embarked on merchant acquiring business by deploying a mechanism of facilitating payment for goods and services purchased through medium of a debit/credit/prepaid and similar other types of cards and any other medium of payment.

MAB means and includes facilitation of payment for goods and services purchased or acquired through the medium of a payment card or any other medium of payment.

With a view to expanding the MAB by leveraging the potential of SBI's customer base, SBI has set up the Company (SBI Payments Services Pvt Ltd- SBIPSPL), SBI's wholly owned subsidiary, whose principal business is to make available certain payment related services to customers of various merchant establishments, shops, wholesale and retail outlets, other service providers etc. The services which are being offered are payment card facilities of all types as also any type of card related payment transactions or through any other medium of payment.

SBI, as per the Agreement, proposed to outsource to SBIPSPL, some of the key and other activities of MAB, viz., Sourcing, Merchant Relationship, Support Services for Complaints Management etc.

### **6.12.3 Activities**

The Company expects to install 1,00,000 number of Terminals during the year 2018-19. The Principal Business Activities of the Company as per Form MGT-9 (Annual Return) are 'Other Support Services', comprising 100 *per cent* of the Total turnover of the Company as on 31.03.2018.

The Company undertakes marketing of Point of Sale (POS) terminals, on boarding merchants and follow up for installation of the same. It also focuses on merchant relationship to ensure smooth functioning of the installed terminals and thereby generating volumes. The Company shall drive customer transactions on the terminals so set up and build up transaction volumes of such quality and quantity as may be mutually agreed between the Vertical and SBIPSPL.

### **The following is the Manner of conduct of business of the Company**

Merchant Establishments shall be sourced by SBIPSPL and provide the application along with the copies of KYC documents to the concerned branches/Nodal Officer at the Circle immediately within 48 hours from the date of sourcing the applications. The summary of the applications sourced during a month should be given to the vertical in the format and at monthly intervals, or as stipulated by MAB. SBIPSPL shall procure from the merchants, who agree to avail of the service provided by MAB Vertical, application and other KYC documents in the form prescribed by MAB Vertical for this purpose and forward the same to the concerned Branches as indicated in the Merchant application for processing. SBIPSPL officials shall continue to follow up with branches/merchants till the applications are approved for getting any further documents/information as required by the Branches.

#### **6.12.4 Organizational Set up**

The Company is managed by a Board of Directors, duly constituted under the provisions of the Companies Act 2013. The Provisions of Section 178 of the Companies Act 2013 are not applicable to the Company, hence the Company has not formulated any Policy on Director's Appointment, Remuneration, etc. The Company does not have an Audit Committee since the provisions of Section 177 of the Companies Act 2013 are not applicable to the Company. The Company has not developed and implemented any Corporate Social Responsibility initiatives as the said provisions are not applicable to the Company. The Company does not have any Risk Management Policy. The Company is not required to be registered under Section 45-IA of the Reserve Bank of India Act 1934.

The Key Managerial Personnel of the Company include four Directors and one Chief Executive Officer (CEO) of the Company. The Deputy General Manager (DGM) and AGM of SBI are on deputation to the Company as the Chief Executive Officer (CEO) and Chief Accounts & Finance Officer of the Company respectively.

#### **6.12.5 Capital Structure**

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 10 crore equity shares of Rs 10 each aggregating to Rs 100 crore. The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 20 lakh equity shares of Rs 10 each aggregating to 2 crore. As per Annual Report for FY 2017-18, the Company has decided to raise additional Equity Share Capital by way of Rights Issue. Letters of Offer have been sent to the existing shareholders.

As on 31 March 2018, the Holding Company State Bank of India held 19,99,800 number of Equity Shares of Rs 10 each constituting 99.99 *per cent* Equity Holding in the Company.

#### **6.12.6 Budget and Planning**

(Rs in crore)

Years	2015-16	2016-17	2017-18
Particulars	Actual	Actual	Actual
Capital Expenditure	--	--	--
Revenue Expenditure	7.42	10.16	19.90
Revenue/Turnover	7.90	11.08	21.42
Profit for the year Before Tax	0.47	0.92	1.51

### 6.12.7 Accounting System

The Company has Centralized system of Accounting.

The Financial Statements of the Company are prepared under historical cost convention on accrual basis of accounting, and confirm in all material aspects with the applicable accounting principles in India, and Accounting Standards notified under Section 133 of the Companies Act 2013, and other relevant provisions of the Companies Act 2013.

The Company is a wholly owned Subsidiary of State Bank of India (SBI) and the Company is providing services for Merchant Acquiring under Merchant Acquiring Business Vertical of SBI. Accordingly, invoices are raised on SBI on monthly basis for the services provided at Cost plus 8 *per cent* basis in terms of Agreement with SBI dated 23 September 2016.

### 6.12.8 Manpower Analysis

The Company started its operations in the last quarter of FY 2012-13 with a very small employee strength. With a focus on recruitment PAN India the Company as on 31 March 2018, has an Employee strength of 63 employees on roll including CEO (1), Manager (1), Assistant Manager (2), Senior Executive (6), Executive (16) and 37 other officials and 1396 off roll employees as on 31 March 2018. The Off Roll employees are recruited through manpower consultants. The Company had 37 Managerial and 22 Non Managerial Employees as on 31 March 2018.

### 6.12.9 MOU Targets and Achievements

Not Applicable, since the Company is not a Central Public Sector Enterprise (CPSE).

### 6.12.10 Computerization

The Company has only Accounting Package of Tally in use.

### 6.12.11 Internal Audit

The Company has appointed an external professional agency to conduct the internal audit on quarterly basis. The Manual of Internal Audit is not available in the Company.

### 6.12.12 Act, Rules, Documents

- i) Companies Act 2013

- ii) Agreement with SBI dated 23 September 2016 for providing services for Merchant Acquiring under Merchant Acquiring Business Vertical of SBI

#### 6.12.13 Operational Results

The Revenue from Operations were as follows:

(Rs. in crore)

Particulars	2017-18	2016-17
Gross Revenue	25.15	12.63
Less Service Tax and Cess thereon	(3.73)	(1.64)
Net Revenue	21.41	10.99
<b>Total Revenue from Operations</b>	<b>21.41</b>	<b>10.99</b>

The Revenue from Operations during the year 2017-18 was Rs 21.41 crore as against the corresponding figure of Rs10.99 crore during 2016-17.

The Accumulated Profit as on 31 March 2018 was Rs1.80 crore.

#### 6.12.14 Financial Working Results

(Rs. in crore)

Particulars	2017-18	2016-17
Revenue from Operations	21.41	10.99
Other Income	0.01	0.09
<b>Total Income</b>	<b>21.42</b>	<b>11.08</b>
Total Expenses	19.90	10.16
Profit Before Exceptional items	1.52	0.92
Exceptional items	---	---
<b>Profit Before Tax</b>	<b>1.52</b>	<b>0.92</b>
Tax	0.42	0.28
<b>Profit After Tax</b>	<b>1.10</b>	<b>0.64</b>

#### 6.12.15 Disinvestment (Upto 2017-18)

Not Applicable

#### 6.12.16 Environment Management

Not Applicable

#### 6.12.17 Audit Checks

- i) To examine whether the operations of the Company are in compliance with the provisions of Agreement entered into between SBI and the Company in connection with Merchant Acquiring Business Vertical of SBI.
- ii) To examine whether Invoices were raised on SBI on a Monthly basis for services provided at Cost plus 8 *per cent* basis in terms of Agreement with SBI.
- iii) To examine terms and conditions, performance, payments to Outsourced Staff as per the Agreements entered into with them and Manpower Supply Agencies.
- iv) To examine the performance of Terminals installed by the Company, booking of cost of terminals in Accounts, downtime of Terminals, whether Terminals constitute Inventories of the Company etc

- v) To examine, in Audit, the compliance and Operational Performance of the Company *vis-a-vis* various clauses of the said Agreement with SBI.
- vi) Whether the Company formulated the scope, functioning, periodicity and methodology for conducting the internal audit of the Company, covering the entire operations and overall functioning of the Company, containing the specifications as to the scope, functioning, periodicity and methodology adopted for the audit to be conducted by the internal auditor during the year.



## 6.13 SUUTI TECH OPTIONS LIMITED

### 6.13.1 Introduction

SUUTU Tech Options Ltd., a Government Company, registered u/s 2 (45) of the Companies Act 2013, was incorporated on 22 February 2007, and is the wholly owned subsidiary of UTI Infrastructure Technology and Services Ltd (UTIITSL).

The Company's Registered Office is at CBD Belapur, Navi Mumbai, in the State of Maharashtra. The Company does not have any Subsidiary/Associate/Joint Venture Company or any Branches. The Company is under the Administrative Control of Ministry of Finance, Department of Investment and Public Asset Management (DIPAM).

### 6.13.2 Objectives

The main intended business activity of the Company is to provide Financial Services, ITES (Information Technology Enabled Services) and BPO (Business Process Outsourcing) Services

### 6.13.3 Activities

There is no income source to the Company. The expenses and other statutory liabilities of the Company are fulfilled by its Holding Company, UTI Infrastructure Technology and Services Ltd. As on 31 March 2018, the Company's Net Worth was negative as follows:

(Rs in crore)

Particulars	2017-18	2016-17
Share Capital	0.50	0.50
Reserves and Surplus	(0.77)	(0.77)
<b>Negative Net Worth</b>	<b>(0.27)</b>	<b>(0.24)</b>

The Board of Holding Company (UTIITSL), in its Board Meeting held on 5 October 2017, inter-alia directed on priority basis to initiate and conclude the process of the closure of the Company. In its Board Meeting held on 22.02.2018, the Board of the Company has given the consent for filing of Form STK-2 u/s 248 (2) of the Companies Act, 2013, with the Registrar of Companies (ROC)/Ministry of Corporate Affairs (MCA) for closure of the Company.

### 6.13.4 Organizational Set up

The Company was managed by a Board of Directors, consisting of three Nominee Directors (nominated by the Holding Committee UTIITSL). The Assistant Vice President (AVP) of the Holding Company UTI Infrastructure and Technology Services Ltd (UTIITSL) is handling the day to day and other related activities of the Company. The Vice President (VP), AVP and Deputy VP, who are employees of the Holding Company UTIITSL, have been nominated as Directors on the Board of SUUTI Tech Options Ltd by the Board of the Holding Company UTIITSL.

### 6.13.5 Capital Structure

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 10,00,000 equity shares of Rs 10 each aggregating to Rs. 1,00,00,000. The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 5,02,600 equity shares of Rs 10 each aggregating to Rs. 50,26,000.

As on 31 March 2018, the Holding Company UTI Infrastructure Technology and Services Ltd held 5,02,000 number of Equity Shares constituting 99.88 *per cent* Equity Holding in the Company.

### 6.13.6 Budget and Planning

(Rs. in lakh)

Years	2015-16	2016-17	2017-18
Particulars	Actual	Actual	Actual
Capital Expenditure	0	0	0
Revenue Expenditure	3.15	2.99	3.15
Revenue/Turnover	0	0	0
Profit for the year(Loss)	(3.15)	(2.99)	(3.15)

### 6.13.7 Accounting System

The Company has Centralized system of Accounting. The Accounts are maintained with Tally ERP Software. The Company prepared the Financial Statements upto the year ended 31 March 2017 in accordance with the Accounting Standards notified under Section 133 of the Companies Act, 2013, read together with Paragraph 7 of Companies (Accounts) Rules, 2014 (Indian GAAP).

From FY 2017-18, the Company prepared the Financial Statements in accordance with the Indian Accounting Standards (Ind AS) notified under Section 133 of the Companies Act 2013, and the Companies (Indian Accounting Standards) Rules, 2015. Since the Company has plans to close the business, the Company prepared the Financials on '**Non Going Concern**' basis, for year ended 31 March 2018, and all the assets and liabilities are treated as current.

### 6.13.8 Manpower Analysis

The Company has no employees on the Pay Roll of the Company. The Assistant Vice President (AVP) of the Holding Company UTI Infrastructure and Technology Services Ltd (UTIITSL) is handling the day to day and other related activities of the Company. The Vice President (VP), AVP and Deputy VP of the Holding Company UTIITSL have been nominated as Directors on the Board of SUUTI Tech Options Ltd by the Board of the Holding Company UTIITSL. No sitting fees or remuneration is paid or reimbursed to these Directors by the SUUTI Tech Options Ltd.

### 6.13.9 MOU Targets and Achievements

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

### 6.13.10 Computerization

The Company has Tally ERP System for Accounting.

### 6.13.11 Internal Audit

As per Independent Auditors' Report for FY 2017-18, the Company had, in all material respects, an adequate internal financial control system over financial reporting and the same were operating effectively as at 31 March 2018.

### 6.13.12 Act, Rules, Documents

- i) Companies Act, 2013
- ii) SUUTI Act, 2002
- iii) Income Tax Act, 1961
- iv) GST Act, 2017

### 6.13.13 Operational Results

During the year 2017-18, the Company had not started operational activities and incurred losses on account of meeting administrative expenses. Hence, no Revenue was generated. The Company has a Negative Net Worth and is in the process of closure of its operations, and consequential scaling down all its operations in FY 2018-19.

### 6.13.14 Financial Working Results

(Rs. in lakh)

Particulars	2017-18	2016-17
Revenue from Operations	0	0
Other Income	0	0
<b>Total Income</b>	<b>0</b>	<b>0</b>
Total Expenses	3.15	3.02
Profit/(Loss) Before Exceptional items	(3.15)	(3.02)
Exceptional items	--	(0.02)
<b>Profit/(Loss) Before Tax</b>	<b>(3.15)</b>	<b>(2.99)</b>
Tax	--	--
<b>Profit/(Loss) After Tax</b>	<b>(3.15)</b>	<b>(2.99)</b>

### 6.13.15 Disinvestment (Upto 2017-18)

Not Applicable

### 6.13.16 Environment Management

Not Applicable

### 6.13.17 Audit Checks

- i) Though the Company was incorporated in February 2007, the Company was yet to start any operations as at 31 March 2018. As a result, the Company lost a number of opportunities to do business. The Economy has thrown up lot of opportunities in the IT Sector with more focus on digitization. But the Company

did not start any operations since last 10 years or so, resulting in wasteful expenditure. The same needs to be examined in Audit.

- ii) There are areas like Smart Cards, wherein the unused 'State of the Art' Data Centre of the Parent Company (UTIITSL) could have been used, with some modifications, for the smart card and other card related and other IT Centric Activities. Audit may examine why the Company did not seize the above opportunities, whether adequate basic infrastructure support by the Holding Company (UTIITSL) was provided to the Company.
- iii) During the year 2013, the Company under Section 621 A of the Companies Act, 1956, had filed four Petitions for compounding violation of Section 210 (3) (b) for FY 2010-11 and FY 2011-12, violation of Section 252 and violation of Section 619 before the Registrar of Companies, Ministry of Corporate Affairs, Mumbai, and the same were still pending before them as on 31 March 2018. In view of initiating the Closure of the Company, the Board of the Holding Company directed (October 2017) the Company to withdraw the Compounding Petitions filed by it with the erstwhile Company Law Board. The same needs to be examined in Audit and the financial implications thereof.
- iv) The Holding Company UTIITSL had disbursed an amount of Rs 20 lakh from FY 2013-14 to 2017-18 to the Company(SUUTI Tech Options), for meeting the expenses of the Company, subject to the condition that the disbursement be made only when required. As on 31 March 2018, as per Books of SUUTI Tech Options, the Unsecured Loan without Interest outstanding was Rs 29,85,986. The Holding Company UTIITSL has to write off and waive the said amount on closure of SUUTI Tech Options. The same may be examined in Audit since the same is infructuous expenditure incurred on the Company (SUUTI Tech Options) by the Holding Company UTIITSL.

## CHAPTER VII

### FINANCE- CREDIT RATING COMPANIES

#### 7.1 ACUTE RATINGS AND RESEARCH LIMITED

##### 7.1.1 Introduction

Acuité Ratings & Research Limited (erstwhile SMERA Ratings Limited) is a Credit Rating and Research company. The Company was registered with the Securities and Exchange Board of India (SEBI) in 2011 and accredited by Reserve Bank of India (RBI) in 2012. The Company was incorporated on 26 August 2005.

The Company has a wholly owned Subsidiary Company named SMERA Gradings and Ratings Private Limited, which was incorporated on 27 April 2018. The main object of the said Subsidiary Company (incorporated on 27 April 2018) would be to carry on the business of rating/grading of non regulated products such as Small and Medium Enterprises (SME) Ratings, New Enterprise Score, Solar Grading, MFI (Micro Finance Institutions) Grading, Techno Economic Viability Studies etc.

The Company's Registered Office is at Mumbai. The Branches of the Company are situated at Delhi, Ahmedabad, Chennai, Coimbatore, Bengaluru, Kolkatta, and Hyderabad.

Acuité (erstwhile SMERA Ratings Ltd.) is an initiative of Finance Ministry and was incorporated in the year 2005. It was conceived as a 'SME-Rating-only' credit rating agency. For rating SMEs, the Company has a separate division known as SMERA.

The name of the Company was changed from SMERA Ratings Ltd to Acuite Ratings & Research Ltd with effect from 28 May 2018.

##### 7.1.2 Objectives

The nature of Business of the Company is Credit Rating. The Company was incorporated with the objective of providing independent professional and comprehensive assessment of credit worthiness of Small and Medium Enterprises (SME) sector which would act as a decision support system for the Bankers in their Credit decisions to the Sector. As per SEBI Regulations on Credit Rating Agencies, 1999, "Credit Rating agency" means a body corporate which is engaged in, or proposes to be engaged in, the business of rating of securities offered by way of public or rights issue. "Rating" means an opinion regarding securities, expressed in the form of standard symbols or in any other standardised manner, assigned by a credit rating agency and used by the issuer of such securities, to comply with a requirement specified by SEBI regulations

##### 7.1.3 Activities

The Company has assigned more than 7000 credit ratings (as on December 31 2018) to various securities, debt instruments and bank facilities of entities spread across industries in India. The Company has a separate division named SMERA for rating of SMEs. As on June 30 2018, this division has completed more than 46,000 ratings of

SMEs across 300+ SME clusters across the country. Additionally, the Company conducts research on various industries ranging from aviation, banking, cement, dairy, education, garment, hotel, IT & ITES, jewellery, etc. and Indian economy. Additionally, Acuité conducts research on various industries and Indian economy that helps Corporate India in taking more informed business decisions

Acuité has developed and implemented the Industry Risk Score Model in August 2017. This model will be used by the analytical and the Economic Research teams to generate industry risk scores on 100 industries and will help to produce reports containing Acuité outlook on industry demand and supply, peer comparison, etc

Acuité has taken a significant step in making sure that valuable Certificates issued by SME Ratings & Grading Division to its clients are high on security and cannot be forged. Thus, each Certificate & Report now carries a security feature (QR code) to verify whether the Certificate is genuine and valid. This is an 'Industry First' feature. With this feature banker /investors can be rest assured and take decisions based on genuine rating reports and certificates. Also, upon the expiry of rating certificates the QR code will not validate the certificate, thereby asking for a renewal of the rating

#### **7.1.4 Organizational Set up**

The Board of Directors of the Company is responsible for the overall management, supervision and control over the affairs of the Company under the provisions of the Companies Act 2013. The Key Managerial Personnel of the Company are Chief Executive Officer (CEO), Head-Compliance & Company Secretary, and Chief Financial Officer (CFO). The Authorized Signatories to the Company's Financial Statements apart from the Statutory Auditors of the Company are two Directors, CEO, CFO and Company Secretary. The Chairman of the Company is a Nominee Director nominated by Small Industries Development Bank of India (SIDBI). The Company's Board also has an Additional Director under the category of Non Executive Independent Director. The Company also has an Audit Committee of the Board of Directors, which reviews the half yearly and annual financial statements before submission to the Board, periodically reviews the Internal Control systems, scope of audit with the auditors and ensures compliance of the system. The Audit Committee comprises of three Independent Directors and one Non Executive Director.

#### **7.1.5 Capital Structure**

The authorized share capital of the Company as on 31st March, 2018 is Rs. 20 crore (2,00,00,000 equity shares of Rs 10 each) and issued, subscribed and paid-up share capital is 1,48,75,000 equity shares of Rs 10 each aggregating to Rs. 14,87,50,000. As on 31.03.2018, the following were the shareholders holding more than 5 per cent equity in the Company

Shareholders	No. of equity shares held	% of equity held
SIDBI	51,00,000	34.29 %
Dun & Bradstreet Information Services India (P) Ltd	51,00,000	34.29 %

ICICI Bank	11,00,000	7.39 %
State Bank of India	9,50,000	6.39%

### 7.1.6 Budget and Planning

Following is a brief outline of the targets and achievements of the Company for the two-year period ended 31 March 2018

(Rs in crore)

Years	2015-16		2016-17		2017-18	
Particulars	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	-	0.33	2.09	2.07	1.40	0.65
Revenue Expenditure	33.12	22.72	30.00	25.49	27.45	25.56
Revenue/Turnover	39.02	23.16	36.00	26.15	30.50	31.26
Profit	5.88	0.43	6.00	0.65	3.05	5.69

### 7.1.7 Accounting System

The Company has a centralized Tally accounting system for upkeep of the accounts. The Company prepares its financial statements in accordance with the Indian Generally Accepted Accounting Principles (Indian GAAP) and the Accounting standards prescribed under Section 133 of the Companies Act 2013

### 7.1.8 Manpower Analysis

The Company had 135 employees as on 31 March 2018, which comprised 48 managerial employees and 87 non – managerial employees

### 7.1.9 MOU Targets and Achievements

Not Applicable since the Company is not a Central Public Sector Enterprise.

### 7.1.10 Computerization

The Company has Tally ERP System. The Ratings Database is maintained in RAMAN Software.

### 7.1.11 Internal Audit

The internal Audit function of the Company is under the functional operation of the Audit Committee. The internal audit is conducted by the Company on a quarterly basis by engaging the services of professional Chartered Accountant firms.

### 7.1.12 Act, Rules, Documents

- i) Companies Act 2013
- ii) SEBI Regulations in respect of Credit Rating Agencies.

### 7.1.13 Operational Results

The following is the Revenue from Operations

#### a) Rating Fees

(Rs. in lakh)

Particulars	2017-18	2016-17
Rating Fees		

Rating Fees- SME (Small and Medium Enterprise)	612.08	1002.82
Rating Fees-Solar Grading	234.70	68.68
Rating Fees-MFI (Micro Finance Institution) and COCA	84.14	24.71
Rating Fees-MTI	---	1.25
Rating Fees-BLR (Bank Loan Rating)	1725.57	1087.71
Rating Fees-Bond	173.09	125.47
Rating Fees-FD (Fixed Deposit)	0.30	3.23
Rating Fees-Issuer Rating	5.00	0.45
Rating Fees-Others	135.98	88.57
Rating Fees-Total	2970.89	2402.93

## b)Other Operating Revenue

(Rs in lakh)

Particulars	2017-18	2016-17
Other Operating Revenue		
Technical Assistance- BRAL	3.25	2.55
Advances Forfeited	49.53	51.97
Total Other Operating Revenue	52.78	54.52

### 7.1.14 Financial Working Results

The financial performance of the Company for the last two years ending 31 March 2018 was as under

(Rs in lakh)

Particulars	2017-18	2016-17
Revenue from Operations	2970.89	2402.93
Other Operating Revenues	52.78	54.52
Other Income	102.33	157.81
Total Income	3126.01	2615.27
Total Expenses	2556.58	2549.90
Profit Before Exceptional items	569.42	65.36
Exceptional items/Extraordinary items	--	---
Profit/ (Loss) Before Tax	569.42	65.36
Total Tax	148.02	12.29
Profit/ (Loss) After Tax	421.40	53.07

### 7.1.15 Disinvestment

Not Applicable

### 7.1.16 Environment Management

The Company has no Environmental impact on operations. Hence, the same is not applicable.

7.1.17 **Audit Checks**-The General Audit Checks for Credit Rating Companies have been specified after the write up on Smera Gratings and Ratings Ltd.



## **7.2 SMERA GRADINGS AND RATINGS PRIVATE LIMITED**

### **7.2.1 Introduction**

SMERA Gradings and Ratings Private Limited has been incorporated on 27.04.2018 under the Companies Act 2013. The Registered Office of the Company is situated at Mumbai. The Company is a Private Company limited by shares. The Company is a wholly owned Subsidiary of Acuite Ratings & Research Ltd.

The Company falls under the purview of the Ministry of Finance.

The principal activities of the Company are to provide independent, professional and comprehensive assessment of credit worthiness of Small and Medium Enterprises (SME), New Enterprises as well as Techno economic viability reports, which would act as a decision support system for the bankers in their credit decisions to the sector.

### **7.2.2 Objectives**

The objects of the Company are to carry on the business of analysis, evaluation, appraisal, scoring, credit assessment, grading, rating and the like, of all the bodies including firms, companies, societies, trusts, agencies, institutes, builders, contractors, valuers, collaborators, suppliers, traders, importers, exporters, business houses, trade houses, brokers, underwriters, lenders, dealers in foreign exchange, shippers, transporters, other bodies or associations of persons, whether natural or juridical, including investors, issuers, underwriters, lenders, Government agencies, financial intermediaries, banks, financial and investment institutions, international agencies, research persons and the like.

The Company's business also includes analysis, evaluation, appraisal, rating and the like of the obligations, dues, debts, and commitments and the like of all the bodies including Government, Statutory corporations, banking and financial institutions, Government Companies, Private Sector Companies, non-profit organizations, utility companies, agencies, firms, societies, trusts etc.

As per SEBI Regulations on Credit Rating Agencies, 1999, "Credit Rating Agency" means a body corporate which is engaged in, or proposes to be engaged in, the business of rating of securities offered by way of public or rights issue. "Rating" means an opinion regarding securities, expressed in the form of standard symbols or in any other standardised manner, assigned by a credit rating agency and used by the issuer of such securities, to comply with a requirement specified by SEBI regulations

### **7.2.3 Activities**

The Company is newly formed in April 2018. The Company has been incorporated as a wholly owned subsidiary company of Acuite Ratings and Research Ltd., to carry on the business of rating/grading of non regulated products such as Small and Medium Enterprises (SME) Ratings, New Enterprise Score, Solar Grading, MFI (Micro Finance Institutions) Grading, Techno Economic Viability Studies etc.

The principal activities of the Company are to provide independent, professional and comprehensive assessment of credit worthiness of Small and Medium Enterprises (SME), New Enterprises as well as Techno economic viability reports, which would act as a decision support system for the bankers in their credit decisions to the sector.

#### **7.2.4 Organizational Set up**

As on January 2019, the Company did not have a Chairman, Managing Director and Head of Finance Department. The Company only has a Company Secretary. The first Financial Statements of the Company for year end 31.03.2019 are authenticated by two Directors and Company Secretary.

#### **7.2.5 Capital Structure**

The Authorized Share Capital of the Company is Rs 10,00,00,000 divided into 1,00,00,000 Equity Shares of Rs 10 each. The Issued, Subscribed and Paid Up Capital is 5,00,000 Equity Shares of Rs 10 each aggregating to Rs 50,00,000, of which 4,99,998 Equity Shares (constituting 99.99 *per cent* Equity Holding) are held by M/s Acuite Ratings & Research Ltd (SMERA Ratings Ltd), a Public Limited Company, as on 25 April 2018 and 31 March 2019.

#### **7.2.6 Budget and Planning**

The Company is newly formed and has just commenced the activities in FY 2018-19.

#### **7.2.7 Accounting System**

The first Financial Statements of the Company for year ended 31 March 2019 have been prepared to comply in all material respects with the notified accounting standards specified under Section 133 of the Companies Act 2013. The Financial Statements have been prepared under historical cost convention on accrual basis.

#### **7.2.8 Manpower Analysis**

The Company is newly formed and did not have any employees during the period 2018-19.

#### **7.2.9 MOU Targets and Achievements**

Not Applicable since the Company is not a Central Public Sector Enterprise.

#### **7.2.10 Computerization**

The Company is newly formed. The Company has a system in place to process all the accounting transactions through IT system and the financial statements are being prepared on the basis of entries that are in the Company's Accounting Software. There are no manual entries done outside of the Accounting Software.

#### **7.2.11 Internal Audit**

The Company is newly formed and yet to commence activities.

#### **7.2.12 Act, Rules, Documents**

a) Companies Act 2013

- b) SEBI Regulations in respect of Credit Rating Agencies
- c) Rules and Regulations in respect of Micro, Small and Medium Enterprises.

### 7.2.13 Operational Results

The Company is newly formed and yet to commence its activities.

However, the following was the Revenue from Operations for year ended 31 March 2019

(Rs in lakh)

Particulars	2018-19	2017-18
<b>Rating Fees</b>		N.A.
Rating Income- Due Diligence	0.60	--
Rating Income- SMERA Terminal	0.50	
RMS Consultancy Services	2.50	
<b>Total</b>	<b>3.60</b>	

### 7.2.14 Financial Working Results

The Company is newly formed, and yet to commence operations.

The financial performance of the Company for the year ending 31 March 2019 was as under

(Rs in lakh)

Particulars	2018-19	2017-18
Revenue from Operations		N.A.
Rating Fee	3.60	
Other Income	1.22	
Total Income	4.82	
Total Expenses	12.55	
Profit Before Exceptional items	(7.72)	
Exceptional items/Extraordinary items	--	
Profit/ (Loss) Before Tax	(7.72)	
Total Tax	(1.98)	
Profit/ (Loss) After Tax	(5.74)	

### 7.2.15 Disinvestment (Upto 2017-18)

Not Applicable

### 7.2.16 Environment Management

Not Applicable

### 7.2.17 Audit Checks for Credit Rating Companies

- 1) To examine compliance with SEBI Regulations in respect of Credit Rating Agencies.
- 2) To check the Rating fees policy and verify the same in terms of the SEBI circulars issued from time to time in respect of Credit Rating Agencies
- 3) To examine whether Revenue from Rating/Grading Fees is recognized at the time when Rating/Grading is assigned to the Client.

- 4) A credit rating is an independent, unbiased and objective opinion on future debt repayment ability and willingness of a borrower with respect to a debt instrument. A credit rating is thus a measure of risk of default in making timely repayment of principal and interest by a borrower for a particular debt instrument. The Rating agency, upon receiving a request to rate an issue, charges Initial Rating Fee for carrying out the rating exercise for the first time. In subsequent years, the Rating agency charges Annual Surveillance Fee. The Initial Rating Fee and the Annual Surveillance Fee amount is linked to the quantum of the debt instrument/Bank Loan and is usually calculated in basis points. Revenue from the due date of surveillance to the date of receipt of Surveillance Fee from the client is recognized in the month in which the payment is received. The balance revenue is to be recognized over the remainder period of surveillance. To examine whether Surveillance Revenue is recorded and booked in Accounts accordingly.
- 5) To examine whether Revenue from Consultancy Services is recognized when the provision of service is complete in accordance with the terms of each agreement
- 6) The Company charges fees from clients who seek ratings for their various borrowings. The standard fee structure comprises an initial rating fee (IRF) at the time of the initial rating exercise and an annual surveillance fee (ASF) subsequently for such time as the rating remains outstanding. Fee structures are documented in fee schedules which are communicated and finalized before initiating the rating assignments. To examine whether the Company charged the IRF and ASF as per the fee schedule and the deviations/discounts extended are duly authorised by the competent authority.
- 7) To check whether the Company had forfeited the rating fees and to review the Policy for forfeiture of Bank Loan Rating Fees (BLR)
- 8) Every credit rating agency shall, during the lifetime of securities rated by it continuously monitor the rating of such securities, unless the rating is withdrawn, subject to the provisions of SEBI regulation 16(3). To examine the compliance with the same.
- 9) Every credit rating agency shall disseminate information regarding newly assigned ratings, and changes in earlier rating promptly through press releases and websites, and, in the case of securities issued by listed companies, such information shall also be provided simultaneously to the concerned regional stock exchange and to all the stock exchanges where the said securities are listed. To examine the compliance with the same.
- 10) Every credit rating agency –
  - (a) shall make public the definitions of the concerned rating, along with the symbol and,
  - (b) shall also state that the ratings do not constitute recommendations to buy, hold or sell any securities.

Every credit rating agency shall make available to the general public information relating to the rationale of the ratings, which shall cover an analysis of the various factors

justifying a favourable assessment, as well as factors constituting a risk. To examine compliance with the same.

- 11) The Company ought to charge rating fees as a new applicant for the same client (for both the schemes i.e. MSEs and BLR) in case he approaches The Company for rating again after forfeiture of rating fees by the Company. To check whether the Company accredited the ratings to the same client whose fee was forfeited by the Company in the earlier period; To check whether there are any cases of issuing Ratings to the claims despite forfeiture of the fees
- 12) To check whether there are any cases of irregular grant of discount in Fees
- 13) To review the Internal Audit Reports, RBI/SEBI Periodical Audit Reports, Investment Policy and its compliances and to review the cases of waiver, write-off debts/loans/interests etc and check its genuineness for the same
- 14) To review the 'Performance and Credit Rating Scheme' for micro and small enterprises aimed at assigning rating to Medium and Small Enterprises (MSEs).
- 15) To examine verification and updation of ratings on Centralised Database. The ratings issued and published by rating agencies are to be verified and updated on National Securities and Depositories Ltd (NSDL) and Central Depositories and Securities Ltd (CDSL).
- 16) To verify the ratings data maintained by the Company in RAMAN software and cross check with the ratings agreements executed with the clients
- 17) To review the Minutes of the Board, Audit Committee, Rating Committee and Criteria Committee.
- 18) To verify the revenue generation category-wise i.e. SME, BLR, MFI, MTI, FD, MNRE, NCD, Issuer Ratings and others
- 19) To check the details on Technical Assistance Fees received/paid
- 20) Whether, the Company, as a credit rating agency has kept and maintained, for a minimum period of five years, the following books of accounts, records and documents, namely
  - (a) a copy of its balance sheet, as on the end of each accounting period;
  - (b) a copy of its profit and loss account for each accounting period;
  - (c) a copy of the auditor's report on its accounts for each accounting period.
  - (d) a copy of the agreement entered into, with each client;
  - (e) information supplied by each of the clients;
  - (f) correspondence with each client;
  - (g) ratings assigned to various securities including upgradation and down gradation (if any) of the ratings so assigned.
  - (h) rating notes considered by the rating committee;

- (i) record of decisions of the rating committee;
- (j) letter assigning rating;
- (k) particulars of fees charged for rating and such other records as the Board may specify from time to time.

21. As per SEBI Regulations, every credit rating agency shall –

- (1) (a) specify the rating process;
- (b) file a copy of the same with the Board for record; and file with the Board any modifications or additions made therein from time to time.
- (2) Every credit rating agency shall, in all cases, follow a proper rating process.
- (3) Every credit rating agency shall have professional rating committees, comprising members who are adequately qualified and knowledgeable to assign a rating.
- (4) All rating decisions, including the decisions regarding changes in rating, shall be taken by the rating committee.
- (5) Every credit rating agency shall be staffed by analysts qualified to carry out a rating assignment.
- (6) Every credit rating agency shall inform the Board about new rating instruments or symbols introduced by it.
- (7) Every credit rating agency, shall, while rating a security, exercise due diligence in order to ensure that the rating given by the credit rating agency is fair and appropriate.
- (8) A credit rating agency shall not rate securities issued by it.
- (9) Rating definition, as well as the structure for a particular rating product, shall not be changed by a credit rating agency, without prior information to the Board.
- (10) A credit rating agency shall disclose to the concerned stock exchange through press release and websites for general investors, the rating assigned to the securities of a client, after periodic review, including changes in rating, if any

Audit to examine compliance with respect to the above.

22. Whether the Company as a credit rating agency, has entered into a written agreement with each client whose securities it proposes to rate, and every such agreement shall include the following provisions, namely -

- (a) the rights and liabilities of each party in respect of the rating of securities shall be defined;
- (b) the fee to be charged by the credit rating agency shall be specified;
- (c) the client shall agree to a periodic review of the rating by the credit rating agency during the tenure of the rated instrument;
- (d) the client shall agree to co-operate with the credit rating agency in order to enable the latter to arrive at, and maintain, a true and accurate rating of the clients securities and

shall in particular provide to the latter, true, adequate and timely information for the purpose.

(e) the credit rating agency shall disclose to the client the rating assigned to the securities of the latter through regular methods of dissemination, irrespective of whether the rating is or is not accepted by the client;

(f) The client shall agree to disclose, in the offer document; -

(i) the rating assigned to the client's listed securities by any credit rating agency during the last three years and

(ii) any rating given in respect of the client's securities by any other credit rating agency, which has not been accepted by the client.

## CHAPTER VIII

### ASSET RECONSTRUCTION COMPANIES

The Office of The Director General of Commercial Audit & *ex officio* Member Audit Board-I Mumbai conducts the Audit of the following Asset Reconstruction Companies

1. ASREC (India) Ltd
2. India SME Asset Reconstruction Co Ltd

#### **Functions of Asset Reconstruction Companies (ARC)**

The Reserve Bank of India (RBI), in order to regulate the financial system to the advantage of the country and to prevent the affairs of any Securitisation Company or Reconstruction Company (SC/RC) from being conducted in a manner detrimental to the interest of investors or in any manner prejudicial to the interest of such SC/ RC, has issued the guidelines and directions relating to registration, measures of asset reconstruction, functions of the Company, prudential norms, acquisition of financial assets and matters related thereto, in exercise of the powers conferred by Sections 3, 9, 10 and 12 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, (SARFAESI Act, 2002)

The Securitisation Companies and Reconstruction Companies (Reserve Bank) Guidelines and Directions, 2003 are applicable to every SC/ RC

#### **"Non-performing Asset" (NPA) means an asset in respect of which**

- a) Interest or principal (or instalment thereof) is overdue for a period of 180 days or more from the date of acquisition or the due date as per the contract between the borrower and the originator, whichever is later;
- b) Interest or Principal (or instalment thereof) is overdue for a period of 180 days or more from the date fixed for receipt thereof in the plan formulated for realisation of the assets
- c) Interest or Principal (or instalment thereof) is overdue on expiry of the planning period, where no plan is formulated for realisation of the assets or
- d) any other receivable, if it is overdue for a period of 180 days or more in the books of the SC / RC. Provided that the Board of Directors of a SC / RC may, on default by the borrower, classify an asset as a NPA even earlier than the period mentioned above (for facilitating enforcement as provided for in Section 13 of the Act).

#### **"Owned Fund"**

"Owned Fund" means the aggregate of paid up equity capital, paid up preference capital to the extent it is compulsorily convertible into equity capital, free reserves (excluding revaluation reserve), credit balance in Profit and Loss Account as reduced by the debit balance on the profit and loss account and Miscellaneous Expenditure (to the extent not written off or adjusted), book value of intangible assets and under / short provision against NPA / diminution in value of investments, and over recognition of income, if any; and further reduced by the book value



of the shares acquired in a SC / RC and other deductions required on account of the items qualified by the auditors in their report on the financial statements

Every SC / RC seeking the RBI's registration under Section 3 of the SARFESAI Act, shall have a minimum Owned Fund of Rs.2 crore.

#### Asset Reconstruction

##### Acquisition of Financial Assets

(i) Every SC / RC shall frame with the approval of its Board of Directors, a 'Financial Asset Acquisition Policy', within 90 days of grant of Certificate of Registration, which shall clearly lay down the policies and guidelines covering, inter alia,

(a) norms and procedure for acquisition either on its own books or directly in the books of the trust;

(b) types and the desirable profile of the assets;

(c) valuation procedure ensuring that the assets acquired have realisable value which is capable of being reasonably estimated and independently valued;

(d) in the case of financial assets acquired for asset reconstruction, the broad parameters for formulation of plans for their realisation.

(ii) The Board of Directors may delegate powers to a committee comprising any director and / or any functionaries of the Company for taking decisions on proposals for acquisition of financial assets;

(iii) Deviation from the policy should be made only with the approval of the Board of Directors.

Before bidding for the stressed assets, SCs/RCs may seek from the auctioning banks adequate time, (not less than 2 weeks), to conduct a meaningful due diligence of the account by verifying the underlying assets.

A SC/RC is neither a 'bank' in terms of provisions of Section 2(1) (c) of the SARFAESI Act, 2002 nor a 'financial institution' in terms of provisions of Section 2(1) (m) of the said Act. Therefore, acquisition of financial assets by one SC/ RC from another SC / RC ordinarily was considered not to be in conformity with the provisions of the SARFAESI Act, 2002.

However, SCs/ RCs are with effect from January 23, 2014 permitted to acquire debt from other SCs/ RCs on following conditions

(a) The acquisition is for the purpose of debt aggregation for the enforcement of security interest and as such the acquiring SC/RC's (herein after referred as aggregating SC/RC) existing holdings at the time of acquisition are less than 60 *per cent* and with the further proposed acquisition from other SCs/ RCs, the total debt in the books of the aggregating SC/RC shall add up to 60 *per cent* or more of the total secured debt.

(b) The transaction is settled on cash basis.

(c) The selling SC/RC will utilize the proceeds so received, for the purpose of redemption of underlying SRs.

(d) The acquisition of debt from other SC/RC, shall not

i) result in extension of the date of redemption of the SRs issued by the aggregating SC/RC for the assets acquired from banks/FIs.

ii) extend the period of realization of assets including that acquired from other SCs/RCs beyond eight years from the date of acquisition of the asset by the aggregating SC/RC from the banks/Financial Institutions (FIs) concerned.

SCs/ RCs are not permitted to acquire any non performing financial asset from their sponsor banks on a bilateral basis, whatever may be the consideration. However, they may participate in auctions of NPA by their sponsor banks provided such an auction is conducted in a transparent manner, on arms length basis, at prices determined by the market factors.

Expenses incurred at pre acquisition stage for performing due diligence etc. for acquiring financial assets from banks/ (FIs) should be expensed immediately by recognizing the same in the statement of profit and loss for the period in which such costs are incurred. Expenses incurred after acquisition of assets on the formation of the trusts, stamp duty, registration, etc. which are recoverable from the trusts, should be reversed, if these expenses are not realised within 180 days from the planning period or downgrading of Security receipts (SRs) [i.e. Net Asset Value (NAV) is less than 50 *per cent* of the face value of SRs] whichever is earlier.

#### **Rescheduling of Debts**

- (i) Every SC/RC shall frame a policy, duly approved by the Board of Directors, laying down the broad parameters for rescheduling of debts due from borrowers;
- (ii) All proposals should be in line with and supported by an acceptable business plan, projected earnings and cash flows of the borrower;
- (iii) The proposals should not materially affect the asset liability management of the SC/RC or the commitments given to investors;
- (iv) The Board of Directors may delegate powers to a committee comprising any director and / or any functionaries of the Company for taking decisions on proposals for rescheduling of debts;
- (v) Deviation from the policy should be made only with the approval of the Board of Directors.

#### **Enforcement of Security Interest**

- i) SCs/RCs are required to obtain, for the purpose of enforcement of security interest, the consent of secured creditors holding not less than 60 *per cent* of the amount outstanding to a borrower as against 75 *per cent* hitherto.
- ii) While taking recourse to the sale of secured assets in terms of Section 13(4) of the Act, a SC/RC may itself acquire the secured assets, either for its own use or for resale, only if the sale is conducted through a public auction.

Settlement of dues payable by the borrower.

- (i) Every SC/RC shall frame a policy duly approved by the Board of Directors laying down the broad parameters for settlement of debts due from borrowers;
- (ii) The policy may, *interalia*, cover aspects such as cut-off date, formula for computation of realisable amount and settlement of account, payment terms and conditions, and borrower's capability to pay the amount settled;
- (iii) Where the settlement does not envisage payment of the entire amount agreed upon in one instalment, the proposals should be in line with and supported by an acceptable business plan, projected earnings and cash flows of the borrower;
- (iv) The proposal should not materially affect the asset liability management of the SC/RC or the commitments given to investors;
- (v) The Board of Directors may delegate powers to a committee comprising any director and / or any functionaries of the Company for taking decisions on proposals for settlement of dues;
- (vi) Deviation from the policy should be made only with the approval of the Board of Directors.

Promoters of the defaulting company/ borrowers or guarantors are allowed to buy back their assets from the SCs/RCs provided the following conditions are met

I. Such a settlement is considered helpful in

- (i) minimizing or eliminating the cost of litigation and the attendant loss of time;
- (ii) arresting the negative impact of diminution in the value of secured assets which are likely to rapidly lose value once a unit becomes non operational;
- (iii) where the recovery/ resolution process would appear to be rather uncertain and;
- (iv) where such settlement will be beneficial for restructuring purposes.

II. The valuation of the asset is worked out by the SCs/RCs after factoring in the following components

- The current value of the proposed settlement (valuation of the asset not more than six months old) vis-a-vis the net present value of the recoveries under the alternative mode of resolution taking into consideration the timelines involved therein.
- likely positive or negative changes in the value of the secured asset on account of passage of time.
- likely diminution in realisation due to accumulation of statutory dues, liability to employees etc.
- other factors, if any, which may affect recoveries.

III. SCs/RCs shall frame a Policy duly approved by the Board of Directors, which should include the above aspects

Conversion of any portion of debt into shares of a borrower company

(i) Every SC/RC shall frame a policy, duly approved by the Board of Directors, laying down the broad parameters for conversion of debt into shares of the borrower company;

(ii) In cases of the Financial Assets which have turn around potential after restructuring but normally with huge default and unsustainable level of debt, it will be necessary to arrive at sustainable level of debt, on the basis of evaluation of detailed business plan with projected level of operations, which can be serviced by the Company. A part of residual unsustainable debt may have to be converted to equity for an optimal debt equity structure. While SCs/RCs are permitted to have significant influence or have a say in decisions surrounding the borrower company's turn around through conversion of debt into shares, they should not be seen to be running the companies. The shareholding of the SC/RC shall not exceed 26 *per cent* of the post converted equity of the Company under reconstruction.

#### Plan for realisation

(i) Every SC/RC may, within the planning period, formulate a plan for realisation of assets, which may provide for one or more of the following measures

(a) Rescheduling of payment of debts payable by the borrower;

(b) Enforcement of security interest in accordance with the provisions of the Act;

(c) Settlement of dues payable by the borrower;

(d) Change in or take over of the management, or sale or lease of the whole or part of business of borrower after formulation of necessary guidelines in this behalf by the Bank

(e) conversion of any portion of debt into shares of a borrower company.

(ii) SC/RC shall formulate the policy for realisation of financial assets under which the period for realisation shall not exceed five years from the date of acquisition of the financial asset concerned.

(iii) The Board of Directors of the SC/RC may increase the period for realisation of financial assets so that the total period for realisation shall not exceed eight years from the date of acquisition of financial assets concerned.

(iv) The Board of Directors of the SC/RC shall specify the steps that will be taken by the SC/RC to realise the financial assets within the time frame referred to in clause (ii) or (iii) as the case may be.

(v) The Qualified Institutional Buyers (QIBs) shall be entitled to invoke the provisions of Section 7(3) of the Act only at the end of such extended period, if the period for realisation is extended under clause

#### Securitisation-Issue of Security Receipts (SRs)–

A SC/RC shall give effect to the provisions of sections 7(1) and (2) of the Act through one or more trusts set up exclusively for the purpose.

The SC/RC shall transfer the assets to the said trusts at the price at which those assets were acquired from the originator if the assets are not acquired directly on the books of the trust

The trusts shall issue SRs only to QIBs; and hold and administer the financial assets for the benefit of the QIBs;

(ii) The Trusteeship of such trusts shall vest with the SC/RC;

(iii) A SC/RC proposing to issue Security Receipts, shall, prior to such an issue, formulate a policy, duly approved by the Board of Directors, providing for issue of security receipts under each scheme formulated by the trust;

(iv) The policy referred to in sub-paragraph (iii) above shall provide that the SRs issued would be transferable / assignable only in favour of other QIBs.

(2) Investment in SRs issued by the trusts floated by SC/RC shall by transferring funds, invest a minimum of 15 *per cent* of the SRs of each class issued by them under each scheme on an ongoing basis till the redemption of all the SRs issued under such scheme.

(3) Restructuring Support Finance SC/RC can utilize a part of funds raised under a scheme from the QIBs for restructuring of financial assets acquired under the relative scheme subject to following conditions

(i) SCs/ RCs with acquired assets in excess of Rs. 500 crore can float the fund under a scheme which envisages the utilization of part of funds raised from QIBs in terms of Section 7(2) of the SARFAESI Act, 2002, for restructuring of financial assets acquired out of such funds.

(ii) The extent of funds that shall be utilized for reconstruction purpose should not be more than 25 *per cent* of the funds raised under the scheme in terms of Section 7(2) of the SARFAESI Act, 2002. The funds raised to be utilized for reconstruction (within the ceiling of 25%) should be disclosed upfront in the scheme. Further, the funds utilized for reconstruction purposes should be separately accounted for.

(iii) Every SC/RC shall frame a policy, duly approved by the Board of Directors, laying down the broad parameters for utilization of funds raised from QIBs under such a scheme.

Every SC/RC shall maintain, on an ongoing basis, a capital adequacy ratio, which shall not be less than fifteen percent of its total risk weighted assets. The risk-weighted assets shall be calculated as the weighted aggregate of on balance sheet and off balance sheet items

#### Deployment of Funds

(i) A SC/RC, may as a sponsor and for the purpose of establishing a joint venture, invest in the equity share capital of a SC/RC formed for the purpose of asset reconstruction;

(ii) A SC/RC may deploy any surplus funds available with it, in terms of a policy framed in this regard by its Board of Directors, only in Government securities and deposits with scheduled commercial banks, Small Industries Development Bank of India, National Bank for Agriculture and Rural Development or such other entity as may be specified by the Bank from time to time;

(iii) No SC/RC shall, invest in land or building, - Provided that the restriction shall not apply to investment by SC/RC in land and buildings for its own use up to 10*per cent* of its owned fund, Provided further that the restriction shall not apply to land and building acquired by the SC/RC in satisfaction of claims in ordinary course of its

business of reconstruction of assets in accordance with the provisions of SARFAESI Act." Provided further that any land and / or building acquired by SC/RC in the ordinary course of its business of reconstruction of assets while enforcing its security interest, shall be disposed of within a period of five years from the date of such acquisition or such extended period as may be permitted by the Bank in the interest of realization of the dues of the SC/RC.

Every SC/RC shall, after taking into account the degree of well-defined credit weaknesses and extent of dependence on collateral security for realisation, classify the assets [held in its own books] into the following categories, namely

(a) Standard assets

(b) NPAs.

**The NPAs shall be classified further as**

(a) 'Sub-standard asset' for a period not exceeding twelve months from the date it was classified as NPA;

b) 'Doubtful asset' if the asset remains a sub-standard asset for a period exceeding twelve months;

(c) 'Loss asset' if (A) the asset is non-performing for a period exceeding 36 months;

(B) the asset is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or non-availability of security;

(C) the asset has been identified as loss asset by the SC/RC or its internal or external auditor;

(D) the financial asset including SRs is not realized within the total time frame specified in the plan for realization formulated by the SC/RC under Paragraph 7(6) (ii) or 7(6)(iii) and the SC/RC or the trust concerned continues to hold those assets.

(iii) Assets acquired by the SC/RC for the purpose of asset reconstruction may be treated as standard assets during the planning period, if any.

Every SC/RC shall make provision against NPAs, as under

- Asset Category Provision Required Sub-standard Assets A general provision of 10 *per cent* of the outstanding; Doubtful Assets

(i) 100 *per cent* provision to the extent the asset is not covered by the estimated realisable value of security;

(ii) In addition to item (i) above, 50*per cent* of the remaining outstanding.

Loss Assets- The entire asset shall be written off. (If, for any reason, the asset is retained in the books, 100 *per cent* thereof shall be provided for).

Every SC/RC shall, in addition to the requirements of schedule VI of the Companies Act, 1956, prepare the following schedules and annex them to its Balance Sheet

Continuing Disclosures:

- i) The names and addresses of the banks / FIs from whom financial assets were acquired and the value at which such assets were acquired from each such bank / FIs
- ii) Dispersion of various financial assets industry-wise and sponsor-wise. (Dispersion is to be indicated as a percentage to the total assets);
- iii) Details of related parties as per Accounting Standard and guidance notes issued by the ICAI and the amounts due to and from them; and
- iv) A statement clearly charting therein the migration of financial assets from standard to nonperforming.
- v) Value of financial assets acquired during the financial year either on its own books or in the books of the trust;
- vi) Value of financial assets realized during the financial year;
- vii) Value of financial assets outstanding for realization as at the end of the financial year;
- viii) Value of SRs redeemed partially and the SRs redeemed fully during the financial year;
- ix) Value of SRs pending for redemption as at the end of the financial year;
- x) Value of SRs which could not be redeemed as a result of non-realization of the financial asset as per the policy formulated by the SC/RC under Paragraph 7(6)(ii) or 7(6)(iii).
- xi) Value of land and / or building acquired in ordinary course of business of reconstruction of assets (year wise).]
- xii) The basis of valuation of assets if the acquisition value of the assets is more than the Book Value.
- xiii) The details of the assets disposed of (either by write off or by realization) during the year at a discount of more than 20 *per cent* of valuation as on the previous year end and the reasons therefor.
- xiv) The details of the assets where the value of the SRs has declined more than 20 *per cent* below the acquisition value.
- xv) The accounting policies adopted in preparation

#### Income recognition

- (i) Yield on SRs should be recognised only after the full redemption of the entire principal amount of SRs.
- (ii) Upside income should be recognized only after full redemption of SRs.
- (iii) Management fees should be calculated and charged as a percentage of the NAV at the lower end of the range of the NAV specified by the Credit Rating Agency (CRA) provided that the same is not more than the acquisition value of the underlying asset. However, management fees are to be reckoned as a percentage of the actual outstanding value of SRs, before the availability of NAV of SRs. Management fees may be recognized on accrual basis. Management fees recognized during the planning period must be realized within 180 days from the date of expiry of the planning period.

Management fees recognized after the planning period should be realized within 180 days from the date of recognition. Unrealised Management fees should be reversed thereafter. Further any unrealized Management fees will be reversed if before the prescribed time for realisation, NAV of the SRs fall below 50% of face value. However, SCs/RCs are allowed to write off the accrued unrealised Management Fee receivables prior to March 31, 2014 in a staggered manner in four half-yearly instalments over a period of two years, 2014-15 and 2015-16 subject to the disclosure of age wise such receivables in the Balance Sheet of the Company.

- (iv) The income recognition on all other items shall be based on recognised accounting principles;
- (v) All the Accounting Standards and Guidance Notes issued by the ICAI shall be followed in so far as they are not inconsistent with the guidelines and directions contained herein;
- (vi) Interest and any other charges in respect of all the NPAs shall be recognised only when they are actually realised. Any such unrealised income recognised by a SC/RC before the asset became non-performing and remaining unrealised shall be derecognised.



## **Audit Check List for Asset Reconstruction Companies**

1. To examine compliance with RBI Guidelines – ‘The Securitisation Companies and Reconstruction Companies (Reserve Bank) Guidelines and Directions, 2003’
2. To check whether there have been cases of Non-follow up of the RBI directives/Notifications issued from time to time.

The Reserve Bank of India vide Notification dated 1<sup>st</sup> July 2015 laid down various directives for the Securitization and Reconstruction Companies (Reserve Bank) Guidelines and Directions, 2003 (amended upto June 2015) keeping in view the public interest and to regulate the financial systems which shall not prove detrimental to the interest of the investors or in any manner prejudicial to the interest of the Securitization Company (SC)/Reconstruction Company (RC).

The guidelines *inter-alia* provided (Guideline No. 7 relating to Asset Reconstruction) that every SC/RC shall prepare a plan for realization of asset. SC/RC shall formulate the policy for realization of financial assets under which the period for realization does not exceed five years from the date of acquisition of the financial asset concerned (Paragraph 7(6)(ii)). If the same could not be realized within five years then the Board of Directors of the SC/RC may increase the period for realization of financial assets so that the total period for realization does not exceed eight years from the date of acquisition of financial assets concerned (Paragraph 7(6)(iii)) The steps taken by the Board of Directors of the respective SC/RC will have to specify steps proposed to be taken by them to realization of assets within a period of five years or eight years as the case may be.

Audit has to scrutinize and check records to ascertain whether there are financial assets which have not been realized within the above time period of five or eight years.

- 3) To check cases of inappropriate acceptance of borrowers under OTS.
- 4) To check cases of Acquisition of NPA which had past history of default in honouring payment commitment
- 5) To examine whether the Company has framed with the approval of its Board of Directors, a 'Financial Asset Acquisition Policy', within 90 days of grant of Certificate of Registration, which shall clearly lay down the policies and guidelines containing the norms and procedure for acquisition of Financial Assets, Valuation etc
- 6) Whether the Company, before bidding for the stressed assets, had sought from the auctioning banks adequate time, (not less than 2 weeks), to conduct a meaningful due diligence of the account by verifying the underlying assets
- 7) Whether the Company has framed a policy, duly approved by the Board of Directors, laying down the broad parameters for rescheduling of debts due from borrowers, duly supported by supported by an acceptable business plan, projected earnings and cash flows of the borrower
- 8) Whether the Company has framed a policy, duly approved by the Board of Directors, laying down the broad parameters for settlement of debts due from borrowers,

covering aspects such as cut-off date, formula for computation of realisable amount and settlement of account, payment terms and conditions, and borrower's capability to pay the amount settled

- 9) Whether the Company has deployed the surplus funds available with it, in terms of a policy framed in this regard by its Board of Directors, only in Government securities and deposits with scheduled commercial banks, Small Industries Development Bank of India, National Bank for Agriculture and Rural Development or such other entity as may be specified by RBI from time to time

10) Income recognition

- i) Whether amount realized on Resolution/Realization of Financial Assets (FA) is credited to respective FAs till the value of FAs becomes Nil. Amount realized from resolution of FAs subsequent to FA value becoming Nil is to be credited to Profit & Loss Account. Where the total amount realized from resolution of FAs is less than the cost, the shortfall is to be treated as loss and debited to Profit & Loss Statement.
- ii) To examine as to whether in case of Financial Assets acquired/resolved under Policy of Acquisition of Negotiated Financial Assets, interest on amount funded is realized in actual realization.
- iii) Whether the Yield on Security Receipts (SRs) is recognised only after the full redemption of the entire principal amount of SRs.
- iv) Whether Upside income is recognized only after full redemption of SRs.
- v) Whether Management fees is calculated and charged as a percentage of the NAV at the lower end of the range of the NAV specified by the Credit Rating Agency (CRA) provided that the same is not more than the acquisition value of the underlying asset. However, management fees are to be reckoned as a percentage of the actual outstanding value of SRs, before the availability of NAV of SRs. Management fees may be recognized on accrual basis. Management fees recognized during the planning period must be realized within 180 days from the date of expiry of the planning period. Management fees recognized after the planning period should be realized within 180 days from the date of recognition. Unrealised Management fees should be reversed thereafter. Further any unrealized Management fees will be reversed if before the prescribed time for realisation, NAV of the SRs fall below 50 per cent of face value. However, SCs/RCs are allowed to write off the accrued unrealised Management Fee receivables prior to March 31, 2014 in a staggered manner in four half-yearly instalments over a period of two years, 2014-15 and 2015-16 subject to the disclosure of age wise such receivables in the Balance Sheet of the Company.
- vi) To examine whether, in case of Non Performing Assets, (NPAs), as per Income Recognition and Asset Classification norms of RBI, interest income which had been recognized on accrual basis gets derecognized on the date of the Asset

becoming NPA and till the time the Asset is NPA, no further income should be recognized on the same on accrual basis.

- vii) To examine whether, in case of Non Performing Assets, (NPAs), as per Income Recognition and Asset Classification norms of RBI, interest income which had been recognized on accrual basis gets derecognized on the date of the Asset becoming NPA and till the time the Asset is NPA, no further income should be recognized on the same on accrual basis.
- 11) To check whether the Company is functioning as notified by RBI relating to Acquisition of financial assets, change or take-over of Management/Sale or lease of business of the borrower, rescheduling of debts, enforcement of security interest of SARFAESI Act, 2002 and Settlement of dues payable by the borrower
- 12) To check the Resolution of Assets/Recovery of Assets cases and Policy for acquisition of Negotiated Financial Assets for Restructuring
- 13) Whether the Company has, after taking into account the degree of well-defined credit weaknesses and extent of dependence on collateral security for realisation, classified the assets held in its own books into the following categories, namely (a) Standard Assets (b) Non Performing Assets (NPAs).
- 14) Whether Adequate Provisions have been made in Books as per RBI Prudential Norms in respect of NPAs
- 15) To check the classification of NPAs into Sub-Standard Asset, Doubtful Asset and Loss Asset along with the provisioning in Accounts as per norms.
- 16) Interest and any other charges in respect of all the NPAs shall be recognised only when they are actually realised. Any such unrealised income recognised by a SC/RC before the asset became non-performing and remaining unrealised shall be derecognised.
- 17) To review compliance with the Central Registry of Securitization Asset Reconstruction and Security Interest of India (CERSAI) guidelines, Rules and Regulations under SARFAESI Act.
- 18) To review the Policy for settlement of Debts due from borrowers.
- 19) All transactions of creation of mortgage by deposit of title deeds, securitization and asset reconstructions done by the Asset Reconstruction Companies (ARCs) covered under the SARFAESI Act have to be notified to the Central Registry within a period of 30 days from the date of the transaction as per the Central Registry of Securitization Asset Reconstruction and Security Interest of India (CERSAI) and Central Registry Rules, 2011. As per proviso to Section 23 of the Act read with Central Registry Rules, 2011, it is the discretion of the Central Registrar to allow the filing of particulars of such transactions or creation of security interest within 30 days next following the expiry of the said period of thirty days, on payment of such additional fee not exceeding ten times of the amount on the fees prescribed.

- 20) To examine the payment of additional fees on account of delay in filing particulars of security interest/securitization/asset reconstruction transaction with the Central Registry i.e. CERSAI
- 21) As per Section 77 of the Securitization and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002, it is the duty of every Company to register the particulars of the charge signed by the Company and the chargeholder together with the instruments, if any, creating such charge in such form, on payment of such fees and in such manner as may be prescribed, with the Registrar within thirty days of its creation which is creating a charge within or outside India, on its property or assets or any of its undertakings, whether tangible or otherwise, and situated in or outside India. The Registrar may allow such registration within a period of three hundred days of such creation on payment of additional fees as may be prescribed. However, where a Company fails to register the charge as per Section 77, the person in whose favour the charge is created shall apply for the registration which shall be entitled to recover from the Company the amount of any fees or additional fees paid to the Registrar for the purpose of registration of charge. To examine the records relating to the payments of fees as per Section 77 of the Act, and amount recovered by the Company from the Borrower Company towards delay in the filing of above charge with the Registrar with the Company
- 22) To check cases of One Time Settlement
- 23) To check Provisioning/Rating of Securities Receipts
- 24) To review the Board approved Financial Asset Acquisition Policy and Bidding Policy
- 25) To check whether the Company is functioning as notified by RBI relating to Acquisition of financial assets, change or take-over of Management/Sale or lease of business of the borrower, rescheduling of debts, enforcement of security interest of SARFAESI Act, 2002 and Settlement of dues payable by the borrower
- 26) To check the Resolution of Assets/Recovery of Assets cases and Policy for acquisition of Negotiated Financial Assets for Restructuring
- 27) To check the acquisition of assets as defined in Section 2(1) of the SARFAESI Act, 2002.
- 28) To examine the cases wherein extension of period of realization of Financial Assets has been granted.
- 29) To review the policy for Re-scheduling of Debts.
- 30) To review the Valuation Discounting Guidelines.
- 31) To review the Internal Audit Reports, RBI Audit Reports, Investment Policy and its compliances

## **8.1 ASREC (INDIA) LIMITED**

### **8.1.1 Introduction**

ASREC (India) Limited, a Public Limited Company incorporated under the Companies Act 1956 has been granted Certificate of Registration by RBI on October 11, 2004 to carry out activities under Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002.

The Company has been incorporated on 25.11.2003. The Company is a Central Government Company limited by Shares. The Company is an Unlisted Company. The Promoters of the Company are Allahabad Bank, Andhra Bank, Bank of India, Indian Bank, and Life Insurance Corporation of India. The Company acquires Non Performing Assets (NPAs) from the Banks / Financial Institutions at mutually agreed prices with the objective to maximise the returns through innovative resolution strategies.

ASREC positions itself as the multi lender ARC in the public sector aiming to earn the confidence of the financial system in the effective resolution of NPAs by operating in transparent manner with flexibility of the private sector. The Company is registered with Reserve Bank of India. The Company's Registered Office is at Mumbai.

### **8.1.2 Objectives**

The objective of the Company is to carry on the business of the Securitization of Assets and Reconstruction thereof under the provisions of Securitization and reconstruction of Financial Assets and Enforcement of Security Interest Act 2002 (SARFAESI Act) and the various guidelines issued by RBI from time to time. The Financial Assets are acquired from Banks and Financial Institutions either in the Trusts set up for the purpose or in its own Books.

### **8.1.3 Activities**

During the year 2017-18, the Company acquired 74 Non Performing Assets (NPAs) having a book value (total dues) of Rs 820.95 crore from four Banks and one Financial Institution as against 24 NPAs having book value (total dues) of Rs 565.46 crore from nine Banks in the previous year 2016-17. Total recoveries during the year ended 31 March 2018 amounted to Rs 140.36 crore from realization of Financial Assets.

Overall, the position of acquisition of NPAs by the Company since inception till 31 March 2018 worked out to 769 NPAs having aggregate book value (total dues) of around Rs 6911.01 crore from 44 Banks/Financial Institutions at acquisition price of Rs 1333.11 crore.

### **8.1.4 Organizational Set up**

The Company's Board has eight Directors, consisting of four Independent Directors, three Nominee Directors from Bank of India, Andhra Bank and Allahabad Bank. The Managing Director is the Chief Executive Officer of the Company.

The Company has a Valuation Committee of the Board comprising of four Directors. The scope of the Valuation Committee envisages deciding the values and acquisition of various financial assets offered for sale. The Company also has a Resolution Committee of the Board comprising of four Directors. The scope of the Resolution Committee envisages resolution of various Financial Assets acquired. The Company has a Company Secretary and Chief Financial Officer (CFO). The Financial Statements of the Company are authenticated by Chairman, Managing Director & Chief Executive Officer (CEO), CFO, two Directors and Company Secretary.

### 8.1.5 Capital Structure

The Authorized Share Capital of the Company is 12,50,00,000 Equity Shares of Rs 10 each aggregating to Rs 125 crore. The Issued, Subscribed and Paid Up Equity Share Capital of the Company is 9,80,00,000 Equity Shares of Rs 10 each aggregating to Rs 98 crore as on 31.03.2018.

The following table gives the Holding of Equity Shares in the Company as on 31.03.2018

Shareholders' name/Promoters	No. of Shares held as on 31.03.2018	% of Total Shares Held
Allahabad Bank	2,64,99,900	27.04 %
Andhra Bank	2,55,00,000	26.02 %
Bank of India	2,55,00,000	26.02 %
Indian Bank	1,10,00,000	11.22 %
LIC of India	90,00,000	9.18 %
Deutsche Bank	5,00,000	0.51 %
Specified Undertaking of Unit Trust of India	100	-
Total	9,80,00,000	100%

### 8.1.6 Budget and Planning

(Rs in crore)

Particulars	2015-16	2016-17	2017-18
	Actual	Actual	Actual
Capital exp	0.03	0.03	0.14
Revenue exp	8.33	7.82	8.43
Depreciation	0.33	0.31	0.31
Provision for Impairment	7.45	1.78	7.12
Revenue/Turnover	19.89	23.79	25.35
Net Profit (Before Tax)	3.77	13.87	9.48

### 8.1.7 Accounting System

The Company has a centralized Tally Accounting System for upkeep of the accounts. The Company maintains its accounts and prepares its financial statements in accordance

with the Companies (Accounting Standards) Rules, 2006 (as amended), Companies (Accounts) Rules, 2014, the provisions of the Companies Act, 2013 and guidelines issued by the Reserve Bank of India (RBI) under SARFAESI Act

Amount realized on Resolution/Realization of Financial Assets (FAs) is credited to respective FAs till the value of FAs becomes Nil. Amount realized from resolution of FAs subsequent to FA value becoming nil is credited to profit and loss statement. Similarly, if the total amount realized from resolution of FAs is less than its cost, the shortfall is treated as loss and debited to Profit and Loss Statement.

#### **8.1.8 Manpower Analysis**

The Company had 36 employees as on 31 March 2018, which consisted 26 managerial employees and 10 non – managerial employees

#### **8.1.9 MOU Targets and Achievements**

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

#### **8.1.10 Computerization**

The Company uses Tally Software for Accounting purpose.

#### **8.1.11 Internal Audit**

The Company conducts internal audit by engaging the services of independent and professional Chartered Accountant firms. The internal audit is carried out on a quarterly periodicity for the Company

#### **8.1.12 Act, Rules, Documents**

1. Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI Act)
2. Companies Act 2013 and the relevant Rules
3. Central GST Act 2017 and the relevant Rules
4. Income Tax Act 1961 and the relevant Rules
5. RBI Guidelines- - The Securitisation Companies and Reconstruction Companies (Reserve Bank) Guidelines and Directions, 2003
6. Banking Regulation Act 1949 and the relevant Rules
7. Banking Regulation (Amendment) Act 2017
8. Insolvency and Bankruptcy Code, 2016

#### **8.1.13 Operational Results**

(Rs. in crore)

Particulars	Year				
	2012-13	2013-14	2014-15	2015-16	2016-17
Number of NPAs reviewed	424	519	886	642	369
Value of NPAs reviewed	1045.41	5751.01	19644.22	5678.06	4172.03
Number of NPAs valued	316	316	432	137	145
Number of bids where declared (a) highest	44	39	105	43	24
No. of accounts acquired (b)	44	39	105	43	24
Success Ratio in percentage (b*100/a)	100%	100%	100%	100%	100%
Number of Trusts floated for acquiring NPAs	7	5	31	18	4
Total value of Trusts floated for acquiring NPAs	22.68	153.21	316.44	158.97	66.67

During the year 2017-18, the Company acquired 74 Non Performing Assets (NPAs) having a book value (total dues) of Rs 820.95 crore from 4 Banks and 1 Financial Institution as against 24 NPAs having book value (total dues) of Rs 565.46 crore from 9 Banks in the previous year 2016-17.

Total recoveries during the year ended 31 March 2018 amounted to Rs 140.36crore from realization of Financial Assets.

Overall, the position of acquisition of NPAs by the Company since inception till 31 March 2018 worked out to 769 NPAs having aggregate book value (total dues) of around Rs 6911.01 crore from 44 Banks/Financial Institutions at acquisition price of Rs 1333.11 crore.

The Revenue from Operations were as follows:

(Rs. in crore)

Particulars	2017-18	2016-17
Income from Investment in Financial Assets	10.24	10.11
Income from Investment in Security Receipts	2.77	4.96
Management Fee	12.17	8.12
<b>Total Revenue from Operations</b>	<b>25.19</b>	<b>23.19</b>

#### 8.1.14 Financial Working Results

The financial performance of the Company for the last two years ending 31 March 2018 was as under



(Rs in crore)

Particulars	2017-18	2016-17
<b>Revenue from Operation</b>	25.19	23.19
Other Income	0.16	0.60
<b>Total Income</b>	<b>25.35</b>	<b>23.79</b>
Expenses	15.87	9.92
<b>Profit Before Exceptional Items</b>	<b>9.48</b>	<b>13.87</b>
Exceptional Items	-	-
<b>Profit Before Tax</b>	<b>9.48</b>	<b>13.87</b>
Tax Expenses	3.44	4.99
<b>Profit for the year</b>	<b>6.03</b>	<b>8.89</b>

#### **8.1.15 Disinvestment (upto 2017-18)**

Not Applicable

#### **8.1.16 Environment Management**

Not Applicable

#### **8.1.17 Audit Checks**

The audit checks for the Asset Reconstruction Companies is given below the Functions of Asset Reconstruction Companies (ARC)

## **8.2 INDIA SME ASSET RECONSTRUCTION COMPANY LIMITED**

### **8.2.1 Introduction**

India SME Asset Reconstruction Company Limited (ISARC) was incorporated on 11 April 2008 and is registered with Reserve Bank of India as an Asset Reconstruction Company (ARC) to carry on the business of Securitization or Asset Reconstruction. It has four sponsors Small Industries Development Bank of India (SIDBI), SIDBI Venture Capital Ltd., United Bank of India and Bank of Baroda. Apart from the sponsors, various Public Sector Banks & Financial Institutions are also shareholders of the Company. Small Industries Development Bank of India (SIDBI) is the Associate Company. The Company's Registered Office is at Mumbai.

The Sponsor Nationalized Banks and Public Financial Institutions come under the purview of Ministry of Finance, Government of India. ISARC is in the business of purchasing of NPAs from the Banks / FIs based on valuations and resolution of the same by way of sale to prospective buyers or / and restructuring of the liabilities etc. The transactions are done either through the mode of Security Receipt or by way of cash in a commercial and transparent manner

India SME Asset Reconstruction Company Limited (ISARC) is an Asset Reconstruction Company (ARC) established under SARFAESI Act, 2002 as a specialized entity for NPA resolution. ARCS are established to acquire, manage and recover illiquid or Non-Performing Assets (NPAs) from Banks / FIs. This process would relieve the banking system of the burden of NPAs and would allow them to focus better on their core function of financing and development of new business opportunities so as to further strengthen the economy. ISARC endeavours to unlock the idle NPA assets for productive purposes which would facilitate greater and easier flow of credit from the banking sector.

### **8.2.2 Objectives**

The main objective of the Company is to carry on the business of Securitization and/or Asset Reconstruction. The Company is registered with Reserve Bank of India as an Asset Reconstruction Company (ARC) to carry on the business of Securitization or Asset Reconstruction under the provisions of The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002 (SARFAESI Act, 2002)

### **8.2.3 Activities**

Asset Reconstruction Companies (ARCs) play an important role in the financial ecosystem as this is an important mechanism to reconstruct/resolve bad loans and to put them back to work for the economy. In the country like India the opportunity for ARCs is huge considering high and increasing level of NPAs. The Government of India has passed the Insolvency and Bankruptcy Code (IBC) which, amongst others, provides for change in management of defaulting company and time bound resolution in a period of maximum 270 days or the defaulting company moves into liquidation.

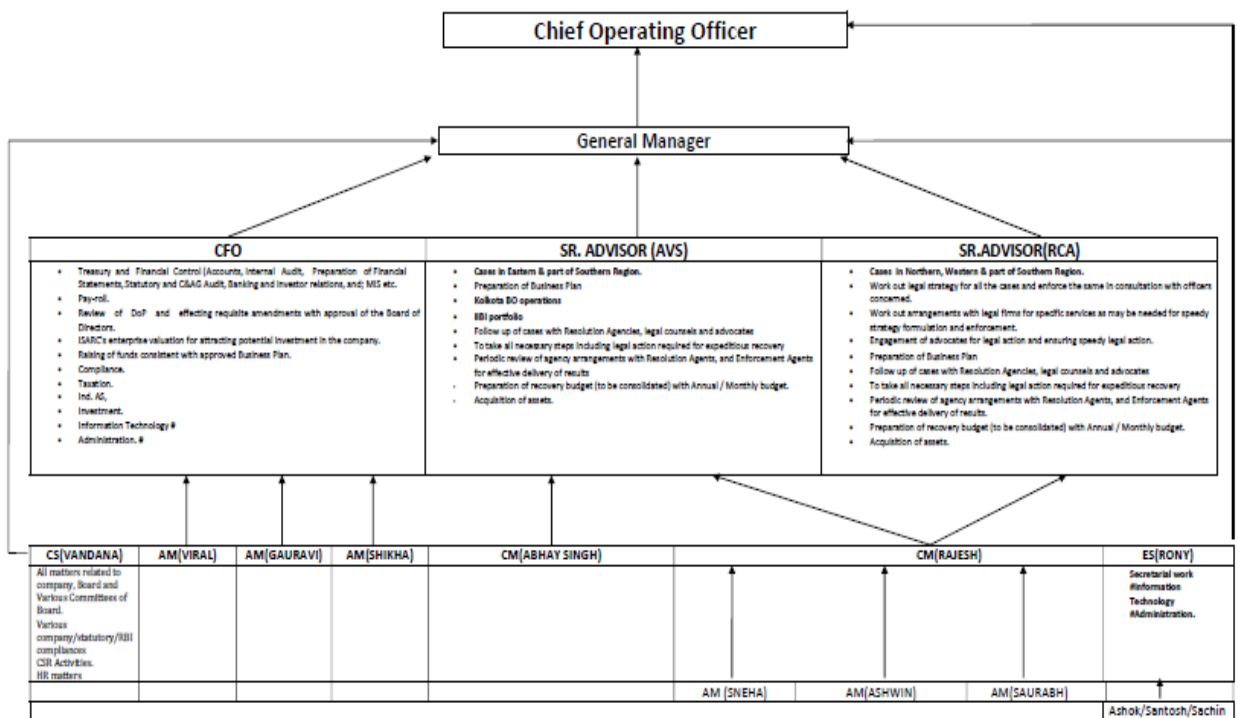
During the year 2017-18, the Company effected gross and net recovery (after management fees and all commissions and expenses) to the tune of Rs 34.11 crore and Rs 25.43 crore respectively. The cumulative gross recovery (since commencement of business) till 31 March 2018 aggregated to Rs 210.22 crore of which Rs 113.80 crore had been redeemed to Security Receipts (SR) Holders including ISARC.

### 8.2.4 Organizational Set up

The supervision of the overall operations and activities of the Company vests with the Board of Directors. The Company also has an Audit Committee. In order to execute the day to day operations, the necessary powers are delegated by the Board to the Chief Operating Officer. The Key Managerial Personnel of the Company are Chief Operating Officer, Chief Financial Officer/Compliance Officer and Company Secretary. The strength of the Company's Board of Directors consists of eight Directors, including the Chairman, Managing Director & Chief Executive Officer (CEO), three Independent Directors and three Nominee Directors (including the Chairman who is also the Nominee Director). The Company's Financial Statements are authenticated by two Directors, Company Secretary and Chief Financial Officer/Compliance Officer.

The Organogram of the Company is attached below.

#### Organisation Structure



### 8.2.5 Capital

The Authorized equity share capital of the Company as on 31 March 2018 is 10,00,00,000 Equity Shares of Rs 10 each aggregating to Rs. 100 crore.

The paid-up equity share capital of the Company as on 31 March 2018 is 10,00,00,000 Equity Shares of Rs 10 each aggregating to Rs. 100 crore.

The following is the list of shareholders holding shares more than 5 per cent equity as on 31.03.2018

Name of the Shareholder	No. of Equity Shares held on 31.03.2018	% of Equity Holding
Small Industries Development Bank of India	1,50,00,000	15 %
SIDBI Venture Capital Ltd	1,10,00,000	11 %
Bank of Baroda	1,00,00,000	10 %
United Bank of India	1,00,00,000	10 %
Punjab National Bank	90,00,000	9 %
Life Insurance Corporation of India	90,00,000	9 %
Total	6,40,00,000	64 %
Shareholders holding less than 9 % Equity		
Punjab & Sind Bank	50,00,000	5 %
UCO Bank	40,00,000	4 %
Bank of Maharashtra	40,00,000	4 %
Syndicate Bank	40,00,000	4 %
Corporation Bank	40,00,000	4 %
Dena Bank	40,00,000	4 %
Union Bank of India	40,00,000	4 %
Allahabad Bank	40,00,000	4 %
Oriental Bank of Commerce	19,00,000	1.90 %
Kerala Financial Corporation	3,50,000	0.35 %
Andhra Pradesh State Financial Corpn	3,50,000	0.35 %
Rajasthan Financial Corpn	1,00,000	0.10 %
APITCO Ltd	3,00,000	0.30 %
Total	3,60,00,000	36 %
Grand Total	10,00,00,000	100 %

### 8.2.6 Budget and Planning

Following is a brief outline of the targets and achievements of the Company for the two-year period ended 31 March 2018

(Rs in crore)

Years	2015-16		2016-17		2017-18	
	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	1.94	0.13	1.90	0.11	1.30	0.06
Revenue Expenditure	5.87	4.99	6.11	4.50	6.50	4.00
Revenue/Turnover	No Target Fixed	10.30	No Target Fixed	7.53	No Target Fixed	8.42
Profit After Tax		7.32		3.77		1.30

### 8.2.7 Accounting System

The Company has a centralized accounting system for upkeep of the accounts. The Company while maintaining its accounts and preparing financial statements observes the Indian generally accepted accounting principles (Indian GAAP), the Accounting standards applicable under section 133 of the Companies Act 2013, other relevant

provisions of the Companies Act 2013 and guidelines issued by Reserve Bank of India under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002 (SARFAESI Act).

#### **8.2.8 Manpower Analysis**

As on 31 March 2018, there were 19 officials including the COO who was assisted by President (1), CEO & Compliance Officer (1), Senior Advisor (2), Company Secretary (1), Chief Managers (2) and other staff (11).

#### **8.2.9 MOU Targets and Achievements**

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

#### **8.2.10 Computerization**

The Company does not have any third party developed application software.

#### **8.2.11 Internal Audit**

The internal audit function of the Company is under the functional operation of the Audit Committee. The internal audit is conducted by the Company on a quarterly basis by engaging the services of professional Chartered Accountant firms. The scope of the Internal Audit is proposed by the Audit Committee and approved by the Board.

#### **8.2.12 Act, Rules, Documents**

- i) Companies Act, 2013 and related Rules
- ii) Income Tax Act 1961 and the relevant Rules
- iii) Central GST Act 2017 and the relevant Rules
- iv) The Securitization Companies and Reconstruction Companies (Reserve Bank) Guidelines and Directions, 2003
- v) The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002 (SARFAESI Act, 2002);
- vi) Insolvency and Bankruptcy Code, 2016;
- vii) Recovery of Debts and Bankruptcy Act, 1993
- viii) Banking Regulation Act 1949
- ix) Banking Regulation (Amendment) Act 2017

#### **8.2.13 Operational Results**

During the year 2017-18, the Operating Income of the Company increased by 12.29 *per cent* (Rs 8.50 crore in FY 2017-18 and Rs 7.57 crore in FY 2016-17). The Total Expenses reduced by 25.26 *per cent* (Rs 4.29 crore in FY 2017-18 and Rs 5.74 crore in FY 2016-17).

Total recovery in FY 2017-18 effected by the Company was Rs 34.11 crore as compared to Rs 26.52 crore in FY 2016-17, thereby registering an increase of 28.62 *per cent*. The Company earned Profit After Tax of Rs 1.30 crore in FY 2017-18.

The Revenue from Operations were as follows:

(Rs. in crore)

Particulars	2017-18	2016-17
Management Fees	5.54	4.93
Yield on Security Receipts	1.30	1.19
Upside Income	1.30	1.22
Others		
Incentives	0.14	0.06
Commission Income	0.12	0.03
Processing Fees	0.01	0.10
<b>Total</b>	<b>8.43</b>	<b>7.53</b>

#### 8.2.14 Financial Working Results

The financial performance of the Company for the last two years ending 31 March 2018 was as under

(Rs. in crore)

Particulars	2017-18	2016-17
<b>Revenue from Operation</b>	8.42	7.53
Other Income	3.72	3.44
<b>Total Income</b>	<b>12.15</b>	<b>10.97</b>
Expenses	8.63	5.74
<b>Profit Before Exceptional Items</b>	<b>3.51</b>	<b>5.22</b>
Exceptional Items	--	--
<b>Profit Before Tax</b>	<b>3.51</b>	<b>5.22</b>
Tax Expenses	2.21	1.45
<b>Profit for the year</b>	<b>1.30</b>	<b>3.77</b>

#### 8.2.15 Disinvestment (Upto 2017-18)

Not Applicable to this Company

#### 8.2.16 Environment Management

Not Applicable to this Company

#### 8.2.17 Audit Checks

The audit checks for the Asset Reconstruction Companies is given below the Functions of Asset Reconstruction Companies (ARC)

## CHAPTER IX

### FINANCE- CAPITAL MARKETS COMPANIES

#### 9.1 SBI CAPITAL MARKETS LIMITED

##### 9.1.1 Introduction

SBI Capital Markets Limited (SBICAP), one of India's leading domestic Investment Banks, was incorporated on 2 July 1986, and began its operations in August 1986 and is wholly owned subsidiary and investment banking arm of State Bank of India (SBI), the largest Commercial Bank in India. It offers the entire bouquet of investment banking and corporate advisory services. The service bouquet includes full range of financial advisory services under one umbrella covering Project Advisory and Loan syndication, Structured Debt Placement, Capital Markets, Mergers & Acquisitions, Private Equity and Stressed Assets Resolution.

The Company is headquartered in Mumbai with 5 regional offices across India (Ahmedabad, Chennai, Hyderabad, Kolkata and New Delhi) and 5 subsidiaries (SBICAP Securities Limited, SBICAP Trustee Company Limited, SBICAP Ventures Limited, SBICAP (UK) Limited and SBICAP (Singapore) Limited, and one Associate Company SBI Pension Funds (P) Ltd.

The fee based activities of the Company are (1) Merchant Banking Activities Merchant Banking Services rendered by the Company consists of issue management services, private placement and credit syndication. (2) Advisory Activities Advisory Services rendered by the Company consists of project appraisal, corporate advisory infrastructure project advisory and syndication of loan.

##### 9.1.2 Objectives

The Principal Business Activities of the Company are Merchant Banking and Advisory services, contributing to 93.47 *per cent* of the total turnover of the Company.

##### 9.1.3 Activities

SBICAP offers the entire bouquet of investment banking and corporate advisory services. The service bouquet includes the full range of financial advisory services under one umbrella covering Project Advisory and Loan Syndication, Structured Debt Management, Capital Markets, Mergers & Acquisition, Private Equity and Stressed Assets Resolution. SBICAP also offers services in the areas of Equity Broking & Research, Security Agency & Debenture Trusteeship and Private Equity Investment and Asset Management through its wholly owned subsidiaries SBICAP Securities Ltd, SBICAP Trustee Co Ltd and SBICAP Ventures Ltd respectively

**The following are the functions of various Operational Groups of the Company**

1. Project Advisory & Structured Finance Group

- i) Debt, Mergers & Acquisition (M & A), Private Equity Advisory

- ii) Financial Advisory of Projects, Bid Advisory
- iii) Business Valuation and Joint Venture Advisory
- iv) Structured Finance- Acquisition, Leverage, Mezzanine Financing and Convertibles with Customized Solutions
- v) Corporate Restructuring/Debt Resolution Advisory inside and outside Corporate Insolvency Resolution Process

## 2. Investment Banking Group

Investment Banking Group specializes in assisting clients with fund raising and advisory transactions including private equity and Mergers & Acquisitions. The Equity Products and solutions offered by the Investment Banking Group include

- i) Public Issues including Initial and Follow on Public Offering (IPOs and FPOs) and Rights Issue
- ii) Private Placements including Qualified Institutional Placements (QIPs) and Institutional Placement Program (IPP)
- iii) Capital Market advisories including open offers, Buy Back and Delisting Offers
- iv) Offer for Sale (OFS) on the Stock Exchange
- v) Bulk and Block Trades on Exchanges and Off-Market transactions
- vi) Offerings of Convertible Securities
- vii) Arranging private equity including growth capital, pre-IPO convertibles, Private Investment in Public Equity (PIPE) and equity and equity offerings completed as a private placement
- viii) Capital Restructuring Advisory
- ix) Advisory and arrangement services for products such as Indian Depository Receipts (IDRs), American Depository Receipts (ADRs)/Global Depository Receipts (GDRs) and other offshore equity listing options
- x) Valuation advisory

The Debt Products and solutions offered by the Investment Banking Group include

- i) Private Placement of Non Convertible Debentures (NCDs)/Bonds (including Tax Free Bonds)
- ii) Public Issue of Bonds- Taxable and Tax Free Bonds
- iii) Foreign Currency Denominated Bonds
- iv) Masala Bonds
- v) Structured Debt/Securitization
- vi) Credit Enhanced Bonds
- vii) Municipal Bonds



- viii) Fund Raising Advisory

#### **9.1.4 Organizational Set up**

The Board of Directors of the Company comprised of eight directors, of whom two were Non Executive Independent Directors. The Chairman, Non executive Nominee Directors, Managing Director & the Chief Executive Officer (CEO), and Whole Time Directors are appointed by SBI. The following are the various Committees of the Board

- i) Committee of Directors
- ii) Audit Committee
- iii) Risk Management Committee
- iv) Corporate Social Responsibility Committee
- v) Human Resources Committee
- vi) Nomination and Remuneration Committee
- vii) Information Technology Strategy Committee

The following are the various Departments/Functional Heads

- i) Chief Risk Officer
- ii) Chief Financial Officer
- iii) HRD (Human Resources Development) Dept
- iv) PA & SF (Project Advisory and Structured Finance) Group
- v) ECM (Equity Capital Market) Group
- vi) DCM (Debt Capital Market) Group
- vii) Legal & Compliance
- viii) TIG (Treasury Investment Group)
- ix) IT (Information Technology) Group

The Authorized Signatories to the Company's Financial Statements are the Chairman, Managing Director & Chief Executive Officer (CEO), Senior Vice President & the Chief Financial Officer (CFO) and The Company Secretary.

#### **9.1.5 Capital Structure**

The Authorized Share Capital of the Company is 10,00,00,000 Equity Shares of Rs 10 each aggregating to Rs 100 crore and 10,00,000 Redeemable Preference Shares of Rs 100 each aggregating to Rs 10,00,00,000.

The Issued, Subscribed, and Paid up Capital of the Company as on 31.03.2018 was 5,80,33,711 Equity Shares of Rs 10 each, aggregating to Rs 58.03 crore

As on 31.03.2018, 100 *per cent* equity holding in the Company was held by State Bank of India.

### 9.1.6 Budget and Planning

The budgetary vis-à-vis actual results of the Company for the period 2015-16 to 2017-18 are as follows:

(Rs.in crore)

Particulars	2015-16	2016-17	2017-18
	Actual	Actual	Actual
Revenue Expenditure	258.61	203.32	190.77
Revenue/Turnover	683.90	515.89	540.12
Operational Result (Profit/(Loss)- PBT	425.29	312.57	349.35
Profit After Tax (PAT)	283.39	217.95	244.64

### 9.1.7 Accounting System

The financial statements of the Company are prepared in accordance with the generally accepted accounting principles in India under historical cost convention on accrual basis. Fee based segment provides merchant banking and advisory services like issue management, underwriting arrangement, project advisory and structured finance. Fund based segment undertakes deployment of funds in leasing/hire purchase and dealing in various securities. Fee based income Revenue consists of Issue management and advisory fees, fees for private placement.

### 9.1.8 Manpower Analysis

As on 31 March 2018, there were 418 officials including the Senior Vice President (9), Executive Vice President (2), Senior Manager (1), Manager (111) & others (295).

### 9.1.9 MOU Targets and Achievements

Not applicable since the Company is a wholly owned subsidiary Company of State Bank of India, (Nationalized Bank) which is the Holding Company. The Company is not a Central Public Sector Enterprise.

### 9.1.10 Computerization

The Company has an Information Technology (IT) Group which provides solutions for efficient business operations. Various initiatives towards digital transformation and governance have been taken. Statutory changes related to GST have been implemented in existing ERP solution. IT Group has undertaken upgrade of CRM lead management solution and intranet portal has been revamped.

### 9.1.11 Internal Audit

Internal Audit Reports relating to internal control weaknesses are mandatorily reviewed by the Audit Committee of the Board. The Performance of Internal Auditors is also reviewed by the Audit Committee. In addition, the structure of internal audit department, staffing and seniority of the official heading the department, coverage and frequency of Internal Audit is also reviewed by Audit Committee.

### 9.1.12 Act, Rules, Documents

- i) Companies Act 2013
- ii) Securities Contract (Regulation) act 1956
- iii) FEMA 1999
- iv) SEBI (Merchant Bankers) regulations 1992
- v) SEBI (Research Analyst) Regulations 2014
- vi) SEBI (ICDR) Regulations 2009
- vii) SEBI (Issue and Listing of Debt Securities) Regulations 2008

### 9.1.13 Operational Results

In 2017-18, the Company's operational performance was as follows:

Business Area		
Investment Banking Group – Equity Capital Market Group	29 equity issues	Rs 59377 crore being the issue amount raised in the market
Debt Capital Market Group	64 NCD Issuances	Rs 98834 crore being the amount raised
Project Advisory and Structured Finance Group	27 deals	Mandated Lead Manager for loans worth Rs 92239.80 crore

The Revenue from Operations were as follows:

(Rs in crore)

Particulars	2017-18	2016-17
<b>Merchant Banking and Advisory Fees</b>		
Issue Management	29.73	22.64
Arranger's Fees	9.66	30.43
Advisory Fees	357.08	380.66
<b>Sub-total</b>	<b>396.47</b>	<b>433.73</b>
<b>Other Operations (Income from Securities)</b>		
Interest Income	12.95	19.22
Profit/ (Loss) on Sale of Investments (Net)	3.55	2.73
Trading Profits / (Loss) on Stock in Trade (Net)	48.21	7.73
Dividend- Others	43.67	33.78
<b>Sub total</b>	<b>108.38</b>	<b>63.46</b>
<b>Grand total</b>	<b>504.85</b>	<b>497.19</b>

### 9.1.14 Financial Working Results

The Company's financial performance for year ended 31.03.2018 and 31.03.2017 is as follows:

(Rs. in crore)

Particulars	2017-18	2016-17
Revenue from Operation	504.85	497.19
Other Income	35.27	18.70
Total Income	540.12	515.89
Expenses	190.77	203.32

Profit/ (Loss) Before Exceptional Items	349.35	312.57
Exceptional Items	--	--
Profit/ (Loss) Before Tax	349.35	312.57
Tax Expenses	104.71	94.62
Profit/ (Loss) for the year	244.64	217.95

#### **9.1.15 Disinvestment (Upto 2017-18)**

Not applicable for The Company, since the Company is a wholly owned subsidiary of SBI, a Nationalized Bank

#### **9.1.16 Environment Management**

Not Applicable

#### **9.1.17 Audit Checks**

- i) To examine booking of Fee based Income

Issue management and advisory fees are recognised based on the stage of completion assignments and as per the terms of the agreement with the client, net of pass-through. Fees for private placement are recognised on completion of assignment.

Income from securities is derived from the following

- Gains and losses on the sale of securities are recognised on trade date.
- Dividend is accounted on an accrual basis where the right to receive the dividend is established.
- Interest is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable except interest in respect of non-performing / doubtful assets which is recognised on cash basis

- ii) To check the segment revenue in the category of Initial Public Offerings, Private Placement of Debt, Corporate Restructuring, Business Valuation, Mergers & Acquisitions, Project Appraisal and Loan Syndication. To also check the revenue received from advisory services on Securitisation and Structuring of Debts as mandated by the Company
- iii) To check Policies and Document of procedure for Investment Banking, Debts, Institutional Broking, Retail Broking and Wealth Management and its activities
- iv) To check Advisory Fees, Debt Syndication, Debt Restructuring, Issue Management, Valuations, Appraisals, etc.
- v) To examine that the Commission relating to public issue is accounted for on finalization of allotment of the public issue/receipt of information from intermediary
- vi) To check the core activities of the Company in respect of Investment Banking, Equity Capital Market Fund Raising Services, Private Equity Syndication, Buy

Back, delisting, Advisory Services like Financial appraisals, Techno-Economic Viability Studies, Distress Debt Resolution, Debt Syndication, Valuation, Institutional Stock Broking, Retail Stock Broking, Wealth Management etc and the Revenue generated therefrom

- vii) Income from Investment Banking comprises of Revenue from different activities of the organization and includes Revenue from Valuation Services, Vetting, Project Appraisal, Debt and Equity Issue Management, Investment Banking Services, Techno-Economic Viability Studies, and Lead Arranger Services, Debt Syndication, Debt Restructuring and related areas. To examine the recognition and booking of Revenue in respect of the same on the basis of accrual as and when amount becomes due on completion of various stages of assignment as per the terms and conditions of memorandum of Understanding entered into between The Company and the Clients and after assessing the certainty of its Recovery.
- viii) To examine Income from Wealth Management which comprises income from advisory and research fees and income from Mutual Fund distribution. Income from Mutual Fund distribution comprises brokerage received on distribution of Mutual Funds and other Investment Products. The Brokerage Amount includes both Trail Commission and Upfront Commission. To examine the same in Audit.
- ix) To examine whether Income from Term Deposits being the interest received from Bank in respect of Investment of the Surplus Funds for a long term period is recognized on accrual basis.
- x) To examine whether Income from Liquid Mutual Fund is recognized in the period in which the investment is redeemed and realized, and to examine the Major investments of the Company in liquid Mutual Funds, parked for Company's down-selling requirement
- xi) To check whether the Company is earning its fees, as per the Letter of Offer/Engagement Letter for the Mandates.
- xii) To check whether the Company is working as per the Clauses in Memorandum and Article of Association.
- xiii) To check whether the Company is ensuring compliances with SEBI, RBI, NSDL, NSE, BSE and any other regulatory authority as prescribed.
- xiv) To check whether the Company's procurements are in line with the Procurement Policies and CVC guidelines are followed.
- xv) To check whether the Company has done any analysis for continuation of the operations of the foreign subsidiaries and the parameters taken into consideration for feasibility of continuation of its operations
- xvi) To check License Agreement with SBI towards use of SBI logo

- xvii) To examine terms of agreement with the client in respect of Issue Management and Advisory Fees
- xviii) To check cases of waiver, write-off, de-accrual of debts, loans, interest, fees etc due to non materialization of deal, disputed fee amount, Liquidity crisis faced by client, Renegotiation of Fees etc.
- xix) To review the Employee Handbook on Business Travel by the employees of the Company- Foreign Travel and review the concerned cases accordingly.

## 9.2 BOB CAPITAL MARKETS LIMITED

### 9.2.1 Introduction

BOB Capital Markets Limited was incorporated on 11<sup>th</sup> March, 1996 as a wholly owned subsidiary of Bank of Baroda. It functions as category I Merchant Banker registered with Securities and Exchange Board of India (SEBI). It was a Primary Dealer till January 2007 registered with RBI.

The Primary Dealership operations of the Company were taken over by Bank of Baroda in January 2007. Thereafter the Company diversified its activities into Valuation Services, Vetting, Project Appraisal, Debt and Equity Issue Management, Merchant Banking Services and Lead Arranger-ship Services. The Company is also engaged in distribution of Mutual Funds of major asset management companies. During the year 2008-09 The Company has been registered as a Stock Broker with the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). The institutional dealing desk went live from 2009. The Company launched retail on-line trading in July 2012.

The main activities of the Company thus include Investment Banking, Debt Syndication, SEBI related advisory services, institutional stock broking, retail stock broking, wealth management and other advisory services. The Company has its presence only in Mumbai in which its Registered Office and the Corporate offices are located.

The Company is a SEBI registered Category-I Investment Banker and offers a whole spectrum of financial services that includes Initial Public Offerings, Private Placement of Debt, Corporate Restructuring, Business Valuation, Mergers & Acquisitions, Project Appraisal and Loan Syndication. It also undertakes advisory services on Securitisation and Structuring of Debts. Bank of Baroda is the Holding Company.

### 9.2.2 Objectives

The nature of business of the Company constitutes Investment Banking and Broking. The Principal Business Activities of the Company are Investment Banking and Stock Exchange Transactions comprising *75 per cent* and *25 per cent* respectively of the total Turnover of the Company as on 31 March 2018.

### 9.2.3 Activities

The main activities of the Company are as follows:

- 9.2.3.1 Investment Banking – Equity** The Equity Capital Market Fund Raising Services includes Initial Public Offers (IPO), Follow on Public Offers (FPOs), Rights Issue, Qualified Institutional Placements (QIP), etc; Private Equity syndication, Debt Syndication – Capital Market as well as Banks/Financial Institutions (FIs), SEBI related Advisory Services, i.e, Buyback, Delisting, Open Offer etc; Other Advisory Services, i.e, Financial Appraisals, Techno-Economic Viability Studies, Distress Debt Resolution, Debt Syndication, Valuation etc.

Services Offered in Public Capital Market and Private Market Fund raising are as follows:

- Capital Issues
- Buyback
- Takeovers
- Delisting
- M&A (Mergers and Acquisition Advisory)
- Valuation

#### **9.2.3.2 Investment Banking - Debt**

- Restructuring
- Project Finance Advisory
- Debt Syndication
- TEV (Techno Economical Valuation) Studies

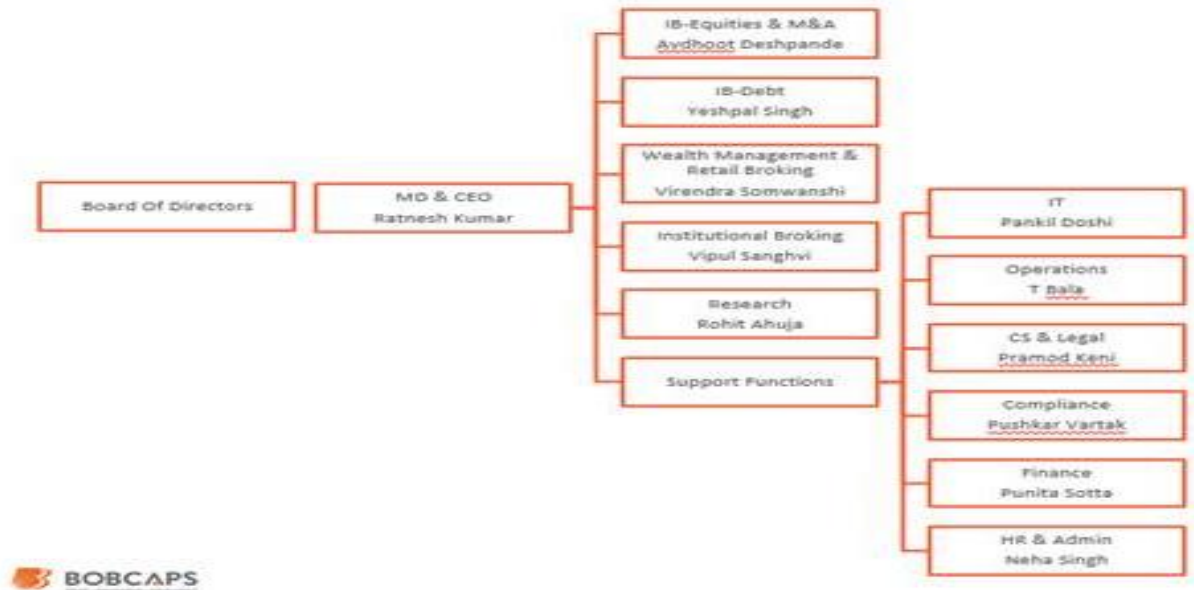
#### **9.2.3.3 Others-Institutional Broking, Retail Stock Broking and Wealth Management.**

The revenue for the Company is chiefly out of fees charged for its Investment Banking, Brokerage and Commission and Interest Income from Investments and Deposits

#### **9.2.4 Organizational Set up**

The Management of the Company is vested with the Board of Directors headed by Chairman. The Board consists of seven Directors including the Chairman, Managing Director and Chief Executive Officer (MD & CEO). The Chairman is assisted by the Managing Director and Chief Executive Officer in day to day business of the Company. The Authorized Signatories to the Company's Financial Statements comprise of Chairman of the Company, MD & CEO, one Whole Time Director, three Directors, two Independent Directors, Chief Financial Officer and Company Secretary.





### 9.2.5 Capital Structure

The Authorized, Issued, Subscribed, Paid Up Equity Share Capital of the Company as on 31 March 2018 is 1,00,00,000 Equity Shares of Rs 100 each aggregating to Rs 100 crore. As on 31 March 2018, 99,99,850 Equity Shares comprising 99.9985 per cent Equity Holding in the Company were held by Bank of Baroda, the Holding Company.

### 9.2.6 Budget and Planning

The following is a brief outline of the targets and achievements of the Company for the three-year period ended 31 March 2018

(Rs in crore)

Years	2015-16		2016-17		2017-18	
	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	1.00	0.23	0.50	0.72	1.20	1.02
Revenue Expenditure	13.00	8.52	14.50	7.65	22.63	24.63
Revenue/Turnover	27.50	11.10	18.00	6.35	25.91	14.29
Operational Result (Profit/(Loss))	13.50	2.58	3.00	(1.29)	3.28	(10.34)

### 9.2.7 Accounting System

The Company has a centralized system for upkeep of the accounts. The Company prepares its financial statements in accordance with the Indian Generally Accepted Accounting Principles (Indian GAAP), the Accounting standards specified under Section 133, other relevant provisions of the Companies Act 2013 and the circulars/guidelines issued by various regulatory authorities

### 9.2.8 Manpower Analysis

The Company had 112 employees as on 31 March 2018, out of which 22 were Managerial employees and the remaining 90 employees are non-managerial

### 9.2.9 MOU Targets and Achievements

Not Applicable, since the Company is a wholly owned subsidiary Company of Bank of Baroda, a nationalized Bank and not a Central Public Sector Enterprise (CPSE).

### 9.2.10 Computerization

The Company has ERP/IT system for Trading Business Setup. The IT system was audited in 2016-17, but not audited in 2015-16 and 2017-18.

### 9.2.11 Internal Audit

The internal audit of the Company is under the functional operation of the Audit Committee. The internal audit is conducted by engaging the services of the professional Chartered Accountant firm. Such audit is conducted by the Company on a half-yearly basis. Internal Audit Manual is not available. The Audit is conducted as per questionnaire given by Exchanges.

### 9.2.12 Act, Rules, Documents

- i) The Companies Act 2013 and the rules made thereunder.
- ii) Rules, Regulations and Bye-laws of BSE and NSE
- iii) Circulars issued by SEBI, BSE and NSE from time to time
- iv) RBI Guidelines
- v) SEBI Guidelines and circulars
- vi) GST Act 2018
- vii) SEBI Act 1992
- viii) Prevention of Money Laundering Act 2002

### 9.2.13 Operational Results

Working results of the Company for years 2012-13 to 2017-18 are as follows: -

(Rs. in crore)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Investment Banking Equity Advisory	3.44	1.16	0.10	0.67	0.02	2.18
Investment Banking Debt Advisory	0.63	2.14	11.71	8.92	4.91	8.59
Brokerage & Commission from SE Transaction	0.99	0.14	1.06	1.24	1.29	2.67
Brokerage & Commission from Wealth Management	0.01	0.06	0.02	0.00	0.00	0.04
Other Income#	11.86	12.35	14.24	3.41	11.08	8.64
Total Income	15.37	16.28	27.25	13.20	17.44	22.93
Employees Cost	3.21	3.29	3.66	5.10	4.30	17.27*

Interest	--	--	--	--	--	--
Depreciation	0.38	0.31	0.30	0.23	0.72	1.02
Provision	0.26	(0.67)	--	--	--	--
Other Expenses	2.85	3.43	3.38	3.41	3.34	7.35
Total Expenses	6.71	6.37	7.35	8.75	8.37	25.66
Profit before tax	8.66	9.90	20.03	15.67	9.06	(2.72)
Income Tax	2.69	3.04	6.28	5.28	3.46	(0.45)
Profit After Tax	5.96	6.86	13.60	10.28	5.60	(2.26)

\*The employee cost has increased from Rs4.30 crore in the year 2016-17 to Rs 17.27crore in 2017-18. This was stated to be due to increase in employee count from 51 to 110 across all the segments of the business through the year and support teams were also strengthened.

# It is seen from the above that the other income is higher than the operational income which is mainly due to the Companyhas invested its major portion of capital in fixed deposit with banks

The Company's 75per cent of the Total Turnover is from Investment Banking and 25 per cent of the Total Turnover of the Companyis from Stock Exchange Transactions as on 31 March 2018.

The Revenue from Operations were as follows:

(Rs.in crore)

Particulars	2017-18	2016-17
Investment Banking		
Equity Advisory	2.19	0.02
Debt Advisory	8.59	4.91
<b>Total Investment Banking Income</b>	<b>10.78</b>	<b>4.93</b>
Brokerage & Commission from		
Stock Exchange Transactions	2.67	1.29
Wealth Management	0.79	0.00
Debt Markets & Bond Distribution	0.04	0.13
<b>Total Revenue from Operations</b>	<b>14.29</b>	<b>6.35</b>

#### 9.2.14 Financial Working Results

The financial performance of the Companyfor the last two years ending 31 March 2018 was as under

(Rs. in crore)

Particulars	2017-18	2016-17
<b>Revenue from Operation</b>	14.29	6.35
Other Income	8.64	11.08
<b>Total Income</b>	<b>22.93</b>	<b>17.44</b>
Expenses	25.66	8.37
<b>Profit/ (Loss) Before Exceptional Items</b>	<b>(2.72)</b>	<b>9.06</b>
Exceptional Items	---	.----
<b>Profit/ (Loss) Before Tax</b>	<b>(2.72)</b>	<b>9.06</b>
Tax Expenses	(0.46)	3.46
<b>Profit/ (Loss) for the year</b>	<b>(2.26)</b>	5.60

#### 9.2.15 Disinvestment (Upto 2017-18)

Not Applicable, since there is no direct Central Government Holding in the Company. The Companyis a wholly owned subsidiary Company of Bank of Baroda, a nationalized Bank and is not a Central Public Sector Enterprise.

### **9.2.16 Environment Management**

Not Applicable

### **9.2.17 Audit Checks**

- 1) To check the segment revenue in the category of Initial Public Offerings, Private Placement of Debt, Corporate Restructuring, Business Valuation, Mergers & Acquisitions, Project Appraisal and Loan Syndication. To also check the revenue received from advisory services on Securitisation and Structuring of Debts as mandated by the Company
- 2) To check Policies and Document of procedure for Investment Banking, Debts, Institutional Broking, Retail Broking and Wealth Management and its activities
- 3) To check Advisory Fees, Debt Syndication, Debt Restructuring, Issue Management, Valuations, Appraisals, etc.
- 4) To examine that the Commission relating to public issue is accounted for on finalization of allotment of the public issue/receipt of information from intermediary
- 5) To check the core activities of the Company in respect of Investment Banking, Equity Capital Market Fund Raising Services, Private Equity Syndication, Buy Back, delisting, Advisory Services like Financial appraisals, Techno-Economic Viability Studies, Distress Debt Resolution, Debt syndication, Valuation, Institutional Stock Broking, Retail Stock Broking, Wealth Management etc and the Revenue generated therefrom
- 6) The Company has five income verticals viz. (i) Investment Banking which contains Capital issues, Buyback, Takeovers, Delisting, M&A and valuation and Private Equity. (ii) Investment Banking Debt containing Restructuring, Project Finance Advisory, Debt Syndication and TVS Studies/Vetting, (iii) Institutional Broking, (iv) Retail Broking and (v) Wealth Management. However, besides its traditional business of Investment banking and stock broking, the Company was trying to augment its revenue and exploring various opportunities. In view of this, the management felt as there is need to have different schemes to suit customers' needs which vary according to their different ages, having different risk appetites, coming from different economic backgrounds and seeking different assets classes by way of investment. The matter was discussed in the Company's Board Meeting No. 113 dated 29 July 2015 and Board has given in principal approval for setting up and implementation of Portfolio Management Scheme (PMS) The Company received the certificate from SEBI on March 2016, however, even after elapse of 34 months (as on October 2018) no activity of PMS had been initiated by the Company. The expenditure incurred thereon needs to be further examined in Audit along with present status thereof.
- 7) To check whether there has been any Infructuous expenditure incurred by the Company towards incorporation of Step-down subsidiary, "BOB Global Services Limited "
- 8) Income from Investment Banking comprises of Revenue from different activities of the organization and includes Revenue from Valuation Services, Vetting, Project Appraisal, Debt and Equity Issue Management, Investment Banking Services, Techno-

Economic Viability Studies, and Lead Arranger Services, Debt Syndication, Debt Restructuring and related areas. To examine the recognition and booking of Revenue in respect of the same on the basis of accrual as and when amount becomes due on completion of various stages of assignment as per the terms and conditions of memorandum of Understanding entered into between the Company and the Clients and after assessing the certainty of its Recovery.

- 9) To examine Income from Broking activities, which comprises of brokerage received on trades executed on the exchanges. To Examine brokerage income in relation to stock broking activity is on the date of transaction and is net of scheme incentives paid
- 10) To examine Income from Wealth Management which comprises income from advisory and research fees and income from Mutual Fund distribution. Income from Mutual Fund distribution comprises brokerage received on distribution of Mutual Funds and other Investment Products. The Brokerage Amount includes both Trail Commission and Upfront Commission. To examine the same in Audit.
- 11) To examine whether Income from Term Deposits being the interest received from Bank in respect of Investment of the Surplus Funds for a long term period is recognized on accrual basis.
- 12) To examine whether Income from Liquid Mutual Fund is recognized in the period in which the investment is redeemed and realized.
- 13) To review the Investment Policy of the Company along with the Minutes of the Investment Committee.
- 14) To examine whether Fixed Assets taken over from the Holding Organization (Bank of Baroda) are recorded at historical cost less accumulated depreciation/capitalized as on the date of assets taken over from BOB.
- 15) To review the POs for IT procurement and cross verify with the IT Procurement Policy.
- 16) To review the Royalty agreement of the Company with Bank of Baroda, if any.
- 17) To review the half-yearly/periodical reports sent by the Company to SEBI.
- 18) To check the figure of stock holdings as per financial ledger with the certificate furnished by Reserve Bank of India in SGL account.
- 19) To verify the records relating to buying and selling of securities with reference to rates prevailing at the particular time and date as per quotations available and ensure that the dealings were correctly made.
- 20) In respect of REPO transactions, its necessity with reference to Market conditions and individual abnormal losses incurred to be highlighted.

## **9.3 IDBI CAPITAL MARKETS AND SECURITIES LIMITED**

### **9.3.1 Introduction**

IDBI Capital Market & Securities Limited (Formerly IDBI Capital Market Services Limited) is a wholly owned subsidiary of IDBI Bank Ltd. ICMS is engaged in the business of Merchant Banking, Stock Broking, distribution of financial products, Corporate Advisory Services, Debt Arranging and Undertaking, Portfolio Management of Pension/ PF funds and Research services. For carrying out these activities, the Company has subscribed to dealings systems of Reserve Bank of India, National Stock Exchange and Bombay Stock Exchange for order execution and trade reporting in Government securities and equity market. A system of delivery versus payment is adopted for settlement and transfer of securities. The functioning of the Company is regulated by SEBI as regards to its Equity Broking and Merchant Banking services.

The Company was incorporated on 14 December 1993. It is registered with the Securities and Exchange Board of India (SEBI) as a Merchant Banker, Stock Broker, Depository Participant, Portfolio Manager and Research Entity. The Administrative Ministry of the Company is Ministry of Finance, Government of India.

The Company's Registered Office is at Mumbai. The Company operates through a network of 15 branches across the country. The Company does not have any Subsidiary Company or Joint Venture. The Company's Associate Company is IDBI Asset Management Ltd.

The Holding Company IDBI Bank Ltd holds 100 *per cent* Equity Holding in the Company. The Company held 33.33 *per cent* Equity Holding in IDBI Asset Management Company Ltd., its Associate Company.

### **9.3.2 Objectives**

The main objects of the Company are Stock Broking and Merchant Banking. The Principal Business Activities of the Company are Investment Banking and Retail Broking comprising 41.29 *per cent* and 40.22 *per cent* of the Total Turnover respectively of the Company for the year ended 31 March 2018.

### **9.3.3 Activities**

The Company is engaged in the business of offering a host of financial services under one umbrella ranging from Investment Banking, Corporate Advisory services, Retail and Institutional Stock Broking, distribution of Financial Products, Portfolio Management and Research services. The performance of the Company in FY 2017-18 was as follows:

#### **a) INVESTMENT BANKING**

In the Investment Banking space while the Capital Market vertical has registered a fourfold increase in their revenue, Mergers and Acquisitions (M&A) vertical improved their revenue by 41 *per cent*. The business from restructuring transactions declined due to change in the RBI Policy. The Company consolidated various lines of business and diversified by focusing on Mergers & Acquisition and IPOs, thus broad basing the revenue streams.

During fiscal 2018, the Company saw a surge in the number of initial public offerings (IPOs), qualified institutional placements (QIPs), Buybacks by corporates and divestment of PSU shares through Offer for Sale.

The Capital Market vertical successfully managed and concluded 5 equity public issuances during fiscal 2018 aggregating to Rs. 39.20 Billion, which included Housing & Urban Development Corporation Limited, Central Depository Services (India) Limited, Security and Intelligence Services (India) Limited, Bharat Dynamics Limited and Mishra Dhatu Nigam Limited. These public offerings managed by the Company received a positive response from the market. According to Prime Database, the Company ranked 13 in terms of number of IPOs managed in fiscal 2018. The Capital Market vertical expanded its product offering by establishing credentials in Qualified Institutional Placements (QIP) managing 3 QIPs aggregating to Rs. 22.52 billion in fiscal 2018, which included Vijaya Bank, Dena Bank and Syndicate Bank. According to Prime Database the Company ranked 14 in terms of number of QIPs managed in fiscal 2018 and ranked 6 in terms of number of QIPs managed in BFSI sector during the same period.

The Advisory vertical has focused on proposals for syndication of working capital, refinancing of debt and alternate modes of resolution such as Flexible Structuring (5/25), SDR, Outside SDR, etc. During the year ended March 31, 2018, the Investment Banking Group as a whole earned a gross revenue of Rs. 39.46 crore and Profit Before Tax (PBT) of Rs. 14.11 crore.

#### **b) PORTFOLIO MANAGEMENT SERVICES**

The Company manages funds on the debt side for four corporate clients. The Assets under Management at the end of the F.Y. 2018 stands at Rs. 7,952.65 Crore.

The return on investments during the F.Y. 2018 was 7.77 *per cent* for retirement funds and 6.52 *per cent* for the surplus funds. The respective benchmarks for the period stood at 6.93 *per cent* and 6.09 *per cent* respectively.

The Company launched Discretionary Equity Portfolio Management Services during F.Y. 2018. The corpus is Rs. 1.76 Crore as on 31<sup>st</sup> March, 2018. The strategy “IDBI Focus 2020” is aimed at tapping HNI/Ultra HNI clients. The Company is also in the process of engaging with IDBI Bank for marketing the PMS services. This will enable the Company to have several touch points across the country.

#### **c) INSTITUTIONAL EQUITIES**

The Institutional Equities Group has been able to increase its Gross Revenue by 23% on YoY basis. This was mainly due to increased client’s participation, deepening the business from the existing active clients and being a Buyer Broker for Buyback offers. The Group has assisted in Buy-Back mandates handled by the Capital Markets Group during FY 2018. The Group has initiated a campaign to activate dormant Bank treasuries and Domestic Institutional Investments (DII’s) by arranging road shows with the top management of several corporates. This Group earned gross revenue of Rs. 6.19 Crores and PBT of Rs 1.48 Crores during the year ended March 31, 2018.

#### **d) RETAIL BROKING**

The Retail Brokerage business has increased the topline by Rs. 6.17 Crores while the expenses have increased by Rs. 4.50 Crores, therefore increasing the profitability from Rs. 3.73 Crores in 2016-17 to Rs. 6.16 Crores in 2017-18. New client acquisition in Retail Broking has picked up momentum which registered a growth of 91%. During the FY 2017-18, the Retail Group has added over 21,000 new clients while adding segments like Currency Derivatives and BSE Star MF to the retail client offering. With a view to expand the reach of our Retail Broking services and tap the grassroots, three additional branches across India were launched by the vertical. Implementations of E-KYC for processing demat and trading accounts is at an advanced stage. The Group has launched the BSE Star MF Facility, the online platform for Mutual Fund investors to purchase and redeem their MF Units directly through BSE. The Group focused on providing additional features on its IOS and Android Mobile trading apps. The IOS based app now allows voice based trading through Apple Watch interface, while Android app will soon be provided with IPO, MF access and voice based securities trading.

#### **e) INVESTMENT MANAGEMENT – AIF**

The Company is entering the Alternative Investment Fund (AIF) space by partnering with the Government of Maharashtra for floating the Maharashtra Defence and Aerospace Venture Fund sponsored by the Maharashtra Industrial and Development Corporation (MIDC). The Company has been appointed as Investment Manager of the Fund and is awaiting regulatory clearances.

#### **9.3.4 Organizational Set up**

The Company has a Board of Directors that supervises the overall operation and activities of the Company. The functional committees of the Board include the Audit Committee, Nomination & Remuneration Committee and Corporate Social Responsibility (CSR) Committee.

As on the date of the Annual Report of the Company (August 2018) for THE YEAR ENDING (Y/E) 31.03.2018, the Board of Directors comprised of Five Directors, which includes the Managing Director & CEO and Four Non-Executive Directors out of which three were Independent Directors/Independent Category. As on 31.03.2018, the Board had four Independent Directors.

The Board has adopted Directors' Appointment and Evaluation Policy in terms of Section 178(3) and (4) of the Companies Act, 2013, describing the criteria for determining the qualifications, positive attributes and Independence of a Director, Review and Evaluation of the performance of Directors etc.

The Company also has a Remuneration Policy for Directors, Key Managerial Personnel and other employees. The MD & CEO shall be nominated by IDBI Bank Ltd and may be on deputation from IDBI Bank or as advised by IDBI Bank Ltd. Such appointment shall be subject to approval by the Company's Board of Directors

The Company's Financial Statements are authenticated by the Managing Director & Chief Executive Officer (CEO), one Director, Chief Financial Officer (CFO) and Company Secretary.



### 9.3.5 Capital Structure

The Authorized Equity Share Capital of the Company as on 31 March 2018 was 20 crore equity shares of Rs 10 each aggregating to Rs. 200 crore and the issued, subscribed, and paid-up equity share capital as on 31 March 2018 was 12.81 crore equity shares of Rs 10 each aggregating to Rs. 128.10 crore, all of which are held by IDBI Bank Ltd (the Holding Company).

### 9.3.6 Budget and Planning

Following is a brief outline of the targets and achievements of the Company for the three-year period ended 31 March 2018

(Rs in crore)

Years	2015-16		2016-17		2017-18	
	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	--	4.97	-	0.97	-	2.17
Revenue Expenditure	50.5	53.69	55	82.03	65	75.55
Revenue/Turnover	87.25	67.94	90	84.75	105	95.57
Operational Result (Profit)	36.75	14.25	35	2.72	40	20.02

### 9.3.7 Accounting System

The Company has a centralized system for upkeep of the accounts. The Company prepares its financial statements in accordance with the Indian Generally Accepted Accounting Principles (Indian GAAP), the Accounting standards specified under Section 133, other relevant provisions of the Companies Act 2013 and the circulars/guidelines issued by various regulatory authorities

### 9.3.8 Manpower Analysis

The Company had 272 employees as on 31 March 2018, out of which 135 were Managerial employees and the remaining 137 employees are non-managerial.

### 9.3.9 MOU Targets and Achievements

Not Applicable since the Company is not a Central Public Sector Enterprise. (CPSE).

### 9.3.10 Computerization

During 2015-16 to 2017-18, the Company had IT system in use- TCS Trading Front End for Retail, Omnesys Trading Front End for Institution.

### 9.3.11 Internal Audit

The internal audit of the Company is under the functional operation of the Audit Committee. The internal audit is conducted by engaging the services of the professional Chartered Accountant firms. Such audit is conducted quarterly

### 9.3.12 Act, Rules, Documents

- i) The Companies Act 2013 and the rules made thereunder.
- ii) Rules, Regulations and Bye-laws of BSE and NSE

- iii) Circulars issued by SEBI, BSE and NSE from time to time
- iv) SEBI regulations pertaining to stock broking, merchant banking, portfolio management, depository participants, research and AIFs

### 9.3.13 Operational Results

#### Revenue from Operations

(Rs in crore)

Particulars	2017-18	2016-17
Brokerage, Commission, Fees	82.58	73.87
Portfolio Management Fees	0.21	0.18
Income from Depository Services	0.57	0.70
<b>Total</b>	<b>83.36</b>	<b>74.75</b>

### 9.3.14 Financial Working Results

The financial performance of the Company for the last two years ending 31 March 2018 was as under

(Rs. in crore)

Particulars	2017-18	2016-17
Revenue from Operations	83.36	74.75
Other Income	12.21	10.00
<b>Total Income</b>	<b>95.57</b>	<b>84.75</b>
Total Expenses	75.55	82.03
Profit/(Loss) before depreciation, tax and write-off of preliminary expenses	22.34	4.71
Depreciation	2.32	1.99
<b>Profit Before Tax</b>	<b>20.02</b>	<b>2.72</b>
Less Provision for Tax- Current Tax	8.40	0.56
Minimum Alternate Tax Credit Entitlement	--	(0.56)
Tax for Previous Year	0.96	0.40
Deferred Tax	(0.96)	--
<b>Profit/(Loss) After Tax</b>	<b>11.62</b>	<b>2.32</b>

### 9.3.15 Disinvestment (Upto 2017-18)

Not Applicable since the Company's Holding Company is IDBI Bank. There is no direct Central Government Holding in the Company.

### 9.3.16 Environment Management

Not Applicable

### 9.3.17 Audit Checks

- i) To examine whether the total consideration paid or received on purchase or sale, on outright basis, of coupon-bearing debt securities is identified separately as principal consideration and accrued interest. Amount paid as accrued interest on purchase, and received on sale, of such securities is netted and reckoned as expense or income by way of interest

- ii) To examine whether the interest on fixed coupon debt securities, held as on the Balance Sheet date, is accrued for the broken period at the coupon rate. Interest on floating rate securities is accrued at rates determined as per the terms of the issue
- iii) To examine whether the Profit on Sale of Investments is recognized on the settlement date. It represents the excess of Sale / Redemption proceeds over the acquisition cost. Cost is determined on a weighted average basis. Profit on sale of Investments is netted with loss on sale of Investments.
- iv) To examine whether the Devolvement of equity shares in respect of issues underwritten by the Company are treated as investments. Underwriting income on these issues are credited to profit and loss account and not netted against the value of investments.
- v) To examine whether the Brokerage and commission earned on secondary market operations is recognized on the basis of trade dates. Brokerage on online portal operations is recognized on the basis of trade dates. Brokerage and commission in respect of issue marketing and resource mobilization are accrued to the extent of availability of information. Depository, Portfolio Management and other fees are accounted for on accrual basis. Dividend is recognised when the Company's right to receive payment is established by the balance sheet date. Revenue excludes Service Tax/GST, wherever recovered. Revenue from issue management, loan syndication and financial advisory services is recognised as per terms of agreement with the client
- vi) **Futures & Options**
  - a) To examine whether the Initial Margin payable at the time of entering into futures contract / sale of options is adjusted against the deposits with the exchanges in the form of fixed deposits, cash deposits and securities.
  - b) To examine whether the transactions in Future contracts are accounted as Purchase and Sales at the notional trade value of the contract. The open interest in futures as at the Balance Sheet date is netted by its notional value.
  - c) To examine whether the difference in the settlement price or exchange closing price of the previous day and exchange closing price of the subsequent day, paid to or received from the exchange is treated as Mark to Market Margin. The balance in the Mark to Market Margin Account represents the net amount paid or received on the basis of movement in the prices of open interest in futures contracts till the balance sheet date. Net debit balance in the Mark to Market Margin Account is charged off to revenue whereas net credit balance is shown under current liabilities.
  - d) To examine whether the Premium paid or received on purchase and sale of options and the difference paid or received on exercise of options is accounted as Purchases or Sales. In case of open interest in options sold as on the balance sheet date, provision is made for the amount by which premium prevailing on the Balance Sheet date exceeds the premium received for those options. The

excess of premium received over the premium prevailing on the Balance Sheet date is not recognised. Similarly, in case of options bought, provision is made for the amount by which the premium paid for the option exceeds the premium prevailing on the Balance Sheet date and the excess of premium prevailing on the Balance Sheet date over the premium paid is ignored. In case of multiple open positions, provision is made or excess premiums are ignored after netting off the balances in buy as well as sell positions.

vii) **Interest Rate Swaps**

To examine whether the Assets and Liabilities in respect of notional principal amount of Interest Rate Swaps of the discontinued operations pertaining to Primary Dealership operations are netted. Gain or loss on Interest Rate Swaps is accounted for on due dates as per the terms of the contract.

viii) **Foreign Currency Transactions**

To examine whether the foreign currency transactions are recorded at the rates of exchange prevailing on the date of the transaction. At the year end, monetary items denominated in foreign currency are reported using the closing rate of exchange. Exchange difference arising thereon and on realization / payments of foreign exchange are accounted as income or expenses in the relevant year

- ix) To examine whether the Purchases and sales of dated government securities, treasury bills and other securities in the nature of stock in trade are disclosed in the Profit and Loss Account, with a view to indicating the turnover of funds of the Company and include only outright transactions. For this purpose, sales also include redemption proceeds, if any, when these securities are held by the Company till the date of maturity.
- x) The objective of the Investment policy of the Company is to maintain a portfolio of investments ensuring effective management of the funds of the Company towards maximizing capital gains, trading profits and interest income and prudent management of market/ price risk on the investment portfolio. Since the Company is guided by an investment policy for prudent investment decisions, the decision to invest towards a particular investment should be a decision taken by the Board after assessing the profitability aspects rather than on the basis of request/ advice received by IDBI Bank. The same needs to be examined in Audit.
- xi) To test check the cases on segment revenue like investment banking services, institutional equity broking services, retail broking, treasury operations and others
- xii) To review the periodical reports sent by the Company to SEBI.
- xiii) The Company offers financial advisory services including the advisory for Corporate Debt Restructuring (CDR) Package for its clients. Audit to check whether invoices for the fees are raised based on the milestones achieved by the Company as stated in the Offer Letter of Engagement and major part of fees is payable by the

client on approval of package by CDR Empowered Group (CDR EG) and Execution of Master Restructuring Agreement (MRA) between CDR EG and the client.

- xiv) To review the Royalty Agreement of the Company with IDBI for using its logo and brand

## **9.4 STCI COMMODITIES LIMITED**

### **9.4.1 Introduction**

STCI Commodities Ltd is a wholly owned subsidiary of STCI Finance Limited which provides brokerage, investment and advisory services in Indian Commodities Markets. The Company is a member of two of India's largest online commodities exchanges namely MCX and NCDEX in addition to membership in NCDEX Spot Exchange.

The Company was incorporated on 20 September 2004 with the object of carrying on the business of trading and broking in commodities on the various Commodity Exchanges, i.e., Multi Commodity Exchange, and National Commodity and Derivative Exchange, Mumbai. The Company's Registered Office is at Mumbai.

STCI Finance Ltd is the Holding Company, and STCI Primary Dealer Ltd is the Fellow Subsidiary Company.

The Broking Operations (core business) were discontinued with effect from 20 September 2011. Since then, the Company had settled almost all its clients' outstanding accounts and surrendered its NCDEX membership. During the year 2017-18, MCX also approved the Company's application for surrender of its membership with effect from 4 July 2017.

Recently, the parent Company has taken a policy decision to exit the commodity broking business by sale of this subsidiary

### **9.4.2 Objectives**

The Company was incorporated the object of carrying on the business of trading and broking in commodities on the various Commodity Exchanges, i.e., Multi Commodity Exchange, and National Commodity and Derivative Exchange, Mumbai

### **9.4.3 Activities**

The Company did not have any Revenue from Operations in FY 2016-17 and FY 2017-18. The core business of the Company has been completely stalled from 20 September 2011.

### **9.4.4 Organizational Set up**

The Company has a Board of Directors. The Company's Financial Statements are authenticated by two Directors. The Company discontinued its commodity broking operations with effect from 20 September 2011. Since then, the Company has been liquidating its Assets, paying off its clients' dues, settling its pending legal cases and surrendering its membership with Multi Commodity Exchange and National Commodity and Derivative Exchange.

#### **9.4.5 Capital Structure**

The Authorized Equity Share Capital of the Company as on 31 March 2018 is 50 lakh equity shares of Rs 10 each aggregating to Rs 5 crore. The Issued, Subscribed and Paid Up Equity Capital of the Company is 45 lakh equity shares of Rs 10 each fully paid up aggregating to Rs 4,50,00,000.

STCI Finance Ltd., the Holding Company, holds 44,70,000 Equity Shares as on 31.03.2018, which constituted 99.34 *per cent* Equity Holding in the Company.

#### **9.4.6 Budget and Planning**

The Company did not have any Revenue from Operations in FY 2016-17 and FY 2017-18. The core business of the Company has been completely stalled from 20 September 2011. Hence, Not Applicable.

#### **9.4.7 Accounting System**

The financial statements are prepared on accrual basis. The Accounts continue to have not been prepared on the assumption of going concern basis since FY 2011-12 (AS-1). The Financial Statements of the Company are prepared as per the Accounting Standards (AS) specified under Section 133 of the Companies Act 2013, read with Rule 7 of the Companies (Accounts) Rules, 2014.

#### **9.4.8 Manpower Analysis**

The core business of the Company has been completely stalled from 20 September 2011. The Company does not have any Staff expenses booked in the Accounts for Year ended 31.03.2018 and 31.03.2017. Thus, the Company does not have any Manpower since the Company is defunct.

#### **9.4.9 MOU Targets and Achievements**

Not applicable since the Company is not a Central Public Sector Enterprise (CPSE).

#### **9.4.10 Computerization**

No details are available since the core business of the Company has been completely stalled from 20 September 2011

#### **9.4.11 Internal Audit**

As per Annexure B to the Statutory Auditors' Report for FY 2017-18, the Statutory Auditors of the Company have expressed an opinion that there were adequate financial control systems over financial reporting which were operating effectively as on 31 March 2018.

#### **9.4.12 Act, Rules, Documents**

- i) Companies Act 2013
- ii) Rules, Bye-laws and Business Rules of Commodity Exchanges and Forward Market Commission

#### 9.4.13 Operational Results

The Company did not have any Revenue from Operations in FY 2016-17 and FY 2017-18. The core business of the Company has been completely stalled from 20 September 2011. Hence, Not Applicable

#### 9.4.14 Financial Working Results

(Rs in lakh)

Particulars	FY 2017-18	FY 2016-17
Revenue from Operations	--	--
Other Income	19.70	10.92
Total Revenue	19.70	10.92
Total Expenses	3.45	2.06
Profit Before Tax	16.24	8.85

#### 9.4.15 Disinvestment

Not Applicable

#### 9.4.16 Environment Management

Not applicable

#### 9.4.17 Audit Checks

- i) The main Audit point to be checked is the expenditure being incurred by the Company since 2011 onwards, though the core operations of the Company have been wound up from 20 September 2011.
- ii) To examine booking of Interest Income on Fixed Deposit Receipts held by the Company
- iii) To examine write-offs of excess Provisions
- iv) To examine booking of Miscellaneous Income comprising *inter alia* of Refund of unutilized balance of Advance Minimum Transaction Charges (AMTC)/ Minimum Usage Fee (MUF) by MCX on acceptance of surrender of membership
- v) To examine amount payable by NCDEX e Markets Ltd as payable to the Company after netting off pending annual membership charges, in view of closure of commodity broking operations
- vi) The Company had discontinued its broking operations since September 2011. To examine whether all the Client and Exchange Dues have been repaid in full.
- vii) To examine cases where repayment of client and franchisee credit balances could not be completed as the final settlement cheques issued to the clients were either not deposited by the clients or were returned back to the Company. The same have been booked as Trade Payables, to be examined in Audit



## CHAPTER X

### FINANCE - FACTORING SERVICES

#### **Introduction**

Factoring is a financial arrangement, wherein a financial institution (Factor) purchases the accounts receivable of a seller (Client) of goods and services, and pays up to 80 *per cent* to 90 *per cent* of the due amount to the Client immediately. Factoring is transaction whereby the client selling goods or services on open account terms, i.e. without insisting on a fixed due date for receiving payment from the buyer, as would be under Bill of Exchange/LC (Letter of Credit), invoices the goods/services to a buyer; assigns the invoices to the Factor and receives prepayment up to 80-90 *per cent* of the invoice value immediately. The Client assigns the Accounts Receivable to the Factor, who pays the remaining amount to the Client when the buyer (Customer) actually makes the payment for the transactions. The Factor charges Interest (Discount charges) and Service Charges. Factoring thus provides assistance in the form of working capital for the Client, by immediately converting part of credit sales into Cash.

#### **Role of Factoring**

The Factoring Act 2011 defines the 'Factoring Business' as the business of acquisition of receivables of assignor by accepting assignment of such receivables or financing, whether by way of making loans or advances or in any other manner against the Security interest over any Receivables.

Factoring is Receivables Management and Financing Service designed to accelerate the seller's Cash Flow. It helps to generate instant liquidity and allow business continuity without disruption. It is funding of Accounts Receivable against Assignments in favour of a Factor with or without recourse. In "with recourse" factoring, in the event of the buyer failing to pay on maturity, the seller has to pay back the advance obtained from the factor. In "non-recourse" factoring, Factor provides finance and bears the risk of default in case of non-payment by the buyers. Factoring service in India is offered with recourse, i.e., with the right of the Factor to claim Bad Debts from Client in the event of default by the Customer. Factoring transfers risk from weaker Micro, Small and Medium Enterprises (MSME) Sellers to relatively stronger corporate buyers, thereby offering for the economy at large, a less risky option for financing MSMEs.

#### **Regulatory Framework- Factoring**

The organizations providing Factoring services under the jurisdiction of audit are Non Banking Financial Company Factor (NBFC-Factor). The Non Banking Financial Company-Factor (NBFC-Factor) "means a non-banking financial company as defined in clause (f) of section 45-I of Reserve Bank of India (RBI) Act 1934, which has its principal business as defined in para 6 of these directions and has been granted a certificate of registration under sub section (1) of Section 3 of the Act; Every Company seeking Registration as NBFC-Factor shall have a minimum Net Owned Fund (NOF) of Rs 5 crore. Existing Companies seeking registration as NBFC-Factor but do not fulfill the NOF Criterion of Rs 5 crore may approach the Bank for

time to comply with the requirement. An NBFC Factor shall ensure that its financial assets in the factoring business constitute at least *75 per cent* of its total assets and its income derived from factoring business is not less than *75 per cent* of its gross income. An existing NBFC registered with RBI and conducting factoring business that constitutes less than *75 per cent* of the total assets/income shall have to submit it to RBI within six months from the date of Notification, a letter of its intention, either to become a Factor, or to unwind the business totally, and a road map to this effect. However, such NBFCs shall raise the asset/income percentage as required above or unwind the factoring business within a period of 2 years from the date of this Notification. They will be granted Certificate of Registration as NBFC-Factors only after they reach the required asset/income percentage.

Factoring is to be treated on par with loans and advances and accordingly, extant prudential norms on loans and advances would be applicable to this activity. The funds provided to the Company in exchange for the Accounts receivable is also not subject to any restrictions regarding use (with reference to Annexure to RBI Circular dated 20 July 2015)

**RBI Prudential Norms – Identification as Non Performing Assets (NPA)** The receivable acquired by an NBFC- Factor which is not paid within such period of its due date, as applicable in terms of Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015 or Non-Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015 or Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007, should be treated as Non-Performing Asset (NPA) irrespective of when the receivable was acquired by the NBFC - Factor or whether the factoring was carried out on “with recourse” basis or “non-recourse” basis.

**RBI Norms for Risk Management by NBFC Factors** - Proper and adequate control and reporting mechanisms should be put in place before such business (Factoring) is undertaken.

NBFC-Factors should carry out a thorough credit appraisal of the debtors before entering into any factoring arrangement or prior to establishing lines of credit with the export factor. Factoring services should be extended in respect of invoices which represent genuine trade transactions. Since under ‘without recourse’ factoring transactions, the factor is underwriting the credit risk on the debtor, there should be a clearly laid down board-approved limit for all such underwriting commitments

Factoring Services Companies in India are as follows:

**Factoring Companies**

- i) SBI Global Factors Ltd
- ii) Canbank Factors Ltd
- iii) IFCI Factors Ltd
- iv) India Factoring and Finance Solutions Development (Pvt) Ltd

**Banks offering Factoring Services**

- i) HSBC India
- ii) Citibank NA
- iii) Small Industries Development Bank of India
- iv) Standard Chartered Bank

There is only one Company doing Factoring business which is being audited by the Office of The Director General of Commercial Audit and MAB-I, Mumbai, being SBI Global Factors Ltd. The said Company, SBI Global Factors Ltd, a subsidiary of State Bank of India, is a Non-Banking Financial Company regulated by Reserve Bank of India. SBI Global Factors Ltd is headquartered in Mumbai with 10 Branches across India and the functioning of the Company is given below:

## **10.1 SBI GLOBAL FACTORS LIMITED**

### **10.1.1 Introduction**

SBI Global Factors Ltd (SBIGFL), a subsidiary of State Bank of India, is Non-Banking Financial Company regulated by Reserve Bank of India. SBIGFL is involved in the provision of Domestic and Export Factoring services. It is headquartered in Mumbai with 10 Branches across India (including Mumbai). SBIGFL aims to be India's premier factoring company. The Company is a Member of Factors Chain International (FCI) which is an umbrella organisation of worldwide factoring companies. The Company has been incorporated on 13 March 2001.

SBIGFL has been created out of merger of two leading Factoring Companies viz. SBI Factors & Commercial Services Pvt. Ltd & Global Trade Finance Ltd. in the year 2010. Post-merger, Company was renamed as 'SBI Global Factors Ltd.' with effect from 18th March 2010. The Company is under the Control of Reserve Bank of India and State Bank of India.

### **10.1.2 Objectives**

The Company is involved in factoring business. The nature of Business of the Company is Financial Services-NBFC-Factor.

### **10.1.3 Activities**

The Company is engaged in the business of Non-Banking Financial Institution and has obtained a Certificate of Registration (CoR) dated 23<sup>rd</sup> March, 2015 from the Reserve Bank of India Department of Non-Banking Supervision -Mumbai, Regional Office. The Principal Business Activities of the Company comprising 10 *per cent* or more of the total Turnover of the Company as on 31.03.2018 are Core Factoring (comprising 69.97 *per cent* of the total Turnover) and Letters of Credit (LC) Discounting (comprising 30.03 *per cent* of the total Turnover). The Company's NPA Management efforts got an additional enabler in the year 2017-18 under review after being designated as a 'Financial Institution' under SARFAESI Act and initiation of National Company Law Tribunal (NCLT) Courts under the Insolvency and Bankruptcy Code 2016. The Company's NPA level was at Rs.274 crore at the end of FY 2017-18 as against the target of Rs.245 crore set at the beginning of the year. However, the

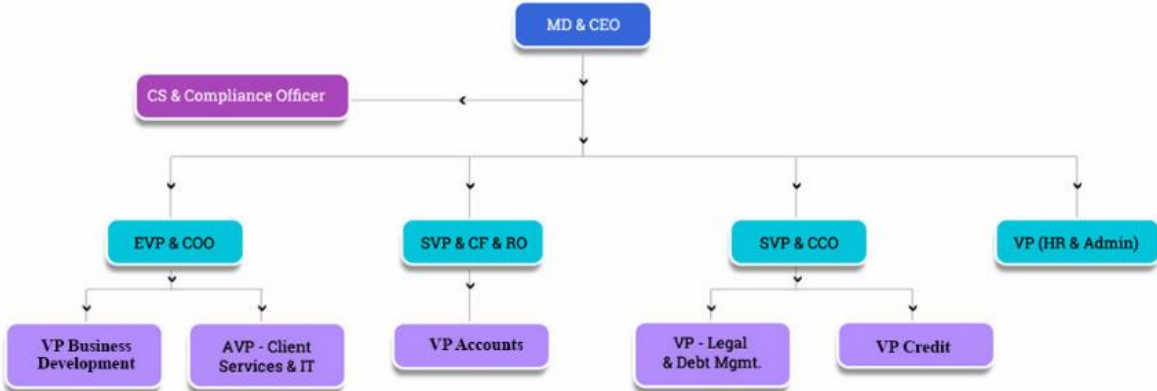
NPA has consistently reduced from Rs.297 crore in March 2016 to Rs.283 crore in March 2017 and Rs.274 crore in March, 2018. The percentage of NPA to the total FIU (Funds in Use) outstanding also gradually reduced from 29 per cent in 2016 to 27 per cent in 2017 and thereafter 21 per cent in 2018. The net NPAs of Rs.21.98 crore constituted 1.72 per cent of the total assets as against 2.61 per cent in the previous year. The Company's Capital Adequacy Ratio as on 31.03.2018 was 29.82 per cent as per Basel-II norms, against the stipulated 15 per cent by RBI.

**10.1.4 Organizational Set up**

The Company has a Board of Directors that supervises the overall operation and activities of the Company. There are various functional committees of the Board of Directors which include the Audit Committee, Executive Committee of Board, Nomination & Remuneration Committee, Risk Management Committee, IT Strategy Committee and CSR Committee.

The Board of Directors of the Company at present consists of Nine Directors (including Chairman) and Managing Director & Chief Executive Officer (CEO), including six Nominee Directors and three Independent Directors. The Authorized Signatories to the Company's Financial Statements comprise of the Chairman, Managing Director & CEO, Chief Financial & Risk Officer and The Company Secretary.

In order to execute the day to day operations, the necessary powers are delegated by the Board to the Managing Director & CEO. The Organogram of the Company is as under.



**10.1.5 Capital Structure**

The Authorized Capital of the Company as on 31st March, 2018 is Rs. 300 crore, consisting of 18 crore equity shares of Rs 10 each aggregating to Rs 180 crore, and 12 crore Preference Shares of Rs 10 each aggregating to Rs120 crore. The Issued, Subscribed, and Paid Up Capital as on 31.03.2018 is Rs 159.89 crore equity capital, comprising of 15,98,85,365 equity shares of Rs 10 each fully paid up.

The shareholders of the Company include State Bank of India (86.18 per cent equity holding), SIDBI (6.53 per cent equity holding), Union Bank of India (2.95 per cent equity holding) and Bank of Maharashtra (4.34 per cent equity holding). As on 31.03.2018, State Bank of India held 13,77,86,585 Equity Shares of Rs 10 each, SIDBI held 1,04,44,172 Equity Shares of Rs

10 each, Union Bank of India held 47,11,751 equity shares of Rs 10 each and Bank of Maharashtra held 69,42,857 equity shares of Rs 10 each, all fully paid up.

The Company also issues Tier II Bonds in the form of Non Convertible Debentures (NCDs), also known as Debenture Bonds for strengthening its Capital Adequacy Ratio (CAR) and enhancing the long term Rupee resources. As on March 31, 2018, the total outstanding of the Company's Tier II Bonds is at Rs.150 crore. The last such tranche of Rs. 100 crore was raised in July, 2011. Since then, the Company has not considered it necessary to raise any such fresh issues as its CAR (Capital Adequacy Ratio) as per BASEL II norms stands at 29.82 *per cent*, as against the regulatory requirement of 15 *per cent*.

### 10.1.6 Budget and Planning

The following is a brief outline of the targets and achievements of the Company for the three-year period ended 31 March 2018

(Rs in crore)

Years	2016-17		2016-17		2017-18	
	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	--	--	-	-	-	-
Revenue Expenditure	89.38	89.95	73.50	94.51	97.25	95.55
Revenue/Turnover	99.26	92.47	111.25	97.76	116.00	97.63
Profit Before Tax	9.88	2.52	37.75	3.25	18.75	2.08
Profit/(Loss) After Tax	9.19	0.86	26.00	1.01	12.25	(3.24)

### 10.1.7 Accounting System

The Company has a Centralized Tally ERP 9 system for upkeep of the accounts. The Company prepares its financial statements in accordance with the Indian Generally Accepted Accounting Principles (Indian GAAP), the Accounting standards specified under Section 133 and other relevant provisions of the Companies Act 2013

### 10.1.8 Manpower Analysis

The Company had 91 employees as on 31 March 2018, out of which 21 were Managerial employees (Assistant Vice President and above) and the remaining 70 were non-managerial employees

### 10.1.9 MOU Targets and Achievements

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

### 10.1.10 Computerization

The Company uses Factor-in-Software for Operational functions and Tally ERP-9 for Accounting functions. In 2017-18, the Company prepared Cyber Security Policy in line with the Cyber Security Policy of SBI version 2.0 to help the Company combat cyber threats and list out *inter alia* procedure to escalate event of threats to cyber security to appropriate level in the hierarchy, for expeditious response and action.

### 10.1.11 Internal Audit

The internal audit of the Company is under the functional operation of the Audit Committee. The internal audit is conducted by engaging the services of the professional Chartered

Accountant firms. Such audit is conducted by the external agency for The Company each quarter.

The Company has thus appointed an independent firm of Chartered Accountants, as Internal and Concurrent Auditors. Internal Audit and Compliance is focused on independently evaluating the adequacy of internal controls, ensuring adherence to operating guidelines and Regulatory and Legal requirements and pro-actively recommending, by way of improvements in operational processes and service quality of various individual departments. The quarterly results are also subjected to a limited review by the Statutory Auditors.

#### **10.1.12 Act, Rules, Documents**

- a) The Companies Act 2013 and the rules made thereunder.
- b) RBI guidelines and circulars for Non-Banking Financial Companies.
- c) Securities Contract (Regulation) Act 1956 and the rules made thereunder.
  - d) Depositories Act 1996 and the regulations and the bye-laws framed thereunder.
  - e) Factoring Regulation Act, 2011
  - f) 'Non Banking Financial Company-Factor (Reserve Bank) Directions, 2012
  - g) Banking Regulation Act 1949
  - h) Foreign Exchange Management Act 1999 (FEMA) guidelines
  - i) The Reserve Bank of India Act 1934
  - j) The Provisions of Non Banking Financial (Non Deposit Accepting or Holding) companies Prudential Norms (Reserve Bank) Directions, 2007, or Non Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007, as the case may be and as applicable to a loan Company shall apply to an NBFC-Factor.
  - k) Master Direction- Reserve Bank of India (Financial Services provided by Banks) Directions, 2016
  - l) The Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008;
  - m) The Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 regarding the Companies Act and dealing with client;
  - n) The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.
  - o) Indian Stamp Act, 1899 and the States Stamp Acts;
  - p) Fair Practices Code;
  - q) The Company's Policy & Procedures on Know Your Customer (KYC) Guidelines, Anti Money Laundering (AML) Standards and Obligations under the Prevention of Money Laundering Act, 2002 guidelines issued by the Reserve Bank of India;

- r) Master Direction – Information Technology Framework for the NBFC Sector issued by Reserve Bank of India vide Circular No. Master Direction DNBS.PPD. No. 04/66.15.001/2016-17 dated June 08, 2017.
- s) Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFESAI) 2002
- t) Insolvency and Bankruptcy Code, 2016

#### 10.1.13 Operational Results

The Revenue from Operations in FY 2016-17 and FY 2017-18 was as follows:

(Rs. in crore)

Particulars	2017-18	2016-17
Discount charges	79.41	81.65
Factoring charges	5.67	4.97
Processing charges	3.04	2.65
Bad Debts Recovery in Written off Accounts	6.37	2.30
<b>Total Revenue from Operations</b>	<b>94.49</b>	<b>91.57</b>

#### 10.1.14 Financial Working Results

The financial performance of the Company for the last two years ending 31 March 2018 was as under

(Rs. in crore)

Particulars	2017-18	2016-17
Revenue from Operations	94.49	91.57
Other Income	6.37	18.17
Total Revenue	100.86	109.74
Total Expenses	98.78	106.49
Profit before Tax	2.08	3.25
Tax	5.32	2.24
Profit/ (Loss) after Tax	(3.24)	1.01

#### 10.1.15 Disinvestment (Upto 2017-18)

Not Applicable

#### 10.1.16 Environment Management

Not Applicable

#### 10.1.17 Audit Checks

- i) Whether the Company has fulfilled the Net Owned Fund (NOF) requirement as per RBI Master Directions
- ii) Whether the Company has complied with the prudential norms relating to income recognition, accounting standards, asset classification and provisioning for bad and doubtful debts as applicable to it in terms of Non-Banking Financial (Non Deposit accepting) Companies Prudential Norms -Systemically Important NonDeposit taking Company and Deposit taking Company (Reserve Bank)

Directions, 2018. The relevant guidelines in this regard issued by RBI from time to time and compliance thereof may be ascertained.

- iii) To examine whether the International Factoring Arrangements are in compliance with FEMA 1999 guidelines
- iv) Whether proper classification has been made for accounts receivable under factoring which were not realized within stipulated timeline of 90 days, as Non Performing Asset (NPA)
- v) Whether proper monitoring mechanism has been put in place for proper financing of receivables, follow up and collection, analyzing the credibility of Corporate/International buyers etc
- vi) Whether the Statement of capital funds, risk assets / exposures and risk asset ratio (NBS7) has been furnished to the RBI within the stipulated period based on Audited Books of Accounts.
- vii) Whether the Company had correctly arrived at and disclosed the Capital Adequacy Ratio (CRAR), based on the Audited books of Account, in the return submitted to RBI in form NBS -7 and whether such ratio is in compliance with the minimum CRAR prescribed by the bank.
- viii) Whether the Company is following higher provisioning norms as considered appropriate by management vis-a-vis RBI provisioning norms
- ix) To check records relating to domestic factoring facility with Fund in use, One Time Settlement etc
- x) To check Non recovery/write-offs of Non Performing Assets (NPAs)
- xi) To examine Provisioning Norms for sale of Financial Assets to Securitization Company (SC)/ Reconstruction Company (RC) as per RBI Guidelines
- xii) To examine whether the Discount charges and interest on Advances are accrued on time balances on the balances in the prepayment accounts at the applicable discount/interest rates
- xiii) To examine whether Factoring Charges are accrued on factoring of debts at the applicable rates
- xiv) To examine whether Facility Set up Fees (New Sanction) is charged for the period from beginning to end of the Financial year, in which Account is sanctioned and are recognized as income only when there is a reasonable certainty of its receipt after execution of documents
- xv) To examine whether the recognition of Facility Continuation Fees (Renewal of Limit) is done in the month of May on the basis of the sanctioned/capped limits on the core factoring facilities which are current as at 1 April of that Financial year
- xvi) To examine the lending secured by mortgages on residential/commercial property.
- xvii) To check details of Single Borrower/Group borrower limit exceeded.



- xviii) To examine the One Time Settlement (OTS) Policy of the Company and deviation to the OTS Policy, if any.
- xix) To validate that factored balances are correctly disclosed in reporting.
- xx) To examine that the debt financing statement is regularly reconciled, especially in cases where discounting is in practice.
- xxi) To examine whether there is any instance of Sanction of factoring limits in excess of prescribed limits as computed as per methodology prescribed by the Company
- xxii) To examine whether there is any instance of Sanction of Factoring limits without adjustment against factoring limits already availed from other Factor Companies
- xxiii) To examine whether there is any instance of the Sanction of Factoring Limits in case of related party Customers
- xxiv) To examine whether there is Disbursement of Funds to the Client in deviation from the conditions of sanction
- xxv) To examine whether there is Non reduction of limits despite clear signs of incipient sickness in Clients
- xxvi) Whether adequate due diligence was exercised in verification of business activities of applicants before approval of financing
- xxvii) Whether Mechanism for recovery from NPA Accounts was transparent and effective and whether Recovery is reflected/booked under AUCA, i.e, Advance Under Collection Account.
- xxviii) Whether the Client had disposed off immovable property provided as collateral security without the knowledge of the Company, even though they were registered through Equitable Mortgage Transactions
- xxix) Whether the Company accepted collateral security from any client in the form of Client's own equity shares with lock in period, due to which the Company could not dispose off the shares
- xxx) Whether the Company sanctioned Factoring limit without obtaining of Opinion Letters (OPL) from the Bankers of the Client and Undertaking Letters from Customers

## **CHAPTER XI**

### **FINANCIAL AND ADVISORY SERVICES COMPANIES**

The Office of The Director General of Commercial Audit & *ex-officio* Member, Audit Board-I, Mumbai, conducts the Audit of the following seven Companies rendering Financial and Advisory Services

1. BOB Financial Solutions Ltd (formerly known as BOB Cards Ltd)
2. Micro Units Development and Refinance Agency Ltd (MUDRA Ltd)
3. National Credit Guarantee Trustee Co. Ltd
4. Stock Holding Corporation of India Ltd
5. SHCIL Services Ltd
6. Stock Holding Document Management Services Ltd
7. PNB Insurance Broking (P) Ltd

## **11.1 BOB FINANCIAL SOLUTIONS LIMITED**

### **(Formerly known as BOBCARDS LIMITED)**

#### **11.1.1 Introduction**

BOB Financial Solutions Limited (formerly known as Bobcards Ltd.) is a wholly owned subsidiary of Bank of Baroda and a non-deposit accepting NBFC. It is registered with the Reserve Bank of India and was incorporated 29 September 1994.

BOBCARDS Limited was registered as a Company on 29 September 1994 as a wholly owned subsidiary of Bank of Baroda) the Bank, under the Companies Act, 1956 with the objective of managing the Credit Card Business of the Bank .The company started its operations on 1 April 1995 .With an intention to foray into various financial activities, the Company decided to modify the then existing Memorandum of Association (**MOA**) to enable to carry out other areas of activities under NBFC domain. The Company also observed that several regulations of the then existing Articles of Association (AOA) required alteration with the coming into force of Companies Act 2013. Thus, AOA and MOA were altered on 8 March 2016. The name of the Company was also changed to BOB Financial Solutions Limited (BOBFSL) ( w.e.f .1 November 2017 to reflect all the business activities) viz .financing of all kinds including loan against shares/securities etc., hire purchase, leasing, installment financing, refinancing etc.,(carried out /to be carried out by the Company) not limited to credit cards. The Company is under the Administrative Control of Ministry of Finance, Department of Financial Services, and Reserve Bank of India.

The Company has its Registered Office at Mumbai and an Administrative Office at New Delhi. The Company operates through its 38 Area Offices spread across the country. Major operations of the Company are centralized and controlled from Mumbai Office. The Area Offices generally provide support services in business development, collections and recovery. The Company provides support to Parent Company Bank of Baroda by carrying out its Merchant Acquiring Operations and its Debit Card Operations for its Overseas territory subsidiaries/sponsored RRBs (Regional Rural Banks).

Bank of Baroda has over 100 overseas branches/offices across 25 countries including the USA, UK, China, Belgium, UAE, Singapore, South Africa, Oman, Bahrain, Bahamas, Uganda, Kenya etc. The Bank has presence in world's major financial centres in New York, London, Brussels, Dubai, Singapore and Hong Kong.

The Company receives Funds in Foreign Currency for Settlement of International Transactions. The Company gets debited towards Settlement Agency charges in foreign currency

### 11.1.2 Objectives

The Company's core business is Credit Card issuance. It also provides support to Bank of Baroda by carrying out its Merchant Acquiring Operations and its Debit Card Operations for its Overseas Territory Subsidiaries/sponsored RRBs (i.e providing back office support services for Debit Card issuance and reconciliation of Debit Card Transactions including dispute resolution and related services. Until July 2017, the Company was also supporting Bank of Baroda with its Domestic Debit Card Operations, however, all the activities relating to these have been transferred to Bank of Baroda.

### 11.1.3 Activities

The Principal Business Activities of the Company are Card Issuance, Operations and Transaction Settlement Services, comprising 97.68 per cent of the total turnover of the Company as on 31 March 2018. The Company is in the business of Card Issuance, Operations and Transaction Settlement Services. The nature of business of the Company is service oriented. Details regarding number of live cards, membership fees and renewal charges earned from merchant establishment, their turnover, commission earned for the last three year ended March 31, 2018 were as shown below-

Details	2015-16	2016-17	2017-18
	Nos.	Nos.	Nos.
No. of live Cards	1,13,554	1,31,571	1,25,563
No. of Merchant establishments	35,236	85,928	77,253
	Rs in crore	Rs in crore	Rs in crore
Turnover acquired from Merchant establishments	2195.46	5089.00	6857.75
Commission earned from Merchant establishments	24.92	50.91	65.15
Service charges	21.71	27.83	42.55
Other Income	10.46	5.16	5.23

- During the year 2017-18, various initiatives were undertaken by the Company for the overall growth including technology upgradation, building analytics and risk management capabilities, launch of new products, refreshed branding, sales network build etc.
- Profitability from Credit Cards operations through service charges increased in the FY 2017-18 due to pricing alignment with industry benchmarks, new issuances and increase in retail customer balances by Rs 27 crore (after

adjusting for non interest bearing balance of large corporate card customers in FY 2016-17).

- Loss from Merchant Acquiring remained flat in 2017-18 over 2016-17 as a result of increase in MDR (Merchant Discount Rate) income and introduction of POS (Point of Sales) Rentals from merchant despite an increase in variable costs (interchange loss and scheme charges) and depreciation charge arising from the significant increase in POS terminals purchased and deployed during November 2016 to March 2017 to grow the Merchant Base driven by Demonetization.
- Profits from Debit Card Operations declined by Rs 22.01 crore (62 *per cent* year on year) due to handover of Domestic Debit Card Operations back to BOB in July 2017.
- The Company continued its special focus for NPA (Non Performing Assets) Recovery. Steps taken by the Company included enhanced measures to control and manage NPAs during the year 2017-18 including –
  - (a) Implementation of new CIBIL score cut off
  - (b) Tighter initial credit limit assignment for all product variants
  - (c) Implementation of New Credit limit policy
  - (d) Re-organization of Recovery process
  - (e) Increase in minimum income threshold from Rs 2 lakh previously to Rs 3 lakh
  - (f) Card Block at delinquency.

These initiatives resulted in minimal provisions/releases over last five months of FY 2017-18.

#### **11.1.4 Organizational Set up**

The Company has a Board of Directors that supervises the overall operation and activities of the Company. There are various functional committees which include the Audit & Risk Management Committee, Human Resources and Nomination & Remuneration Committee and CSR Committee that report to the Board of Directors.

As on 31 March 2018, the Board of Directors of the Company comprised of nine Directors, including Chairman (Nominee Director), Whole Time Director/Managing Director, four Non-Executive Directors, two Independent Non-Executive Directors, and one Director (Nominee Director). The Key Managerial Personnel of the Company comprised of Managing Director, Chief Financial Officer and Company Secretary. In order to execute the day to day operations, the necessary powers are delegated by the Board to the Managing Director.

#### **11.1.5 Capital Structure**

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 20 crore equity shares of Rs 10 each aggregating to Rs 200 crore. The Issued, Subscribed, and

Paid Up Equity Share Capital as on 31 March 2018 is Rs 175.00 crore comprising of 17,50,00,000 equity shares of Rs 10 each fully paid up. As on 31 March 2018, all the 100 *per cent* equity shares are held by the Holding Company Bank of Baroda.

### 11.1.6 Budget and Planning

(Rs in crore)

Years	2015-16	2016-17	2017-18
Particulars	Actual	Actual	Actual
Capital Expenditure	14.98	39.45	16.62
Revenue Expenditure	115.37	189.47	204.77
Revenue/Turnover	150.07	231.10	225.72
Profit for the year	34.70	41.62	20.95

### 11.1.7 Accounting System

The Company has a Centralized system for upkeep of the accounts. The Company prepares its financial statements in accordance with the Indian Generally Accepted Accounting Principles (Indian GAAP), the Accounting standards specified under Section 133 and other relevant provisions of the Companies Act 2013.

### 11.1.8 Manpower Analysis

The Company had 151 employees as on 31 March 2018, out of which 42 were Manager & above grade level whereas the remaining 109 included Officer I, Officer II & Assistant Manager. The Chairman of the Company is the Nominee Director of Bank of Baroda

### 11.1.9 MOU Targets and Achievements

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

### 11.1.10 Computerization

- i) Core Platforms – Merchant Management System, Loan Management System
- ii) Advanced Origination Systems implemented for Credit Cards and Personal Loans
- iii) New Customer Website launched to enable lead generation, product comparison, new acquisition, customer service
- iv) Technology foundation laid on private cloud

### 11.1.11 Internal Audit

The internal audit of the Company is under the functional operation of the Audit Committee. The internal audit is conducted by engaging the services of the professional Chartered Accountant firms. Such audit is conducted by the Company on a monthly basis. The significant audit observations by the internal auditors and the corrective actions are presented to the Audit Committee from time to time.

### 11.1.12 Act, Rules, Documents

- i) The Companies Act 2013 and the rules made thereunder.

- ii) RBI guidelines and circulars for Non-Banking Financial Companies (non deposit accepting having asset size below Rs 500 crore)
- iii) Tripartite Agreement between BOB Financial, Bank of Baroda and TransUnion CIBIL executed between the above parties to leverage Bank of Baroda's huge credit worthy retail customer base
- iv) Non-Banking Financial (Non Deposit Accepting/Holding) Companies Prudential Norms (Reserve Bank) Directions' in respect of Asset Classification and Provisioning norms

### 11.1.13 Operational Results

Revenue from Operations (Financial Services) was as follows:

(Rs. in crore)

Particulars	2017-18	2016-17
Service Charges from Merchants	65.15	50.90
MDR Subvention	10.41	13.98
Merchant Enrolment Charges	0.38	0.74
POS Charges from Merchants	39.42	---
Service Charges from Card Holders	42.54	27.82
Card Fees and Incidental Charges from Card Holders	4.69	3.94
Card Interchange Fees	12.81	15.63
Currency Conversion Fees	1.07	1.06
Bad Debts recovered	3.00	4.91
Revenue from Debit Card Operations	40.96	106.91
<b>Total Revenue from Operations (Financial Services)</b>	<b>220.48</b>	<b>225.93</b>

Year	2015-16		2016-17		2017-18	
	Targets	Actuals	Targets	Actuals	Targets	Actuals
Card Issuance (count)	2,00,000	36,025	2,00,000	27,010	1,30,000	14,225
Merchant Enterprise enrolment(count)	50,000	24,095	50,000	60,277	NIL	27,604

### 11.1.14 Financial Working Results

(Rs. in crore)

Particulars	2017-18	2016-17
Revenue from Operations (Financial services)	220.48	225.93
Other Income	5.23	5.16
<b>Total Income</b>	<b>225.71</b>	<b>231.09</b>
Total Expenses	204.76	189.47
Profit Before Exceptional items	20.94	41.62

Exceptional items	--	--
<b>Profit Before Tax</b>	<b>20.94</b>	<b>41.62</b>
<b>Tax</b>	<b>5.53</b>	<b>15.19</b>
<b>Profit After Tax</b>	<b>15.41</b>	<b>26.43</b>

#### **11.1.15 Disinvestment (Upto 2017-18)**

Not Applicable

#### **11.1.16 Environment Management**

Not Applicable

#### **11.1.17 Audit Checks**

- i) To examine whether the Company has properly adopted and is complying with the provisions of 'Non-Banking Financial (Non Deposit Accepting/Holding) Companies Prudential Norms (Reserve Bank) Directions' in respect of Asset Classification and Provisioning norms.
- ii) To examine whether in case of Non Performing Asset (NPA) beyond 6 months, the Card is cancelled.
- iii) To examine whether decision to write off is taken on case to case basis as per Board approved Company Policy.
- iv) To examine Capital to Risk Asset Ratio (CRAR) as per RBI guidelines.
- v) BOB Financial Solutions Ltd. (Company) issues various types of credit cards to the Bank of Baroda staff, its consumers and other individuals. A card becomes Non-Performing Assets (NPA), if the dues are outstanding for more than 90 days from the due date. The Company also files legal suits for recovery. To check whether the Company has made efforts to make the recovery, and whether a policy has been prepared to decide whether a recovery is to be pursued through litigation or recovery agency. The Company has empanelled 21 agencies for the recovery of the dues from the credit card holders. To check whether Guidelines with regard to allocation of the work among agencies are in place. To also periodically monitor performance of recovery agency.
- vi) BOB Financial Solutions Ltd (Company) issues Point of Sale (POS) machines to the merchants of the Bank of Baroda who decided (19 May 2017) to levy rental charges of Rs.475/- per month w.e.f. May 2017, in view of the Company's demand of charges of switch charges, maintenance, stationery, settlement fees. The Bank defined the procedure and timeline for recovery of rental charges. The Company has to provide the details of Branch wise Merchants along with the amount to be recovered towards monthly charges for the preceding month within three working days of the month. The Bank Branch has to recover such amount from the merchant's account and credit the proceeds to the Company by 10<sup>th</sup> of the month. To check whether the merchants have paid rent consistently.

- vii) To check recovery of dues under Corporate Credit Card from Corporate. BOB Financial Solutions Ltd. (Company) issues Corporate Credit Card (CCC) to the executives of the Public Ltd./Private Ltd./Partnership Firm whose annual turnover was Rs. 1 crore and above, Paid up Capital of Rs. 10 lacs and above, minimum Networth of Rs. 30 lakh. All the charges / expenditure on CCC are to be borne by the respective Company/Partnership firm. As per the Condition of Corporate Credit Card, the liability of expenditure incurred shall be borne by the Company/Partnership firm. To check default of CCC holders dues and whether the Company has taken any steps to recover the amount from the respective Company/Partnership firm.
- viii) The Company has been handling the POS operations on behalf of Bank of Baroda. To check whether the Company has been able to recover the full operating cost.
- ix) Number of frauds had increased mainly because majority of the transactions were originated from International Credit Card and cards were skimmed. To check steps taken by the Company in respect of fraud cases including Merchant and Cardholder.
- x) To review Board decision to start an administrative office at New Delhi and the Avoidable expenditure thereon due to continuing operations from Mumbai.
- xi) To check whether there is any Blockage of funds in purchase of POS machines wherein the acquisition was not correlated with the demand, de-installation and stock in hand, thereby resulting in increase in the closing stock.
- xii) To examine membership fees (non-refundable), collected from the customers using the Company's products and services are as per the agreement.
- xiii) To examine whether the terms and conditions for the Settlement Guarantee mechanism guidelines proposed by the Company are as per the RBI guidelines.
- xiv) To verify the Registers maintained for various categories of credit cards and ensure that the issuance fee, enrolment fee, renewal fee etc. are correctly realised and accounted.
- xv) To Test check the bills sent to clients to ensure that there is no undue delay in the raising of bills.



## **11.2 MICRO UNITS DEVELOPMENT & REFINANCE AGENCY LIMITED (MUDRA)**

### **11.2.1 Introduction**

Micro Units Development & Refinance Agency Ltd (MUDRA) is a Public Limited Company incorporated on 18.03.2015 under the provisions of Companies Act 2013 and registered as Non-Banking Financial Institution (NBFI) with Reserve Bank of India u/s 45 IA of RBI Act 1934. Small Industries Development Bank of India (SIDBI) is The Company's Holding Company. The Company is under the Administrative Control of Ministry of Finance.

MUDRA provides refinance to Banks (including Regional Rural Banks (RRBs), Small Finance Banks and Co-op Banks), Non Banking Financial Companies (NBFCs) and also Micro Finance Institutions (MFIs) and participates in Securitization transactions. MUDRA has been set up by Government of India for development and refinancing micro units enterprises. The purpose of MUDRA is to provide funding to the non-corporate small business sector through various Last Mile Financial Institutions like Banks, NBFCs and MFIs. The Company's Registered Office is at Mumbai.

### **11.2.2 Objectives**

MUDRA extends refinance to eligible Commercial Banks, Regional Rural Banks (RRBs), Small Finance Banks, Cooperative Banks, Non-Banking Finance Companies and Micro Finance Institutions engaged in financing micro enterprises requiring loans up to Rs 10 lakh. MUDRA is also engaged in purchasing Pass Through Certificates in respect of deals originated by MFIs and NBFCs with a view to augment their flow of funds as also reduce capital requirement for building their portfolios.

MUDRA provides financial assistance to Asset Finance Companies (FCs) and Loan Companies (LCs) where the principal business is for financing the physical assets, providing loan and advances for income generating activity and 60 *per cent* of the income should come from the productive assets. MUDRA has identified this important channel to provide greater support.

### **11.2.3 Activities**

As per the National Sample Survey Office (NSSO) estimate, about 5.77 crore SMEs (Small and Medium Enterprises) existed in the country and a majority of them are outside the formal banking fold and are unable to sustain or grow due to lack of finance or relying on informal channels, which are very expensive or unreliable. Hence, PMMY was launched to 'fund the unfunded', by bringing such enterprises to the formal financial system and extending affordable credit to them. Pursuant to the Budget for the year 2015-16, a corpus fund of Rs 20,000 crore was allocated to MUDRA Ltd

The creation of the Micro Units Development & Refinance Agency Ltd. (MUDRA) is thus an outcome of the launch of Pradhan Mantri Mudra Yojana (PMMY) on April 08, 2015 by the Hon'ble Prime Minister. PMMY has since completed 3 years. An amount of Rs 5.71 lakh crore has been sanctioned under the programme, benefiting nearly 12.27

crore loan accounts, in the first three years of the programme. MUDRA loans are classified into three categories

- Shishu for loan up to Rs 50,000
- Kishor for loan from Rs 50,000 to Rs 5 lakh, and
- Tarun for loan from Rs 5 lakh to Rs 10 lakh

The Pradhan-Mantri Mudra Yojana (PMMY) envisages providing MUDRA loans up to Rs 10 lakh by Banks, NBFCs and MFIs for income-generating micro enterprises engaged in the manufacturing, trading and services sectors.

MUDRA is a refinance agency and not a direct lending institution. MUDRA provides refinance support to its intermediaries viz. Banks, Micro Finance Institutions and NBFCs, who are in the business of lending for income generating activities in the non farm sector in manufacturing, processing, trading or service sector and who in turn will finance the beneficiaries.

MUDRA would be responsible for refinancing all Last Mile Financiers such as Non-Banking Finance Companies, Societies, Trusts, Section 8 Companies [formerly Section 25], Co-operative Societies, Small Banks, Scheduled Commercial Banks and Regional Rural Banks which are in the business of lending to micro/small business entities engaged in manufacturing, trading and services activities. MUDRA would also partner with State/Regional level financial intermediaries to provide finance to Last Mile Financier of small/micro business enterprises.

MUDRA's delivery channel is conceived to be through the route of refinance primarily to Banks/NBFCs/MFIs. At the same time, there is a need to develop and expand the delivery channel at the ground level. In this context, there is already in existence, a large number of 'Last Mile Financiers' in the form of companies, trusts, societies, associations and other networks which are providing informal finance to small businesses.

The Borrowers eligible for assistance from MUDRA include Non-Corporate Small Business Segment (NCSB) comprising of millions of proprietorship / partnership firms running as small manufacturing units, service sector units, shopkeepers, fruits / vegetable vendors, truck operators, food-service units, repair shops, machine operators, small industries, artisans, food processors and others, in rural and urban areas.

Pradhan Mantri Mudra Yojana (PMMY) loans will be extended by all Public Sector Banks such as PSU banks, Regional Rural Banks (RRBs), Cooperative Banks, Private Sector Banks, Foreign Banks, Micro Finance Institutions and Non Banking Finance Companies. All loans sanctioned on or after April 08, 2015 upto a loan size of Rs. 10 lakh for non farm income generating activities will be branded as PMMY loans.

Monitoring of PMMY progress at the State level will be done through State Level Bankers' Committee (SLBC) forum and at National level by MUDRA/Department of Financial Services, Government of India. For this purpose, MUDRA has developed a portal, wherein the banks and other lending institutions directly feed their achievement

details which is consolidated by the system and reports are generated for review. Rate of Interest to be charged on PMMY/MUDRA loans by Banks and other Financial Institutions was not specified in the PMMY/MUDRA scheme. Loans disbursed under MUDRA category did not automatically qualify for refinancing.

RBI stipulated (June 2015) that the margin available to MUDRA for extending refinance to NBFCs (Non Banking Financial Companies) and MFIs (Micro Finance Institutions) was 3 per cent. MUDRA may lend to NBFCs/MFIs at SIDBI's Prime Lending Rate. The margin available for NBFCs in case of refinance extended by MUDRA shall not be more than 6 per cent under the captioned fund. The Interest differential, getting accrued to MUDRA, in excess of the prescribed margin, has to be credited to depositing banks on a pro rata basis at quarterly intervals along with interest payment on deposits

Thus, MUDRA lends loan to NBFCs and MFIs and in turn, NBFCs and MFIs lend MUDRA loan to the ultimate borrowers/enterprises over and above NBFCs/MFIs cost (which includes the margin of MUDRA). Ultimately, when the borrower receives fund, the cost of MUDRA, NBFCs/MFIs and margin loaded by both, becomes the amount repayable and accordingly, Rate of Interest is loaded.

The Department of Financial Services, Government of India (GoI), vide letter dated June 23, 2016, had earlier advised to include loans extended for agri-allied activities under PMMY. Further, purchase of tractors and power tillers have been included in the loans extended for agri-allied activities under PMMY.

An overdraft amount of Rs 5,000 sanctioned under Pradhan-Mantri Jan Dhan-Yojana (PMJDY) is also classified as a MUDRA loan under PMMY.

RBI stipulated (August 2017) that the margin available to MUDRA for extending refinance under the MUDRA Refinance Corpus to Commercial Banks, Regional Rural Banks (RRBs), Co-operative Banks and Small Finance Banks shall be not more than 0.75 per cent per annum. MUDRA shall ensure that the refinance is extended in only such cases where the interest rate charged by the commercial banks and small finance banks to the ultimate borrowers is reasonable, i.e, not more than MCLR (Marginal Cost of Lending Rates) plus 100 bps (basis points) of the refinanced banks. While refinancing the RRBs/Co-operative Banks, MUDRA shall ensure that interest rate charged by RRBs/Co-operative Banks shall be 3.5 per cent above MUDRA's lending rate to them or 10 per cent, whichever is higher, under the Mudra Refinance Corpus Fund.

During a short span of three years, MUDRA has created a visible impact in terms of financing access for the micro enterprises sector in India. Through a country-wide network of last-mile financiers such as Banks, Regional Rural Banks, Micro Finance and NBFCs, MUDRA has been able to reach out to millions of micro entrepreneurs that have traditionally faced difficulty in accessing credit. Under the guidance of the Government of India, MUDRA has created an enabling environment where formal financial institutions have focused on financing the micro enterprises sector.

MUDRA has completed 3 years of extending refinance to a wide spectrum of Lending Institutions such as Banks (Commercial Banks, Regional Rural Banks, Small Finance Banks), NBFCs, MFIs etc. engaged in providing financial assistance to borrowers from micro enterprises. MUDRA's support is also extended in the form of securitisation of loan assets. MUDRA supports income generating micro enterprises engaged in manufacturing, processing, services, trading and activities allied to agriculture for loans up to Rs 10 lakh.

During the first year (2015-16), an amount of Rs 1.22 lakh crore was set as the target under PMMY, against which an amount of Rs 1.37 lakh crore was sanctioned by Banks and MFIs, thereby achieving the target comfortably.

During second year i.e. FY 2016-17, the target set was at Rs 1.80 lakh crore and the same was achieved by sanctioning more than Rs 1.80 lakh crore loan by banks, MFIs, SFBs and NBFCs. More than Rs 2.53 lakh crore has been sanctioned in FY 2017-18 – the 3rd year of operations, as against target of Rs 2.44 lakh crore. MUDRA as a support institution extended refinance to the lending institutions and monitored the programme closely with the help of a dedicated portal developed for the purpose.

Thus, Pradhan Mantri Mudra Yojana (PMMY) continues to be a major initiative of the Government of India providing credit to millions of unfunded micro units in the country. The programme has benefited 12.27 crore loan accounts with a sanction of nearly Rs 5.71 lakh crore in the last three years. It has also resulted in benefiting about 3.50 crore new loan accounts/entrepreneurs, thereby providing employment to a large number of people across the country. MUDRA loans registered an NPA of 5.38 *per cent* as on March 31, 2018.

#### **11.2.4 Organizational Set up**

The Company has a Board of Directors under the provisions of the Companies Act 2013. The Board of Directors of the Company comprises of the Chairman of the Company, two Government Nominee Directors of which one is Joint Secretary, Department of Financial Services, Government of India Ministry of Finance, one Non-Executive Director - Joint Secretary, Ministry of Skill Development & Entrepreneur, Government of India, two SIDBI Nominee Directors, two Independent Directors, one Additional Director and a Managing Director & Chief Executive Officer (CEO).

As on March 31, 2018, the Board had five committees and sub-committees – Audit Committee, Nomination & Remuneration Committee, Risk Management Committee, Corporate Social Responsibility Committee, and Executive Committee – in compliance with the applicable provisions of the Companies Act, 2013, and the RBI regulations.

The Managing Director is the Chief Executive Officer of the Company. The Company also has a Chief Financial Officer. The Deputy General Managers (DGMs), AGMs, Managers, Assistant Managers and Associates form the Organizational Hierarchy.

In view of compliance with Section 177(9) & (10) of the Companies Act, 2013, read with Rule 7 of Companies (Meetings of Board and its Powers) Rules 2014, the Company has set up a Vigilance cell and follows the Central Vigilance Commissioner's guidelines under the overall supervision of the Central Vigilance Officer (CVO) of SIDBI. The CVO in-charge is submitting a monthly report to the CVO, SIDBI.

### **11.2.5 Capital Structure**

#### **11.2.5.1 Corpus Fund**

A Corpus of Rs 20,000 crore was granted (May 2015) by RBI under the directions of Government of India to refinance Financial Institutions through PMMY. MUDRA Refinance Corpus Fund of Rs 20,000 crore allocated by RBI stands increased to Rs 30,000 crore on account of additional allocation of Rs 10,000 crore during FY 2017-18.

Funds for the MUDRA scheme have been proposed to come from commercial banks' shortfall in Priority Sector Lending (PSL), which typically used to go to Rural Infrastructure Development Fund (RIDF) and in turn to NABARD (National Bank for Agricultural and Rural Development) and SIDBI. Funding under MUDRA scheme would be collateral free. Out of the said Fund, MUDRA has drawn Rs 15,000 crore in 6 tranches, as on 31.03.2018.

MUDRA Refinance Fund of Rs 10,000 crore each for 2017-18 and 2018-19 has been allocated by Reserve Bank of India vide RBI's letter dated 17.10.2017 and 04.10.2018 respectively. The corpus of the above Fund would be contributed by scheduled commercial banks, having shortfall in achievement of priority sector targets/sub-targets, as on 31.03.2017 and 31.03.2018. However, MUDRA would be able to call for deposits only after utilizing minimum 75 per cent of the last drawn tranche of MUDRA Refinance Fund 2017-18.

As per the terms of the sanction of Corpus, the Company can utilize the funds for refinance for a period of three years or as decided by RBI, which were deposited by different banks as per the allocation by RBI, and shall make repayment on maturity. Accordingly, the first tranche of funds (Rs 5000 crore) drawn in May/June 2015 was due for repayment in May/June 2018.

Thus, as on 31.03.2018 and 31.03.2019, the total corpus stands at Rs 30,000 crore and Rs 40,000 crore respectively. (Rs 20,000 crore plus additional Rs 10,000 crore each in 2017-18 and 2018-19)

The Source of Corpus of the MUDRA Refinance Fund is by way of Contribution from Scheduled Commercial Banks, having shortfall in achievement of priority sector targets/sub-targets as decided by Reserve Bank of India from time to time. The purpose of the Fund would be to refinance lending to micro/small business entities engaged in manufacturing, trading and services activities.

#### **11.2.5.2 Equity Share Capital**

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 500 crore equity shares of Rs 10 each aggregating to Rs 5000 crore.

The Company's paid-up equity share capital stood at Rs 1675.93 crore as on 31st March, 2018, comprising 167.59 crore equity shares of Rs 10 each, fully subscribed by SIDBI

The Share Capital contributed by SIDBI stands at Rs 1675.93 crore.

#### **11.2.6 Budget and Planning**

(Rs in crore)

Years	2015-16	2016-17	2017-18
Particulars	Actual	Actual	Actual
Capital Expenditure	--	--	--
Revenue Expenditure	257.75	362.75	550.68
Revenue/Turnover	363.94	535.08	803.46
Profit for the year After Tax	65.93	107.84	158.22

#### **11.2.7 Accounting System**

The Company has Centralized system of Accounting. The Accounting Software used is Tally ERP. The Financial Statements of the Company are prepared under the historical cost convention on an accrual basis, to comply, in all material aspects, with the applicable accounting principles in India, the applicable accounting standards notified under/s 133 of the Companies Act, 2013 and the relevant provisions of the Companies Act, 2013. MUDRA is registered as a Non-Banking Financial Institution (NBFI) and has to adhere to the regulatory and disclosure standards as applicable to NBFC-ND-SIs. (Systematically Important Non Deposit Taking Non-Banking Financial Company).

#### **11.2.8 Manpower Analysis**

As on March 31, 2018, MUDRA had on its rolls 14 officers on deputation from SIDBI/NABARD, one Company Secretary (off roll) and 5 Associates (off roll). The Company had two Managerial and 16 Non Managerial Employees as on 31 March 2018.

#### **11.2.9 MOU Targets and Achievements**

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

#### **11.2.10 Computerization**

The Company uses Tally ERP Software for Accounting. The Company has put in place a portal for collecting and collating data from all banks/MFIs/ NBFCs pertaining to loans being given by them under PMMY. The portal is quite robust and captures a variety of data and generates various kinds of reports. Further, a new module for capturing NPA position has also been operationalised. The portal is being used by the

GoI for strategising, follow-up and monitoring of PMMY performance. Further, the Company has launched its mobile applications in both Android and IOS platforms and also launched MUDRA ONLINE, a dedicated channel on YouTube. In addition, as a part of SIDBI's Udyamimitra portal(www.udyamimitra.in), a facility has been made available to prospective borrowers for applying online to access credit from banks for MUDRA loans. For Administration and Human Resources (HR), the Company has adopted SIDBI's applications such as HRMS, CITRIX, etc.

#### 11.2.11 Internal Audit

In terms of requirements under Section 139 of the Companies Act, 2013, a professional firm of Chartered Accountants, were appointed as internal auditors of the Company for FY 2017-18. They submitted monthly internal audits reports, which have been duly taken into account, and corrective actions have been carried out and reported to the Audit Committee.

#### 11.2.12 Act, Rules, Documents

- i) As a Systemically Important Non-Deposit taking Non- Banking Finance Institution (NDSI), the Company has to operate in compliance with applicable RBI laws and regulations.
- ii) Companies Act 2013
- iii) RBI Guidelines pertaining to NBFCs
- iv) SIDBI Act 1989
- v) The Micro, Small and Medium Enterprise Development Act, 2006

#### 11.2.13 Operational Results

The Revenue from Operations were as follows:

(Rs. in crore)

Particulars	2017-18	2016-17
Interest on Refinance to Banks	327.35	211.76
Interest on Refinance to MFIs/NBFCs	134.62	59.67
Income on Pass Through Certificate	20.07	14.64
Upfront Fee	2.38	5.21
<b>Total Revenue from Operations</b>	<b>484.44</b>	<b>291.29</b>

- During FY 2017-18, the Revenue from operations increased 70 *per cent* from Rs 286.08 crore to Rs 484.95crore.
- MUDRA saw a significant increase in refinance to banks and non-banking finance companies (NBFCs), and achieved the target set for FY 2017-18. Under PMMY, too, the targets for disbursement were achieved.
- MUDRA has so far, enrolled 200 institutions, including 93 banks, 72 MFIs, 32 NBFCs and 6 small finance banks (SFBs) for refinancing against their lending to micro enterprises.

- Total disbursements under PMMY during FY 2017–18 stood at Rs 2,46,437 crore. Out of this, ~40 *per cent* has been disbursed to women entrepreneurs and ~33 *per cent* has been disbursed to social categories (SC/ST/OBC).

More than 4.81 crore micro-borrowers have benefitted through PMMY during the year FY 2017-18. MUDRA cards scheme, facilitating hassle free working capital financing to micro enterprises, has issued cards to over 8.53 lakh borrowers since its inception in FY 2015-16 with more than 1.52 lakh of these cards, worth Rs 1425.48 crore, being issued in FY 2017–18 alone.

- The sanctions and disbursements made during 2018 stood at Rs 7,977.90 crore and Rs 7,501.05 crore respectively as against Rs 3,708.94 crore and Rs 3,525.94 crore respectively during previous financial year.

#### 11.2.14 Financial Working Results

(Rs. in crore)

Particulars	2017-18	2016-17
Revenue from Operations	484.44	291.29
Other Income	319.01	243.78
<b>Total Income</b>	<b>803.45</b>	<b>535.08</b>
Total Expenses	550.68	362.75
Profit Before Exceptional items	252.77	172.32
Exceptional items	0	0
<b>Profit Before Tax</b>	<b>252.77</b>	<b>172.32</b>
Tax	94.55	64.49
<b>Profit After Tax</b>	<b>158.21</b>	<b>107.83</b>

#### 11.2.15 Disinvestment (Upto 2017-18)

Not Applicable

#### 11.2.16 Environment Management

Not Applicable

#### 11.2.17 Audit Checks

- Whether the Company has complied with the provisions of Non-Banking Financial (Non Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions 2007 for its NBFC activities for Systematically Non deposit Taking Companies.
- Whether Non Performing Assets are provided for as per the provisions of Non Banking Financial (Non Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions 2007 and subsequent revisions of norms.
- Whether Assets representing loans and advances are classified based on record of recovery as Standard, Sub Standard, Doubtful and Loss Assets and whether Provisions are made for Assets as per RBI Prudential norms.



- iv) Whether various Investments are valued as per RBI Guidelines. Whether, in terms of the extant guidelines of RBI, the entire Investment Portfolio is categorized as 'Held to Maturity' and 'Available for Sale' Investments are classified as Government Securities, Other Approved Securities, Mutual Funds, Debentures & Bonds, Subsidiaries/Joint Ventures, Others (Commercial Papers, certificate of Deposits etc)
- v) To check Interest on Deposits under Priority Sector Shortfall Funds.
- vi) To check Appraisal of NBFCs/Securitization Proposals.
- vii) To check Refinance to all Banks, RRBs, SFBs, MFIs, NBFC s etc.
- viii) Whether MUDRA has received end use verification certificate from the Borrowers, and whether MUDRA has carried out verification of beneficiaries of at least 3 *per cent* of the sample of borrowers.
- ix) Interest Income is accounted for on accrual basis, except where interest and/or installment of principal repayment due on NPAs (Non Performing Assets). Interest in respect of NPA loan accounts and receivables is taken credit on actual receipt basis To examine the booking of Interest Income in Audit.
- x) An asset is classified as NPA as and when it falls under the definition given in para 2 (XIX) vide RBI Circular No. DNBR (PD) CC No 043/03.10.119/2015-16 dated 1 July 2015. For FY 2017-18, an Account is classified as NPA if the period of overdue is three months or more. To examine the same in Audit.
- xi) The Company's Capital Adequacy ratio was 45.18 *per cent* as on 31st March, 2018, which is significantly higher than the minimum threshold limit of 15*per cent* prescribed by the RBI for large-sized, non-deposit taking, systemically important non-banking financial companies (NBSI-NBFCs). To examine whether the Company's Capital Adequacy Ratio is as per RBI norms.
- xii) Whether MUDRA submitted Account wise utilization certificate to RBI for every drawal.
- xiii) Whether MUDRA provided all the information like the average amount of Loan, interest rate charged, processing fee charged etc by the intermediary lending institutions as and when called for by RBI.
- xiv) Whether a proper system has been put in place to ensure end use of funds lent by MFIs/NBFCs/Banks for Priority Sector Lending, by having adequate mechanism to audit the lending records of the MFIs/Banks/MFIs, by way of periodical returns and periodical inspection carried out by MUDRA.

## **RBI Guidelines for Audit of NBFCs**

### **Material to be included in the Auditor's report to the Board of Directors**

The auditor's report on the accounts of a non-banking financial company shall include a statement on the following matters, namely -

**(A) In the case of all Non-Banking Financial Companies**

- i) Conducting Non-Banking Financial Activity without a valid Certificate of Registration (CoR) granted by the Bank is an offence under chapter V of the RBI Act, 1934. Therefore, if The Company is engaged in the business of non-banking financial institution as defined in section 45-I (a) of the RBI Act and meeting the Principal Business Criteria (Financial asset/income pattern) as laid down vide the Bank's press release dated April 08, 1999, and directions issued by DNBR, auditor shall examine Whether the Company has obtained a Certificate of Registration (CoR) from the Bank.
- ii) In case of a company holding CoR issued by the Bank, whether that company is entitled to continue to hold such CoR in terms of its Principal Business Criteria (Financial asset/income pattern) as on March 31 of the applicable year.
- iii) Whether the non-banking financial company is meeting the required net owned fund requirement as laid down in Master Direction - Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016 and Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016
- iv) Every non-banking financial company shall submit a Certificate from its Statutory Auditor that it is engaged in the business of non-banking financial institution requiring it to hold a Certificate of Registration under Section 45-IA of the RBI Act and is eligible to hold it. A certificate from the Statutory Auditor in this regard with reference to the position of the Company as at end of the financial year ended March 31 may be submitted to the Regional Office of the Department of Non-Banking Supervision under whose jurisdiction the non-banking financial company is registered, within one month from the date of finalization of the balance sheet and in any case not later than December 30th of that year. The format of Statutory Auditor's Certificate (SAC) to be submitted by NBFCs has been issued vide DNBS. PPD.02/66.15.001/2016-17 Master Direction- Non-Banking Financial Company Returns (Reserve Bank) Directions, 2016. In the case of a non-banking financial company not accepting public deposits

Apart from the aspects enumerated in (A) above, the auditor shall include a statement on the following matters, namely -

- i) Whether the Board of Directors has passed a resolution for non- acceptance of any public deposits;
- ii) Whether the Company has accepted any public deposits during the relevant period/year.

- iii) Whether the Company has complied with the prudential norms relating to income recognition, accounting standards, asset classification and provisioning for bad and doubtful debts as applicable to it in terms of Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016 and Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016
- iv) In respect of Systemically Important Non-deposit taking NBFCs as defined in Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016
  - (a) Whether the capital adequacy ratio as disclosed in the return submitted to the Bank in form NBS- 7, has been correctly arrived at and whether such ratio is in compliance with the minimum CRAR prescribed by the Bank;
  - (b) Whether the Company has furnished to the Bank the annual statement of capital funds, risk assets/exposures and risk asset ratio (NBS-7) within the stipulated period.
- v) Whether the non banking financial company has been correctly classified as NBFC Micro Finance Institutions (MFI) as defined in the Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016 and Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016

## 11.3 NATIONAL CREDIT GUARANTEE TRUSTEE CO LIMITED

### 11.3.1 Introduction

National Credit Guarantee Trustee Company Limited (NCGTC) was incorporated by Government of India (GOI) under the Indian Companies Act, 1956 on March 28, 2014 as a private Ltd company with its registered office at New Delhi. The Registered office of NCGTC has been shifted from New Delhi to Mumbai, on December 8, 2017. The Company has been set up under the Department of Financial Services, Ministry of Finance, Government of India (GOI)

National Credit Guarantee Trustee Company Ltd, [NCGTC] has been conceptualized with an objective to act as Trustee Company and operate various credit guarantee funds, trusts or other entities, set up or to be set up for that purpose by GoI. It has been envisaged to provide credit guarantee to Banks, Financial Institutions (FIs,) Non Banking Financial Companies (NBFCs), Micro Finance Institutions (MFIs) and other lending institutions which are enrolled as Member Lending Institutions for guarantee cover of their loans in the areas of (i) Education (ii) Vocational skill development (iii) Factoring / bills discounting (iv) Micro (v) Stand-Up India and (vi) Any other guarantee as may be decided by the Govt.

The Company is a wholly owned Company of the Government of India. The Company does not have any Subsidiary, Joint venture or Associate Company.

The Company has been conceived to act as a single point operational entity for various credit guarantee programmesto be a cost effective alternative to achieve operational efficiencies and economies of scale through sharing of resources such as IT, premises, manpower, risk management, investment of corpus funds, publicity and awareness and other support services.

NCGTC acts act as a common Trustee company to manage and operate various credit guarantee trust funds. There are currently five Trusts under the Management of NCGTC viz. Credit Guarantee Fund Scheme for Educational Loans (CGFEL), Credit Guarantee Fund Scheme for Skill Development (CGFSD), Credit Guarantee Fund Scheme for Factoring (CGFF), Credit Guarantee Fund Scheme for Micro Units (CGFMU) and Credit Guarantee Fund Scheme for Stand-Up India (CGFSI).

### 11.3.2 Objectives

The Companyhas been set up to act as a common Trustee company to manage and operate various credit guarantee trust funds.The objective of the Company is to establish itself as an important institution in channelizing lending to the unserved and underserved sectors of the society who have lack of access to the sufficient credit because of lack of collateral security. The Principal Business Activity of the Companycomprising 100 *per cent* of the Turnover of the Companyas on 31 March 2018 is to operate various creditguarantee funds set up/being set up/to be set up by the Government of India, other national or international bodies.

The following are the objectives of various Funds managed by the Company

**1) Credit Guarantee Fund for Skill Development (CGFSD)**

Guarantees for Skill Development Loans by the member banks of Indian Banks Association (IBA) up to Rs1.5 lakh extended without collateral or third-party guarantee and the fund has a target of 10-20 lakh loans to be guaranteed in a year.

**2) Credit Guarantee Fund for Education loans (CGFEL)**

Guarantees for Education Loans by the member banks of IBA up to Rs 7.5 lakh extended without collateral or third-party guarantee and the fund has a Target of 10 lakh loans to be guaranteed in a year.

**3) Credit Guarantee Fund for Factoring (CGFF)**

Guarantees for domestic factored debts of MSMEs.

**4) Credit Guarantee Fund for Micro Units (CGFMU)**

Guarantees for loans up to the specified limit (currently Rs 10 lakh) sanctioned by Banks / NBFCs / MFIs / other financial intermediaries engaged in providing credit facilities to eligible units. Further, Overdraft loan amount of Rs 5,000/- sanctioned under PMJDY accounts shall also be eligible to be covered under Credit guarantee Fund.

**5) Credit Guarantee Fund Scheme for Stand-Up India (CGFSI)**

To guarantee composite loans between Rs.10 lakh and Rs.100 lakh or any other limit as may be decided by GOI, sanctioned and disbursed by eligible institutions for Greenfield enterprises in the manufacturing, services or the trading sector set up by Scheduled Castes, Scheduled Tribes and Women borrowers. In case of non-individuals 51 % share holding and controlling stake should be held by SC/ST or Women entrepreneurs

**11.3.3 Activities**

NCGTC is currently managing five credit guarantee trust funds, viz., CGFEL, CGFSD, CGFF,CGFMU and CGFSI on behalf of the Government of India. Gazette Notification for each of the Trust Fund have been published.

The five Credit Guarantee Trusts under the Management of the Company are as follows:

- i) Credit Guarantee Fund for Skill Development (CGFSD)with Corpus Fund of Rs 1000 crore –for skill loans
- ii) Credit Guarantee Fund for Educational Loan (CGFEL)with Corpus Fund of Rs 3500 crore – for education loans
- iii) Credit Guarantee Fund for Factoring (CGFF)with Corpus Fund of Rs 500 crore-for factoring/bill discounting loans
- iv) Credit Guarantee Fund for Micro Units (CGFMU) with Corpus Fund of Rs 3000 crore– for micro loans

- v) Credit Guarantee Fund for Stand-Up India Loans(CGFSI)with Corpus Fund of Rs5000 crore—for Stand-up India Loans

NCGTC facilitates higher flow of credit to the marginalized, vulnerable and needy segments of the society and enables achievement of the objective of faster, sustainable and inclusive growth.

Currently, NCGTC manages a cumulative corpus of more than Rs 5500 crore out of the committed corpus of Rs 13,000 crore towards the Trusts under its Management. The Corpus Funds with each Guarantee Trust have been specified in Annexure-1.

Four of the five credit guarantee schemes have been operationalized as on September 2018, and within two years, NCGTC has been able to cover a sum of about Rs 50,000 crore of sanctioned loan under its credit guarantee programme, reaching out to more than 30 lakh end users.

A brief of the Activities of the Company is given below:

- Since the inception of NCGTC in 2014, five credit guarantee trusts have been established under the Trusteeship management of NCGTC till date viz. CGFSD, CGFEL, CGFF, CGFMU and CGFSI. [Sixth Credit Guarantee Trust for Start-up India is yet to be established]
- Across these five trusts together, the disbursed budgetary corpus under the overall administrative management of NCGTC adds up to more than Rs5,500 crore out of the total cumulative committed funds of Rs13,000 crore.
- The network of lenders includes around 160 prospective member lenders cutting across various public sector banks, private banks, foreign banks, NBFC-MFIs, other NBFCs, Regional Rural Banks and cooperative banks.
- Apart from managing these credit guarantee trusts and the respective schemes under them, NCGTC also extended its support services to government institutions like SIDBI for managing its credit enhancement programmes. With the help of B2B technology platform namely System for Underwriting Reassurance & Guarantee Endorsement (SURGE), NCGTC could provide an end to end schematic design in a seamless manner across four of the five trusts; viz. CGFEL CGFSD, CGFSI and CGFMU.
- The continuous engagement with MLIs by way of intensive technical hand-holding support and capacity building of its staff continued throughout the year.
- To begin with, specific SoPs were put in place at the end of MLIs to operationalize the schemes.
- The year 2017-18 witnessed a rapid buildup of portfolios under CGFMU for Micro Loans and CGFEL for Educational Loans. Guarantees under CGFSI (Stand-up India loans) has also started gaining traction and is gradually picking up.

- Skill Loan being a new banking product, having overlapping feature with Educational Guarantee Product, the pickup of guarantees under CGFSD has seen a slow start.
- The Factoring Guarantee product has few important demand side issues which are being discussed with the industry stake-holders including Receivable Exchange of India Ltd. (RXIL) and Factors/Bankers. Cumulatively, about Rs 50,000 crore of sanctioned loan amount has been covered under all the credit guarantee programmes, reaching out to more than 30 lakh end users.

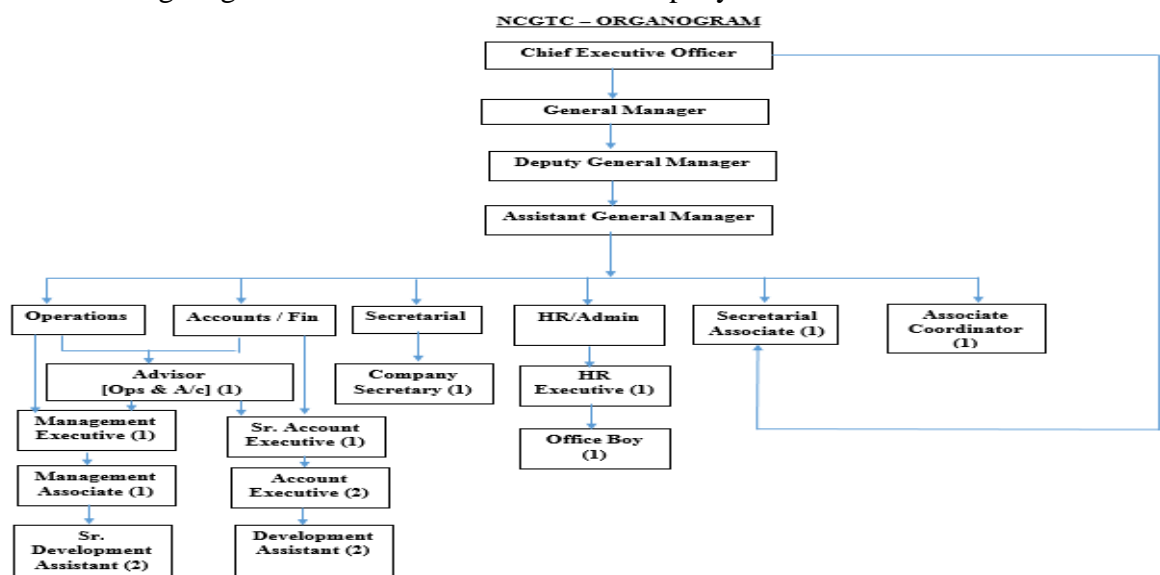
### 11.3.4 Organizational Set up

The Company has a Board of Directors that supervises the overall operation and activities of the Company. In order to execute the day to day operations, the necessary powers are delegated by the Board to the Chief Executive Officer. The Board of Directors of the Company comprises of the Chairman, a Whole Time Director who is the Managing Director of the Company and six other Directors.

The Chief Executive Officer posted at NCGTC is on deputation from SIDBI. The salary paid to the Chief Executive Officer has been reimbursed to SIDBI

Presently (March 2018), only a Company Secretary is on the payrolls of the Company (on contractual basis) and remaining all staffs engaged at the Company are either on Deputation from SIDBI or from Outsourced Agency. The Company has no defined HR policy to be implemented in respect of the staff engaged by the Company. The Company does not have any Risk Management Policy at present (March 2018), as the elements of risk threatening The Company's existence are very minimal.

The Organogram of the Company is annexed below.



### 11.3.5 Capital Structure

The Authorized Share Equity Share Capital of the Company as on 31.03.2018 is 2,00,00,000 equity shares of Rs 10 each aggregating to Rs 20.00 crore. The Issued, Subscribed, and Paid Up Equity Share Capital as on 31 March 2018 is 1,00,00,000

Equity Shares of Rs 10 each fully paid up aggregating to Rs 10.00 crore. All the equity shares in the Company as on 31 March 2018 are held by the Government of India.

### 11.3.6 Budget and Planning

(Rs in crore)

Years	2015-16	2016-17	2017-18
Particulars	Actual	Actual	Actual
Capital Expenditure	0.71	0.38	0.03
Revenue Expenditure	2.82	5.54	6.57
Revenue/Turnover	3.81	6.20	6.91

### 11.3.7 Accounting System

The Company makes use of Tally ERP 9.0 for the purpose of the upkeep of its accounts. Further, in case of preparation of its financial statements The Company observes Generally Accepted Accounting Principles in India (Indian GAAP), applicable Accounting Standards notified under the Companies (Accounting Standard) Rules, 2006, Companies (Accounts) Rules, 2014, Schedule III and relevant provisions of the Companies Act, 2013

### 11.3.8 Manpower Analysis

The Company had 19 employees as on 31 March 2018, which consisted of 4 managerial employees and 15 non – managerial employees

However, the Company has only a Company Secretary on its Pay-roll, on contract, who was appointed with effect from 15 May, 2017. Other Staff engaged at The Company are either on deputation from SIDBI or from Outsourced Agency.

### 11.3.9 MOU Targets and Achievements

There are no targets since NCGTC is managing the Credit Guarantee Trust Funds set up by the Government of India.

### 11.3.10 Computerization

The ERP/IT system used by the Company for Accounting is Tally ERP 9.0. The entire operations of the Company are based on shared cloud computing environment. Cloud computing is one of the emerging technologies. The Company benefits in terms of cost reduction (no additional capital expenditure) and better productivity on day to day operations with greater flexibility in capacity, operational place and time

### 11.3.11 Internal Audit

The Company conducts internal audit by engaging the services of independent and professional audit firms on a quarterly basis. The Manual of Internal Audit is available.

### 11.3.12 Act, Rules, Documents

- i) Companies Act 2013



- ii) Gazette notification pertaining to each fund being managed by NCGTC.
- iii) SIDBI Act, 1989
- iv) The Micro, Small And Medium Enterprise Development Act, 2006

### 11.3.13 Operational Results

Revenue from Operations was as follows:

(Rs. in crore)

Particulars	2017-18	2016-17
IT Infrastructure Support to SIDBI	1.90	1.63
Management Fees Received from SIDBI PSIG RAF	0.11	0.10
Management Fees Received from CGFSD	0.86	0.79
Management Fees Received from CGFEL	0.86	0.79
Management Fees Received from CGFF	0.86	0.79
Management Fees Received from CGFMU	0.86	0.79
Management Fees Received from CGFSI	0.86	0.79
<b>Total Revenue from Operations</b>	<b>6.29</b>	<b>5.58</b>

### 11.3.14 Financial Working Results

(Rs. in crore)

Particulars	2017-18	2016-17
<b>Revenue from Operations</b>		
Management Fees from SIDBI PSIG RAF	0.10	0.10
Management Fee received from Trusts under Management	4.29	3.86
IT Infrastructure Support to SIDBI	1.90	1.62
<b>Total Revenue from Operations</b>	<b>6.29</b>	<b>5.58</b>
Income from Investments (Interest on FDR)	0.55	2.18
Other Income	0.07	0.06
<b>Total Other Income</b>	<b>0.62</b>	<b>2.24</b>
<b>Total Income</b>	<b>6.91</b>	<b>7.83</b>
Total Expenses	6.57	7.16
Profit Before Exceptional items	0.34	0.66
Exceptional items	--	--
<b>Profit Before Tax</b>	<b>0.34</b>	<b>0.66</b>
Tax	0.06	0.12
<b>Profit After Tax</b>	<b>0.28</b>	<b>0.53</b>

### 11.3.15 Disinvestment (Upto 2017-18)

Not Applicable/Nil

### 11.3.16 Environment Management

Not Applicable

### 11.3.17 Audit Checks

- i) National Credit Guarantee Trustee Company Limited (NCGTC) has been established by the Ministry of Finance, as a wholly owned company of Government of India (GoI), to act as a common Trustee for multiple credit guarantee funds. It has been conceived to act as a single point operational entity for various credit guarantee programmes to be a cost effective alternative to achieve operational

efficiencies and economies of scale through sharing of resources such as IT, premises, manpower, risk management, investment of corpus funds, publicity and awareness and other support services. A total of around 160 Member Lending Institutions (MLIs) have been registered across all credit guarantee schemes as on 31.03.2018. During the year 2017-18, NCGTC officials undertook extensive sessions with registered Member Lending Institutions (MLIs) for operationalization of the schemes under its management. To examine and review the efficacy and effectiveness of the operationalization of the schemes under the Management of the NCGTC.

- ii) NCGTC also engaged actively with the registered MLIs for one-to-one technical hand-holding sessions and has also planned a multi-pronged information dissemination strategy. The network of lenders includes around 160 prospective member lenders cutting across various public sector banks, private banks, foreign banks, NBFC-MFIs, other NBFCs, regional rural banks and cooperative banks. To examine and Review the management of credit guarantee trusts and respective schemes under them by NCGTC.
- iii) Apart from managing the credit guarantee trusts and the respective schemes under them, NCGTC also extended its support services to government institutions like SIDBI for managing its credit enhancement programmes. To examine the support services rendered to SIDBI for managing credit enhancement programmes.
- iv) To examine, whether,with the help of B2B technology platform, namely, System for Underwriting Reassurance & Guarantee Endorsement (SURGE), NCGTC could provide an end to end schematic design in a seamless manner across four of the five trusts; viz. CGFEL CGFSD, CGFSI and CGFMU.
- v) To examine whether the continuous engagement with MLIs by way of intensive technical hand-holding support and capacity building of its staff continued throughout the year and to examine the efficacy of the same.
- vi) To examine whether specific Standard Operating Procedures (SoPs) were put in place at the end of MLIs to operationalize the credit guarantee fund schemes and to examine the efficacy of the same.
- vii) As per Ministry of Finance, Department of Financial Services letter dated 23 February 2016, an amount of Rs 500 crore has been released to NCGTC towards corpus fund for providing guarantee to loans extended under Pradhan Mantri Mudra Yojana under Plan during the year 2015-16 as Grant in Aid. To examine whether NCGTC maintained Accounts of the said Government Grant and furnished to the Department of Financial Services, audited statement of accounts together with utilization certificate and performance cum achievement report, within 12 months from the date of sanction of the grant.
- viii) In respect of Credit Guarantee Fund for Skill Development, to examine the Guarantees for Skill Development Loans by the member banks of the Indian Banks Association (IBA) uptoRs 1.5 lakh per annum extended without collateral or third

party guarantee, and the extent of achievement of target in respect of loans to be guaranteed in a year by the Company.

- ix) In respect of Credit Guarantee Fund for Education Loan (CGFEL), to examine the Guarantees for Education Loans by the member banks of the Indian Banks Association (IBA) upto Rs 7.5 lakh per annum extended without collateral or third party guarantee, and the extent of achievement of target in respect of loans to be guaranteed in a year by the Company.
- x) **Credit Guarantee Fund Scheme for Stand Up India (CGFSSI)-** To examine whether Loans and Advances sanctioned and disbursed by the lending institutions for Greenfield enterprises in the non farm sector set up by Scheduled Caste, Scheduled Tribe and Women Borrowers, without collaterals and/or third party guarantees, have been guaranteed by CGFSSI
- xi) **Credit Guarantee Fund for Micro Units (CGFMU)**  
To examine whether there has been an increase in access to and availability of micro loans by extending their current activities in underserved and unserved areas, having regard to loans provided to eligible micro units and accordingly, whether loans and advances without collaterals and/or third party guarantees to the eligible Micro Units have been guaranteed.
- xii) **Credit Guarantee Fund for Factoring (CGFF)**  
To examine whether the Fund's mission to encourage factoring of receivables of MSMEs in India by promoting factoring without recourse has been accomplished. Whether the same has resulted in an increase in the share of MSME portfolio in the factored debts.
- xiii) To examine Guarantees for loans upto specified limit (Rs 10 lakh) sanctioned by Banks/ Non Banking Financial Institutions/MFIs etc engaged in providing credit facilities to eligible micro units.
- xiv) To examine Guarantees for credit facilities of over Rs 10 lakh and upto Rs 100 lakh sanctioned by eligible ending institutions under Stand Up India scheme (SC/ST/Women) for setting up Greenfield enterprises.
- xv) NCGTC, as Trustee, for operational convenience, liquidity management and to achieve efficient ways of making statutory payments from one single point, can do drawal of funds from the trusts under its Management. Such drawal of funds from the Trust by NCGTC shall be purely temporary in nature and shall be settled within a tenure of 90 days from the date of drawal. To check compliance with the same.
- xvi) To check as to whether due to internal transfers, funds of one entity are used for the benefit of another entity.
- xvii) The Board in its 10 meeting had allowed internal fund transfers between NCGTC and the Trusts under its Management for operational convenience by passing the following resolution; "NCGTC, as a Trustee, for operational convenience, liquidity

management and to achieve efficient ways of making statutory payments from one single point, can do drawl of the funds from the trusts under its Management. Such drawls of the funds from the trust by NCGTC shall be purely temporary in nature and shall be settled within a tenure of 90 days from the date of drawal”. However, during FY 2017-18, it was felt that for better clarity of transactions in all entities and to avoid using the funds of one entity for the benefit of another entity, such internal transfers should be avoided in future. To examine the said Policy decision in FY 2018-19 and thereafter.

- xviii) Presently the Company manages five Trusts viz., Credit Guarantee Fund for Skill Development, Credit Guarantee Fund for Educational Loans, Credit Guarantee Fund for Factoring, Credit Guarantee Fund for Micro Units and Credit Guarantee Fund for Stand-Up India, where the Company is the Trustee and the Fees charged by the Company to the Trusts is based on actual administrative/operational cost incurred by the Company which is equally distributed across all funds under the Management of the Company. This fee is treated as Management Fee. Further, any specific expense pertaining to a particular Trust should be charged to that particular Trust itself. To examine the same in Audit.
- xix) To examine whether the Company, as a Trustee of the five Trusts referred to above, complied with its Duties as a Trustee, as envisaged in the Trust Deed, in so far as the Management of the Corpus of the Trusts is associated and also ensured that the Objects of the Trust have been complied with.
- xx) To examine whether the Management Fee is received from SIDBI-PSIG on the basis of the Management Agreement entered into between The Company and SIDBI-PSIG and the expense is recognized on accrual basis.
- xxi) To examine whether Dividend income is recognised when the right to receive the same is established. To also examine as to whether Investments by NCGTC have been made on the basis of Investment Policies framed by the Company, and on the basis of recommendations of the Investment Committee, and within the exposure norms with regard to maturity/tenor of the Investments
- xxii) To examine whether Interest income from balances held with the banks in form of deposits is recognized on accrual basis.
- xxiii) To examine whether Provision for diminution, if any, in the value of each non-current investment is made to recognise a decline, other than of a temporary nature
- xxiv) The Company had entered into an agreement with SIDBI for its Poorest States Inclusive Growth (PSIG) Programme, funded by UK Aid from the Department for International Development (DFID). The Company has been appointed as the Manager for managing two products viz. Cash Collateralized Guarantee Fund (CCGF) and Risk Assurance Fund (RAF). The total combined fund expected under these Schemes was Rs 55 crore (Rs25 crore for CCGF and Rs30 crore for RAF). SIDBI has been paying the Management Fee @ 1 per cent p.a. (calculated quarterly) of the average amount deposited by SIDBI towards the RAF/CCGF Facility under

the Scheme to the Company. An amount of Rs 10 crore was received from SIDBI for management under RAF during F.Y. 2015-16. As per the agreement, the proceeds from investment are credited to the corpus. The Fund is being maintained separately by the Company as a liability in its balance sheet and the income/expenses incurred out of the operations of the PSIG Fund are debited/credited to the fund directly. on the Company as on March 31, 2018, the credit to the funds stood at Rs 11.03 crore. To examine the same in Audit, and the compliance with the Terms and Conditions of the Agreement entered into with SIDBI for the PSIC Programmes

- xxv) The Board of the Company in its 9 meeting held on March 22, 2016 had approved the Company to claim reimbursement for the expenditure related to development, hosting and maintenance of the SUI portal from SIDBI based on the decision taken in the second Standing Committee meeting for Standup India wherein it was discussed that since the Company already has a contract with Mastek for developing its guarantee platform, the invoice towards Standup India may also be raised in the name of the Company and SIDBI may make the corresponding payment to the Company. To examine the contract with Mastek for developing its guarantee platform based on the decision taken in the second Standing Committee meeting for Standup India
- xxvi) To examine the Credit Guarantee compliance as per the scheme of the loan sanctioning terms and conditions.

## 11.4 STOCK HOLDING CORPORATION OF INDIA LIMITED

### 11.4.1 Introduction

Stock Holding Corporation of India Ltd was incorporated on 28 July 1986. The Company is a Subsidiary of IFCI Ltd, holding 52.86 *per cent* of the Equity Shares as on 31 March 2018. The Company has three subsidiaries, viz., SHCIL Services Ltd, Stock Holding Document Management Services Ltd and Stock Holding Securities IFSC Ltd (which is yet to be operational). As on 31 March 2018, the Company had 189 Branches. Being a Subsidiary of IFCI Ltd., the Company is under the Administrative Control of Department of Financial Services, Ministry of Finance, Government of India.

### 11.4.2 Objectives

The nature of business of the Company is Custodian and Depository Participant

### 11.4.3 Activities

SHCIL provides custodial, depository participant, derivative clearing and other financial services. It provides services to institutional investors, banks, Mutual Funds and retail investors. SHCIL also acts as a central record keeping agency for collection and payment of non-judicial stamp duty in various states of India. The Company carries out its operations using IT systems majority of which are developed in-house. Details of Business activity by Stockholding Corporation of India as on 31 March 2018 was as follows:

Sr. No	Business activity
1	e-Stamping
2	National Pension System
3	Custodial Service Client
4	Depository Participant (DP) Service
5	GoldRush & Bullion
6	Investment
7	Depository Participant (DP) Services Broking Services

### 11.4.4 Organizational Set up

The supervision of the overall operations and activities of the Company vests with the Board of Directors. The Company's Board of Directors comprised of Non Executive Chairman, Managing Director & Chief Executive Officer (CEO), four Directors, and six Independent Directors. There are various functional committees that report to the Board such as the Nomination & Remuneration Committee, Audit Committee, CSR Committee, Risk Management Committee, etc. In order to execute the day to day operations, the necessary powers are delegated by the Board to the Managing Director & CEO. The Company's operations are in two segments.

- A. Retail Segments
- B. Institutional Segment

## A. Retails Segments

### ❖ Depository Participant (DP) Services

The Company provides Demat accounts services to Retail, HNI, and Corporate and Institutional customers on both NSDL and CDSL. The Company is also empanelled as a Comtrack Participant with National Commodity and Derivatives Exchange (NCDEX) to hold commodities in dematerialized form. The Beneficial Owner shall pay such charges to SHCIL (DP) for the services of holding and transfer of securities in dematerialised form, also Depository Services are offered by the DP to the Beneficial Owner on payment of such charges as may be agreed to from time to time between the DP and the Beneficial Owner. The rights & obligations of Beneficial Owner and Depository Participant are prescribed by SEBI and Depositories under the Depositories Act 1996, SEBI (Depositories and Participants) Regulations, 1996, Rules and Regulations of SEBI, Circulars/ Notifications/Guidelines issued thereunder, Bye Laws and Business Rules/Operating instructions issued by the Depositories and relevant notifications of Government Authorities as may be in force from time to time. Under the above provisions, in the event of a Beneficial Owner committing a default in the payment of any amount to the DP within a period of thirty days from the date of demand, without prejudice to the right of the DP to close the Demat account of the Beneficial Owner, the DP may charge interest at a rate as specified by the Depository from time for the period of such default. The provisions also contain that, in case the Beneficial Owner has failed to make the payment of any of the amounts as provided, the DP after giving two days' notice to the Beneficial Owner shall have the right to stop processing of instruction of the Beneficial Owner till such time he makes the payment along with interest, if any.

### ❖ Broking Services

The Company offers Broking Services in Cash, Derivatives and Currency segments through its subsidiary-SHCIL Services Ltd. (SSL). It is known for providing speedy, safe, reliable and affordable broking services to Retail, HNI, Corporate and Institutional clients. Online broking and broking through mobile phone is also available, over and above Trade over Phone through Centralized Dealing Room (CDR).

### ❖ Derivatives

The Company is a Professional Clearing Member and Custodian in the Derivative Segment. The Company has sophisticated in-house Back Office systems and procedures to cater to the needs of various entities in this segment in terms of clearing, settlements, collateral & risk management.

### ❖ Distribution of Investment Products

- Mutual Funds, Fixed Deposits, Non-Convertible Debenture (NCDs), Capitals Gain Bonds, IPOs
- Inflation Indexed Bonds & Governments of India Saving Bonds
- Online Mutual Funds Investments Platform (e-MF)

❖ Insurance

The Company also offers insurance through following partners

- Life Insurance LIC, SBI Life and ICICI Prudential
- General Insurance The New India Assurance, Bajaj Allianz and ICICI Lombard
- Health Insurance Religare Health , Star Health and Apollo Munich

❖ National Pension System (NPS)

- NPS is a retirement planning and tax saving scheme from GOI regulated by PFRDA
- Stockholding provides full NPS spectrum of NPS services to all citizens as PFRDA authorized Point of Presence (POP)
- Corporate employees can save tax over and above section 80 C by joining NPS – Corporate Model.

❖ Distribution of Bullion

The Company distributes Gold/ Silver Coins / Bar and Gold Sovereigns of multiple denomination in tie-up with MMTC-PAMP India.

- Gold Coin of 999.9 and Silver Coin of 999 purity available in various denominations
- Gold Sovereign Coins of 91.67 purity certified by the British Royal Mint UK available.
- Individually certified for purity, packaged to international standards and serial numbered
- Special Tola Coins available in 999 Silver & 999.9 Gold Fineness.

❖ GoldRush

GoldRush is a Gold accumulation plan a which enables customer to buy and accumulate pure gold (24K fine gold 999.9) in a fair and transparent manner for a value of as low as Rs. 1000

- Flexibility of Fixed/Periodic payments.
- Assured Purity and Transparency of all transaction
- Safe storage with insurance
- Delivery of Gold at Doorstep

❖ Government of India (GOI) Bonds

RBI has designated Stockholding as one of the Agency Bank for investor to open Bond Ledger Accounts and hold GOI Bonds in dematerialized form. These Bonds are absolutely safe and an attractive investment option in volatile market situation. Stockholding also offers the Government of India Sovereign Gold Bonds.

❖ e-Stamping



e-Stamping is a Web-based Solution for payment and collection of Non-Judicial stamp Duty. The Corporation has been authorized by the Ministry of Finance, Government of India to act as a sole Central Record-Keeping Agency (CRA) to design and implement an electronic method of stamp duty collection. SHCIL has implemented e-Court Fee Collection System, e Stamping Fee Collection System and e-Registration Fee Collection System for collection of Judicial Stamp Duty, Non Judicial Stamp Duty and Registration Fees respectively. E- Stamping is a computer based application and a secured electronic way of stamping documents. 15 States and six Union Territories have, through agreements appointed SHCIL as e- Stamping Collection Agency. e-Registration Fees Collection system is a secure electronic way of Collection of Registration Fees along with the Other Charges and payment mechanism to the State Government. E-Governance ensures that Registration fee and Other Charges paid by public reaches the Government safely. As per terms and condition of agreement, SCHIL shall appoint Authorised collection centre (ACC) with prior approval of States Government. The Authorised Collection Centres could preferably be a Schedule bank, Financial Institutions, Chartered Accountant Firm, Professional, Post Office, Insurance Regulatory Development Authority, Recognized Insurance Company or any other person/institution as approved by the Government. SCHIL shall be responsible for payment to the Government for the amounts which are only collected towards the download of stamp either through the clients or through the approved Intermediaries. Such payment shall be made to the designated account of the Government not later than closure of business hours of the next two working days from the date of collection of stamp duty. For the above service to be provided by SCHIL, SHCIL shall be entitled from the State a commission of prescribed percentage of the value of stamp duty collected through e-stamping mechanism.

#### ❖ Support Service

The services provided by StockHolding include Market Insights, covering overview of all markets, Comprehensive Newsletter covering the daily news, Intraday Calls, an analysis of quarterly results of select top companies and Mutual Fund reports. Monthly Reports on NPS with returns of all Pension Fund Managers is also published.

#### B. Institutional Segment

##### ❖ Custodial Services

StockHolding is a trusted custodian for Institutional Client across the financial service industry.

- The largest Custodian in India accounts for maximum market Share
- A technologically driven entity with the deepest pool of local market expertise
- Provides custodial services for all types of financial instrument like equity, debts, CP, CD, Pass Through certificates, Government Securities etc.
- StockHolding holds a 'No Action Letter' under SEC. 17 f (5) of US SEC Regulation enabling it to offer custody services to US bases funds.

- Also provides custodian Services to Foreign Portfolio Investors (FPI), in the FPI time zone at a competitive pricing.
  - Offers CSGL services to Corporates, Co-operatives Banks, Provident Funds, Superannuation Fund, Gratuity Funds, Non-Banking Finance Companies etc.
  - Comprise of purchase and sale of government securities, custody participations in bidding value free transfers benefits and redemptions collection.
- ❖ Pension Funds Administration
- StockHolding offers Pension Fund Administration Services to Pension Fund Trusts managing a “Defined Benefit” or a “Defined Contribution” Pension Scheme
  - StockHolding offers an array of related services that include design, development and maintenance of a customized Pension Fund Software, Pension Fund Operations and Accounting, Custodial, Depository and Constituent SGL Services for investments by the Pension Fund Trust.

#### 11.4.5 Capital Structure

The Authorized Share Equity Share Capital of the Company as on 31.03.2018 is 5 crore equity shares of Rs 10 each aggregating to Rs. 50 crore. The Issued, Subscribed, and Paid Up Equity Share Capital as on 31 March 2018 is Rs 21.05 crore comprising of 2,10,54,400 equity shares of Rs 10 each fully paid up.

The details of shareholders holding more than 5 *per cent* equity holding in the Company as on 31.03.2018 is as follows:

Name of the Equity Shareholder	No. of Equity Shares held on 31 March 2018	Percentage of Equity Holding
IFCI Ltd	1,11,30,000	52.86 %
Administrator of the Specified Undertaking of the Unit Trust of India	35,70,000	16.96 %
LIC of India	31,50,000	14.96 %

Other Government Shareholders are GIC of India, New India Assurance Co Ltd., United India Insurance Co Ltd., Oriental Insurance Co Ltd and National Insurance Co Ltd each holding 6,30,000 equity shares in the Company as on 31 March 2018, constituting 2.99 *per cent* equity holding each.

#### 11.4.6 Budget and Planning

(Rs in crore)

Years	2015-16		2016-17		2017-18	
	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	108.55	7.95	73.2	18.25	61.7	18.06
Revenue Expenditure	307.48	224.73	337.34	280.13	367.25	339.78
Revenue/Turnover	438.75	292.77	436.65	340.33	434.36	411.23
Profit for the year	94.53	52.27	74.25	55.67	51.05	65.80

#### 11.4.7 Accounting System

The Accounting system of the Company is Centralized. The Company has implemented IndAS and the financial statements of the Company are prepared in harmony with IndAS under the historical cost convention on accrual basis. Accordingly, the Company prepared financial statements complying with Ind-AS applicable for year ended on 31st March, 2018.

#### **11.4.8 Manpower Analysis**

As on 31 March 2018, the manpower strength was 1425 employees of which 586 were Managerial and 839 were Non Managerial.

#### **11.4.9 MOU Targets and Achievements**

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

#### **11.4.10 Computerization**

Majority of the IT Systems have been developed in-house. Critical applications undergo vulnerability assessment and penetration testing periodically. Other applications are audited based on client and regulatory requirements.

#### **11.4.11 Internal Audit**

Internal Audit has been outsourced to an independent firm of Chartered Accountants for all fourteen regions along with one Central Auditor. DP Audit is conducted monthly and half yearly. All other activities (including Finance) are conducted on Quarterly basis. Manual of Internal Audit is available as on date.

#### **11.4.12 Act, Rules, Documents**

- i) Companies Act 2013 and the related Rules
- ii) Income Tax Act 1961 and the related Rules
- iii) Central GST Act 2017 and the related Rules
- iv) Securities Contract Regulation Act 1956
- v) Depositories Act 1996
- vi) Foreign Exchange Management Act 1999
- vii) SEBI Act 1992
- viii) Prevention of Money Laundering Act 2002 and the Rules thereunder
- ix) The Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011
- x) The Securities and Exchange Board of India (Prohibition of Insider Trading) regulations, 2015
- xi) The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009
- xii) The Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008

- xiii) The Securities and Exchange Board of India (Registrar to an Issue and Share Transfer Agents) regulations, 1993
- xiv) SEBI Custodial Regulations 1996
- xv) SEBI Depository Participant Regulations
- xvi) NSDL & CDSL Bye-Laws and Business Regulations
- xvii) Companies Act 2013
- xviii) SEBI Prohibition of Insider Trading Regulations 2015
- xix) Information Technology Act
- xx) SEBI Research Analysts Regulations 2014
- xxi) RBI Act 1934
- xxii) PFRDA Act 2013
- xxiii) PFRDA Custodian Regulations 2015
- xxiv) PFRDA POP Regulations 2018
- xxv) Rules and Regulations of various State Governments for E Stamping.

#### 11.4.13 Operational Results

The Revenue from Operations were as follows:

(Rs. in crore)

Particulars	2017-18	2016-17
Custodial Services	1.88	1.67
Depository Participant Services	122.64	116.94
Commission and Brokerage	172.12	132.63
Derivatives Clearing Services	4.61	2.37
Document Management Income	8.40	3.86
Sale of Goods	23.38	15.30
Other Operating Income	1.76	2.53
<b>Total Revenue from Operations</b>	<b>334.79</b>	<b>275.30</b>

#### 11.4.14 Financial Working Results

(Rs. in crore)

Particulars	2017-18	2016-17
Revenue from Operations	334.79	275.30
Other Income	98.82	79.62
Total Income	433.61	354.92
Total Expenses	362.16	294.72
Profit Before Exceptional items	71.45	60.20
Exceptional items	--	--
Profit Before Tax	71.45	60.20
Tax	5.65	4.53
Profit After Tax	65.80	55.67

Net Other Comprehensive Income not reclassified to Profit and Loss in subsequent periods	784.42	151.00
Total Comprehensive Income	850.22	206.67

#### **11.4.15 Disinvestment**

Not Applicable.

#### **11.4.16 Environment Management**

The Company's operations are into financial services and not into manufacturing business. However, the Company takes various steps towards environment protection mechanism and conservation of energy. The Company uses latest technologies for improving productivity and quality of its services. The Company replaces old and obsolete equipments with energy efficient equipments on an ongoing basis.

The Company's Datacentre, which is built with energy efficient LED lights is equipped with newer generation and latest server categories whose characteristics in terms of power saving are lower power usage at idle, optimized workload power management, improved performance per watt at moderate utilization etc.

The Company is using energy efficient electrical lighting system, majority of its air conditioning systems are VRF/VRV systems which are energy efficient. As part of green initiative, Stock Holding has planted and nurtured various trees in and around its main operations office situated at Mahape.

#### **11.4.17 Audit Checks**

- i) To examine whether Custodial fees are accrued monthly on the basis of daily / weekly average holdings in custody or the net asset value of holding/assets under management in the electronic segment
- ii) To examine whether Service charges received are recognised as income on completion of post-trading operations. A post trading operation is treated as complete on settlement under the electronic segment and on lodgement/ delivery of securities under the paper segment
- iii) To examine whether Annual maintenance charges received from beneficiary account holders / clearing members for depository services are amortised on time proportion basis over the period of contract
- iv) To examine whether Commission (including commission on consignment sale) and brokerage income recognised on accrual basis
- v) To examine whether the Commission income on initial public offer (IPO), follow on public offer (FPO) and interest on delayed payment are being booked on receipt basis
- vi) To check e-Stamping agreements with State Governments & UTs.
- vii) To check Standard Operating Procedure (SOP) of Bullion

- viii) To check Investment policy, contract/agreements, MOU/Service agreements, legal cases, capital expenses in respect of work in progress, Salary and wage paid, loan issued.
- ix) To check Custodian Agreements with Clients, Depository Participations Fees, Sub-Broking Fees from NSDL & CDSL, Agency Commission from Insurance Companies were as per agreements, National Pension System Procedure and cases of theft/misappropriation/fraudulent claims, internal audit reports.
- x) To check compliance with Acts, Rules, Regulation, Instructions/Circulars issued by the RBI, SEBI, IRDA and PFDRRA.
- xi) To check whether the commission for e-stamping have been received from the concerned States and Union Territories in time as per the agreement. The Non recovery of commission in respect (e-Registration & e court fee) from State Governments and National Capital Region, the delay and the action taken need to be checked.
- xii) Audit to check that, as per the details of arrears of DP charges, receivable, provided by the management, whether huge amount are seen outstanding for collection from Beneficial Owners ranging from less than six months to more than two years.
- xiii) To check whether there is Non- inclusion of provision for ensuring timely receipt of remuneration from Private Sector Insurance Companies, and deficiency of monitoring system in providing ageing of Commission/Brokerage.
- xiv) To check whether there is Waiver of Custodian charges remained not intimated to the Board, if any.
- xv) To check whether any major disaster has happened during the period of audit and the action taken thereon.
- xvi) To check whether there is any Loss of revenue in Bullion sale at branches due to inadequate internal check/control measure.
- xvii) To examine Fixed deposits against which lien has been marked by the banks as security for guarantees issued on behalf of the Company and the status thereof.
- xviii) To examine whether Securities received from clients (for Professional Clearing Member Segment) as collateral for margins are held by the company in its own name as a fiduciary capacity.

## 11.5 SHCIL SERVICES LIMITED

### 11.5.1 Introduction

SHCIL Services Limited (formerly National Depository Corporation of India Ltd.) was incorporated on 14th February, 1995. It is engaged in the business of broking and advisory services from 14th March, 2006. The Company's Registered office is at Mahape, Navi Mumbai. With effect from 28th March, 2014 Stock Holding Corporation of India Ltd. (SHCIL) - the Holding Company, has become a subsidiary of Industrial Financial Corporation of India (IFCI) Ltd. & hence IFCI Ltd. is the Ultimate Holding Company for SHCIL Services Ltd. from the said date. The Company does not have any subsidiary.

### 11.5.2 Objectives

The main objective of the Company is to render Stock Broking services to both the Retail and Institutional clients. The Principal Business Activities of the Company comprising 100 *per cent* of the Turnover of the Company are Share Broking Services.

### 11.5.3 Activities

The Company is in the business of Stock Broking and is a member of BSE-Cash Segment and Derivatives Segment and NSE-Cash, Future & Option and Currency Derivatives Segments. The Stock Broking services are offered to both retail investors and institutional clients. To achieve better growth, the Company has forayed into the business of commodities market and has taken the trading membership of MCX. After a successful up gradation of the Online & Mobile Trading Platform, the Company has further invested in the overhauling its Back-Office by shifting it to newer advanced software which has additional features to streamline the processes and allow dynamic structuring of the systems. With the improved trading & operation platforms, the Company is actively looking to enhance the business through Alternate Channel Partners in the Retail space and Foreign Portfolio Investors in the Institutional space.

### 11.5.4 Organizational Set up

The Company is not a listed entity. Nevertheless, it endeavors to comply with Corporate Governance norms as specified under SEBI Listing and Disclosure Regulation 2015. The Company's philosophy on corporate governance recognizes the accountability of the Board & Officers and the importance of decisions to all constituents, including customers, employees, investors, business associates, regulatory authorities and the community at large. The Company believes that all its operations and actions must serve the underlying goal of enhancing overall shareholder value over a period of time

The Board consists of 6 members, of which two are independent directors. The day-to-day management of the Company vests in the hands of the MD & CEO. The Company has i) Audit Committee, ii) Risk Management Committee, iii) Nomination and

Remuneration Committee, iv) Corporate Social Responsibility Committee comprising of Directors under the provisions of the Companies Act 2013

The Company's Financial Statements are authenticated by Non Executive Chairman, Managing Director & Chief Executive Officer (CEO), four Directors, Head of Finance and Company Secretary.

### 11.5.5 Capital Structure

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 1,80,00,000 equity shares of Rs 10 each aggregating to Rs 18.00 crore. The Authorized Preference Share Capital of the Company comprises of 7 per cent Non Cumulative Convertible Preference Share Capital of the Company aggregating to 20,00,000 Preference Shares of Rs 10 each aggregating to Rs 2.00 crore. The Issued, Subscribed, and Paid Up Equity Share Capital as on 31 March 2018 is Rs6.09 crore comprising of 60,89,703 equity shares of Rs 10 each fully paid up.

### 11.5.6 Budget and Planning

(Rs in crore)

Years	2015-16		2016-17		2017-18	
Particulars	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	1.93	0.35	2.58	1.08	6.42	0.11
Revenue Expenditure	78.90	29.71	82.61	34.01	57.78	41.71
Revenue/Turnover	103.77	38.47	104.25	43.43	74.19	54.99
Profit for the year Before Tax	24.86	8.75	21.63	9.41	16.41	13.27

### 11.5.7 Accounting System

The Company has a Centralized system of Accounting. Pursuant to the notification dated February 16, 2015 issued by the Ministry of Corporate Affairs, the Company has adopted the Indian Accounting Standards (Ind AS) notified under the Companies (Indian Accounting Standards) Rules, 2015 w.e.f. April 1, 2016.

The financial statements are prepared in accordance with Indian Accounting Standards (Ind AS) under the historical cost convention on the accrual basis except for certain assets and liabilities where fair value model has been used, e.g. certain financial assets and liabilities measured at fair value, etc. The Ind AS is applicable to the Company with effect from 1st April, 2016, being a Subsidiary of the Stock Holding Corporation of India Limited falling under the mandatory Phase 1. The Company has Centralized system of Accounting.

### 11.5.8 Manpower Analysis

As on 31 March 2018, the Company had 20 Managerial and 25 Non Managerial employees.

### 11.5.9 MOU Targets and Achievements

Not Applicable to the Company since the Company is not a Central Public Sector Enterprise (CPSE).



### **11.5.10 Computerization**

The following are the ERP/IT Systems in the Company

- i) LD Add-on for Accounting Purpose
- ii) ODIN
- iii) Trade Anywhere

The IT Systems audited every year during 2015-16 to 2017-18 were ODIN and Trade Anywhere.

### **11.5.11 Internal Audit**

The Company has an elaborate internal audit system. Internal Audit of the functions and activities of the Company is carried out by a reputed firm of Chartered Accountants. The Company had laid down internal financial controls to be followed by the Company and that such internal financial controls are adequate and were operating effectively. The internal audit, in addition to ensuring compliance to policies, regulations, processes etc., also test and report adequacy of internal financial controls with reference to financial reporting/statements. Internal Audit is carried out by a professional firm of Chartered Accountants on a Quarterly basis. The Manual of Internal Audit is available.

### **11.5.12 Act, Rules, Documents**

List of Acts, Rules and Other regulations as applicable specific to the business of the Company

- i) Companies Act, 2013 and related Rules
- ii) Income Tax Act 1961 and related Rules
- iii) Central GST Act 2017 and related Rules
- iv) SEBI Act, 1992
- v) SEBI (Stock Brokers & Sub-Brokers) Regulations, 1992
- vi) SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018
- vii) SEBI (Prohibition of Insider Trading) Regulations 2015
- viii) SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011
- ix) SEBI (Intermediaries) Regulations, 2008
- x) SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003
- xi) Prevention of Money Laundering Act, 2002

### **11.5.13 Operational Results**

The Revenue from Operations were as follows:

(Rs in crore)

Particulars	2017-18	2016-17
Brokerage	51.05	40.12
Other Operating Income	0.48	0.49
<b>Total Revenue from Operations</b>	<b>51.53</b>	<b>40.61</b>

#### 11.5.14 Financial Working Results

(Rs.in crore )

Particulars	2017-18	2016-17
Revenue from Operations	51.53	40.61
Other Income	3.45	2.81
<b>Total Income</b>	<b>54.98</b>	<b>43.43</b>
Total Expenses	41.71	34.02
Profit Before Exceptional items	13.27	9.41
Exceptional items	--	--
<b>Profit Before Tax</b>	<b>13.27</b>	<b>9.41</b>
<b>Tax</b>	<b>3.82</b>	<b>2.96</b>
<b>Profit After Tax</b>	<b>9.49</b>	<b>6.45</b>
<b>Net Other Comprehensive Income (OCI)</b>	<b>0.04</b>	<b>(0.04)</b>
<b>Total Comprehensive Income for the Year</b>	<b>9.49</b>	<b>6.41</b>

#### 11.5.15 Disinvestment (Upto 2017-18)

Not Applicable since there is no direct Central Government Holding in the Company.

#### 11.5.16 Environment Management

Not Applicable

#### 11.5.17 Audit Checks

- i) To examine whether all transactions/income/expenses are accounted in the Books on accrual basis except Commission Income on Initial Public Offer (IPO) and Follow On Public Offer (FPO) which is booked on Receipt basis.
- ii) To examine the effectiveness of the Company's Financial Risk Management Policies and Procedures. The Company's principal financial assets include trade and other receivables, and cash and cash equivalents that derive directly from its operations. The Company is exposed to Market Risk, Credit Risk and Liquidity Risk. Market Risk comprises three types of Risk, viz., Interest Rate Risk, Currency Risk and other Price Risk such as equity price. Financial Instruments affected by Market Risk include Loans, Borrowings and Deposits. The Company's exposure to the risk of changes in Market Interest Rates relates primarily to the Company's Long Term Debt Obligations and the Company's Investment in Debt based Financial Assets, viz., Fixed Deposits and Investments in Liquid Mutual Funds Credit Risk is the Risk that the counter party fails to discharge an obligation to the Company.

- iii) To examine whether the Company continuously monitors defaults of the customers and other counter parties and whether there are adequate credit risk controls.
- iv) Whether the Company deals with only credit worthy customers wherein the credit given is backed by either cash margin in client's account or guarantee by sub brokers
- v) Whether the Company manages its Liquidity needs by monitoring scheduled debt servicing payments for long term financial liabilities as well as forecast cash inflows and outflows due in day to day business.
- vi) Whether the Company's existing cash resources and trade receivables significantly exceed the current cash outflow requirement.
- vii) To examine whether the charges towards custodial services/depository participant services are levied as per the Board approval/SEBI/RBI Regulations, as applicable.
- viii) To ensure that the Company follows the RBI & SEBI guidelines on brokerage and handling charges.
- ix) To test check and verify the records relating to buying and selling of securities with reference to rates prevailing at the particular time and date as per quotations available and ensure that the dealings are correctly made.
- x) To examine the methodology and correctness of the accounting of securities and that the securities are verified at fixed intervals, with reference to Demat Statements of Accounts produced periodically
- xi) To ensure that the financial interests of the Company are adequately safeguarded while investing the surplus funds in tandem with the Investment Policy of the Company.

## **11.6 STOCK HOLDING DOCUMENT MANAGEMENT SERVICES LIMITED**

### **11.6.1 Introduction**

Stock Holding Document Management Services Ltd (Stock Holding DMS) was incorporated on August 10, 2006 and is a wholly owned subsidiary of Stock Holding Corporation of India Ltd (SHCIL) (A subsidiary of IFCI Ltd with effect from March 28, 2014). The Company provides physical custody services, digitization services and sale of software products & services. Stock Holding Corporation of India Ltd and IFCI Limited are the Holding Companies of the Company. Stock Holding DMS currently manages its operations from SHCIL House, Mahape, Navi Mumbai. The services are provided from 180+ SHCIL branch locations across India. The Registered Office of the Company is at Navi Mumbai.

### **11.6.2 Objectives**

Stock Holding DMS has been incorporated in the year 2006 with the following objectives

- a) To provide End to End Document Management Solutions and
- b) To provide Information Technology Enabled Services (ITeS).

The Principal Business Activities of the Company as on 31.03.2018 are Physical Storage Services (comprising 33.68 per cent of the total turnover of the Company), Digitization (comprising 45.43 per cent of the total turnover of the Company), and Software Services (comprising 20.90 per cent of the total turnover of the Company).

The main objective of the Company is to provide End to End services in Document Management Solutions, both in the Physical Storage and Electronic Management space as well as to provide workflow solutions. The main business of the Company is Document Management Services.

Stock Holding DMS aims to grow both the Physical and Electronic Document Management business with a special focus on the Electronic Document Management Solution (DMS/EDMS) business that promises a high growth potential and return on capital

### **11.6.3 Activities**

Stock Holding DMS was incorporated in the year 2006 and commenced full-fledged operations in the year 2009. The Document Management and Digitisation business of the Company has high growth potential as perceived by the Company. Most of the clients of the Company are Government Organizations.

Stock Holding DMS provides End to End services in Document Management Solutions, both in the Physical Storage and Electronic Management space as well as also provides workflow solutions.

Stock Holding DMS is an ISO 9001:2008 certified organization, the certification being awarded for the advanced system used. The servers are located at the Data Centre of Stock Holding DMS which is ISO:27001 compliant. The Data Center is equipped with

robust Servers, VSATS, Radio Quick Links and ISDN connectivity. The servers are supported by 24\*7 Power Backup which provides Network Redundancy. The State of the Art Automatic Robotic Document Handling and Storage Vaults at Mahape measures more than 1 lakh Square feet.

StockHolding DMS is a Process Driven Company that has a proven expertise in providing Secure Storage Solutions for Physical Documents that is coalesced with an edge over other competitors in related areas such as Document Management Solution, Digitization Services, Record Management Solutions and Digital Repositories. The Company has managed scores of highly challenging projects for blue chip organizations from the Corporate as well as Public Sector Organization.

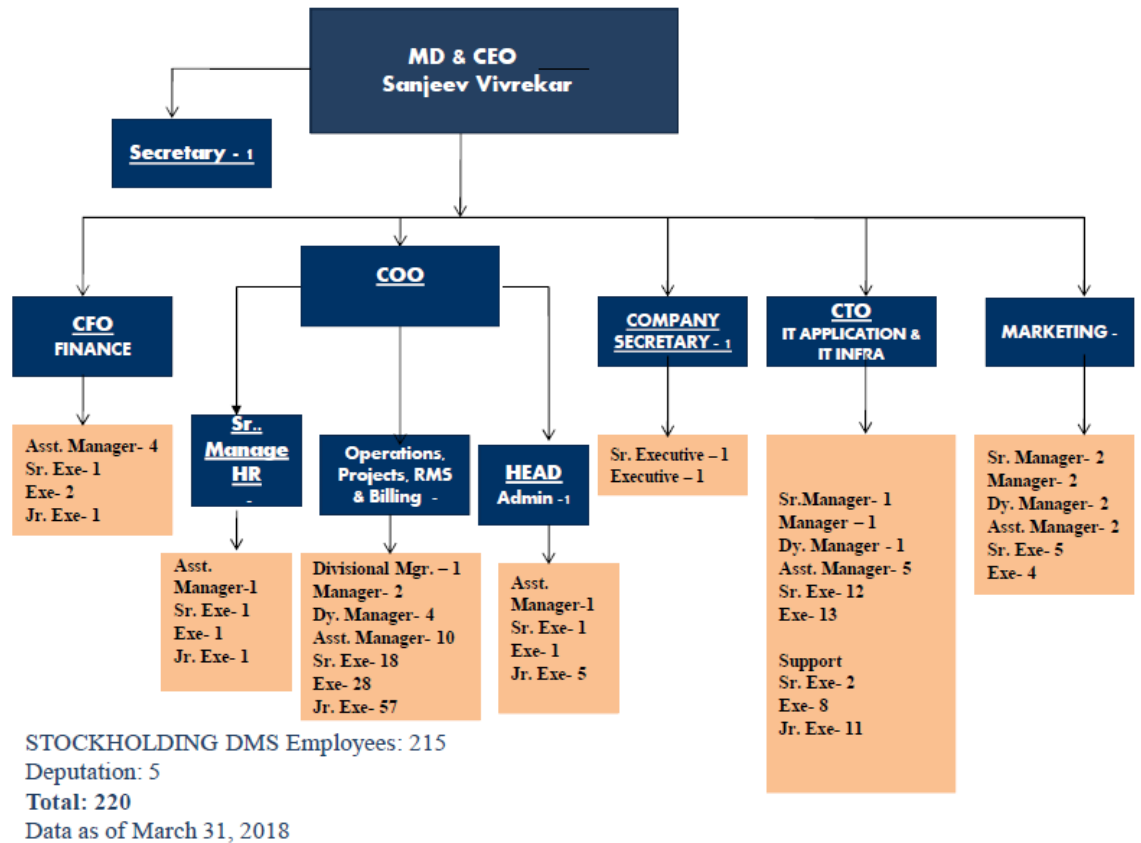
The Company offers Physical Record Management Services, Document Management System, Digitization Services, Hosting Services, Workflow Management System, Customer Relationship Management System and Enterprise Content Management System. The Company participates in tenders floated by Government and other organizations for business opportunities. During the FY 2017-18, the Company obtained three tenders for storage, digitization and software business.

During the FY 2017-18, the Company added thirty-two clients in the storage space, nineteen clients in the digitization and eight clients in the software/hosting services. The latest technology is put in place by the Company to achieve higher levels of speed, accuracy and perfection in the digitization space.

#### **11.6.4 Organizational Set up**

The supervision of the overall operations and activities of the Company vests with the Board of Directors. The Board of Directors of the Company comprises of Chairman, Vice Chairman, Managing Director (MD) & Chief Executive Officer (CEO), two Independent Directors and four Directors. There are various functional committees that report to the Board such as the Nomination & Remuneration Committee, Audit Committee, CSR Committee, Risk Management Committee, etc.

In order to execute the day to day operations, the necessary powers are delegated by the Board to the Managing Director & CEO. The Organogram of the Company is attached below.



### 11.6.5 Capital Structure

The Authorized equity share capital of the Company as on 31 March 2018 is Rs. 50 crore comprising of 5,00,00,000 equity shares of Rs 10 each. The issued, subscribed and paid-up equity share capital of the Company as on 31 March 2018 comprises of 4,32,50,000 equity shares of Rs 10 each aggregating to Rs. 43.25 crore. The entire paid up share capital of the Company is held by Stock Holding Corporation of India Ltd and its nominees as on 31 March 2018.

### 11.6.6 Budget and Planning

Following is a brief outline of the targets and achievements of the Company for the three-year period ended 31 March 2018

(Rs in crore)

Years	2015-16		2016-17		2017-18	
	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	15.00	11.85	20.00	12.33	16.50	16.49
Revenue Expenditure	61.18	40.56	104.80	68.00	108.53	57.31
Revenue/Turnover	102.00	51.73	150.00	82.22	140.00	59.12
Profit for the year After Tax	40.82	7.53	45.20	9.68	31.47	2.42

### 11.6.7 Accounting System

The Company has a centralized accounting system for upkeep of the accounts. The Company has implemented IndAS and the financial statements of the Company are prepared in harmony with IndAS under the historical cost convention on accrual basis.

### **11.6.8 Manpower Analysis**

The Company had 215 employees as on 31 March 2018, which consisted 40 managerial employees and 175 non – managerial employees

### **11.6.9 MOU Targets and Achievements**

Not Applicable, since the Company is not a Central Public Sector Enterprise (CPSE).

### **11.6.10 Computerization**

The Company has DMS-NSEKRA, RMS IT System, which has been audited during 2015-16 to 2017-18. The Company has achieved CMMI Level 3 certification and is in the process of achieving CMMI Level 5 certification, an internationally recognized standard given by Carnegie Mellon University's Software Engineering Institute (SEI) for assessing software development practices. This is a globally recognized standard and a testament of Stock-Holding DMS' commitment to consistently deliver high quality, reliable, cost effective & efficient software solutions and related services to clients across the globe.

The Company has also achieved seven ISO certifications – ISO 9001:2015, ISO 27001:2013, ISO 15836:2017, ISO 15489:2016, ISO 20001:2011, ISO 14721:2012 and ISO 10244:2012 in the end to end document management arena. The Company has taken membership of National Association of Software and Services Companies (NASSCOM). NASSCOM is the premier trade body and the chamber of commerce of the IT-BPM industries in India. NASSCOM is a global trade body with more than 1300 members, which include both Indian and multinational companies that have a presence in India. The Company has taken membership of PRISM for its storage services. PRISM is an international certification program open to companies providing storage and protection of hard-copy records.

The physical storage business is the main pillar and one of the steadiest sources of income for your Company. The Company has continued patronage for its storage business from Government organizations, PSUs, Corporates, Banks and other entities.

Recognizing the demand for IT products, the Company plans to foray into new IT related products and services. The Company has added a new IT product - Virtual Data Room (VDR). VDR is an online repository of information (data) that is used for the storing and distribution of documents which is password protected and allows parties to securely and confidentially share information with the assurance that the documentation will not be lost, copied or leaked.

Aligning itself with the Digital India initiative of the Government of India, the Company is consciously targeting digitization projects to achieve higher topline.

### **11.6.11 Internal Audit**

The Company conducts internal audit by engaging the services of independent and professional firm of Chartered Accountants. The internal audit is conducted by the Company on a quarterly periodicity.

#### 11.6.12 Act, Rules, Documents

1. Companies Act, 2013 and related Rules
2. Income Tax Act 1961 and the related Rules
3. Central GST Act 2017 and the related Rules
4. Information Technology Act, 2000
5. Digitize India Platform (DIP) is an initiative of the Government of India under the Digital India Programme to provide digitization services for scanned document images or physical documents for any organization. The aim is to digitize and make usable all the existing content in different formats and media, languages, digitize and create data extracts for document management, IT applications and records management. DIP provides an innovative solution by combining machine intelligence and a cost effective crowd sourcing model. It features a secure and automated platform for processing and extracting relevant data from document images in a format that is usable for meta-data tagging, IT application processing and analysis. Circulars and Guidelines issued by the Ministry of Electronics and Information Technology in respect of Digital India Programme of the Government of India.

#### 11.6.13 Operational Results

- i) The Company's significant revenues, more than 69 *per cent* in 2017-18 (FY 2016-17 81*per cent*) are derived from sales to government and quasi government enterprises. The total sales to such companies amounted to Rs 4093.48 lakhs in FY 2017-18 and Rs 6713.67 lakhs in FY 16-17.
- ii) Revenue from one customer from the "digitisation" segment was Rs 1837.71 lakhs in FY 2017-18, (FY 2016-17 Rs 5292.75 lakhs) which is 31.08*per cent* (FY 2016-17 64.40*per cent*) of the Company's total revenue.
- iii) The Revenue from Operations were as follows:

(Rs. in crore)

Particulars	2017-18	2016-17
Income from physical custody	19.91	16.88
Income from digitization services	26.86	57.72
Income from software products/services	12.35	7.62
<b>Total Revenue from Operations</b>	<b>59.12</b>	<b>82.22</b>

#### 11.6.14 Financial Working Results



The financial performance of the Company for the last two years ending 31 March 2018 was as under:

(Rs. in crore)

Particulars	2017-18	2016-17
Revenue from Operations	59.12	82.22
Other Income	1.21	0.69
<b>Total Income</b>	<b>60.34</b>	<b>82.92</b>
Total Expenses	57.31	68.00
Profit Before Exceptional items	3.02	14.92
Exceptional items	--	--
<b>Profit Before Tax</b>	<b>3.02</b>	<b>14.92</b>
Tax	0.57	5.22
<b>Profit After Tax</b>	<b>2.44</b>	<b>9.70</b>
<b>Other Comprehensive Income</b>	<b>(0.02)</b>	<b>0.01</b>
<b>Total Comprehensive Income</b>	<b>2.42</b>	<b>9.69</b>

#### 11.6.15 Disinvestment (Upto 2017-18)

Not Applicable

#### 11.6.17 Environment Management

Not Applicable

#### 11.6.18 Audit Checks

- i) To check whether Income from Physical Custody Services is recognized on a monthly basis as per agreements with customers.
- ii) To check whether Income from Digitization Services and Software services is recognized on percentage completion method.
- iii) To check whether Income from software products is recognized on delivery/installation of the software product. The revenue for Annual Maintenance Services provided in case of software products is recognized *pro-rata* over the period in which the services are rendered.
- iv) During the year 2017-18, a fire incident occurred on December 11, 2017 at Mahape premises of the Company. The surveyors appointed by the Insurance Company are in the process of assessing the damage to the property of the Company as on March 2018. The Files and records in respect of the same need to be checked and the impact of fire on operations of the Company also need to be examined along with Disaster Management/Mitigation remedial steps taken by the Company.
- v) To check Capacity Utilization of Storage Capacity comprising of Bins, Boxes and Robotic.
- vi) To check recovery of Dues from Government Organizations which constitute the bulk of clients of the Company

- vii) To check files pertaining to write off of Dues from clients, and whether appropriate Provision for Doubtful debts has been made in the Books of Accounts as per Accounting Policy
- viii) Review of the billing process vis-à-vis various systems used to support billing
- ix) Review of agreements entered into with customers with reference to the services offered and rates charged
- x) Review of FAS system used for billing and scope of improvements
- xi) Review of Controls at Operational areas with reference to security, storage etc
- xii) Review of operational activity with reference to inwarding and retrieval of documents stored in robotics, bins etc
- xiii) To review and examine the Digitization Projects being undertaken by the Company in view of the criticality of Government of India's Digital India Programme.
- xiv) Aligning itself with the Digital India initiative of the Government of India, the Company is consciously targeting digitization projects to achieve higher topline. To examine the Company's Performance in respect thereof

## **11.7 PNB INSURANCE BROKING PRIVATE LIMITED**

### **11.7.1 Introduction**

PNB Insurance Broking Private Limited was incorporated on 16.07.2003. The Registered Office of the Company is at Mumbai. The Company was formed to carry on the business as an Insurance Broker as per the provisions of the IRDA- Insurance Regulatory & Development Authority (Insurance Broker) Regulations, 2002, as amended from time to time, after obtaining necessary license from IRDA. The Company has since surrendered their Broker License no. 204 on 12 January 2011 for cancellation, which has since been cancelled and confirmed by IRDA vide their Order dated 14 February 2011. The Company is a Subsidiary of Punjab National Bank, holding 81 *per cent* equity holding and the balance 19 *per cent* equity holding being held by Vijaya Bank (now Bank of Baroda from 1 April 2019).

The Company, in the Annual General Meeting held on 13 July 2015, had appointed a Liquidator for the purpose of winding up of the affairs and distributing the assets of the Company under the voluntary winding up as per the provisions of Section 484 of the Companies Act 1956

### **11.7.2 Objectives**

The object of the Company was to carry on the business as an Insurance Broker as per the provisions of the IRDA-Insurance Regulatory & Development Authority (Insurance Broker) Regulations, 2002

### **11.7.3 Activities**

The Company has surrendered its Broking License and the same has been confirmed by the Insurance Regulatory & Development Authority, as on February 2011. The Company, in the Annual General Meeting held on 13 July 2015, had appointed a Liquidator for the purpose of winding up of the affairs and distributing the assets of the Company under the voluntary winding up as per the provisions of Section 484 of the Companies Act 1956. The Company is thus under Members' Voluntary Winding Up which commenced on 10.08.2015.

### **11.7.4 Organizational Set up**

The Company is under Voluntary Winding Up and the Accounts of the Company are prepared by the Liquidator.

### **11.7.5 Capital Structure**

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 5,00,000 equity shares of Rs 100 each aggregating to Rs 5,00,00,000. The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 5,00,000 equity shares of Rs 100 each aggregating to Rs 5,00,00,000. As on 31 March 2018, the Holding Company Punjab National Bank held 4,05,000 number of Equity Shares of Rs 100 each aggregating to Rs 4,05,00,000 constituting 81 *per cent* Equity Holding in the Company. Vijaya Bank (now Bank of Baroda after merger of Dena Bank and Vijaya Bank with

Bank of Baroda effective 1 April 2019) held 95,000 equity shares of Rs 100 each aggregating to Rs 95,00,000, constituting 19 *per cent* equity holding in the Company.

#### 11.7.6 Accounting System

The Company's Financial Statements are prepared under liquidation basis of accounting on the assumption that the Company ceases to be a going concern. The Special Purpose Financial Statements of the Company are prepared by the Liquidator to meet the requirements of Section 348 of the Companies Act 2013 read with Rule 327 (1) of the Companies (Court) Rules, 1959.

#### 11.7.7 Manpower Analysis

No Staff Cost is booked in the Accounts for FY 2016-17 and FY 2017-18. The Company is under Voluntary Liquidation.

#### 11.7.8 MOU Targets and Achievements

Not Applicable since the Company is not a Central Public Sector Enterprise.

#### 11.7.9 Internal Audit

Not Applicable since the Company is under Voluntary Liquidation

#### 11.7.10 Act, Rules, Documents

- i) Companies Act 2013
- ii) Rules relating to Winding Up of Companies under Companies Act 2013
- iii) IRDA Regulations relating to Broking business

#### 11.7.11 Operational Results

The Company's Primary Operations ceased since February 2011. Hence, there was no income from Brokerage and Fees during the year 2017-18. The Company only has Interest Income on Term Fixed Deposits, which is accounted on accrual basis. During FY 2016-17, the Company earned Interest on Deposit with ICICI Bank amounting to Rs 6,35,419, as against Rs 4,37,905 being Gross Interest Income (Rs 1,23,709 being net of expenses) in 2017-18.

#### 11.7.12 Financial Working Results

(Under Voluntary Liquidation)

(Rs. in lakh)

Particulars	2017-18	2016-17
<b>Continuing Operations</b>		
Revenue from Operations	--	--
Other Income	--	6.35
<b>Total Income</b>	--	<b>6.35</b>
Total Expenses	--	2.81
Profit Before Exceptional items	---	3.54
Exceptional items	--	--
<b>Profit Before Tax</b>	--	<b>3.54</b>
Tax	--	1.09

<b>Profit After Tax</b>	--	<b>2.44</b>
<b>Discontinuing Operations</b>		
Interest Income	4.37	
Less – Other Expenses	3.14	
Profit/(Loss) from Discontinuing Operations	1.23	
Less Tax expense of Discontinuing Operations	0.32	
Less Income Tax of earlier years	0.53	
<b>Profit/(Loss) from Discontinuing Operations</b>	<b>0.38</b>	
<b>Total Operations</b>		
<b>Profit / (Loss) for the year</b>	<b>0.38</b>	<b>2.44</b>

### **11.7.13 Disinvestment(Upto 2017-18)**

Not Applicable

### **11.7.15 Environment Management**

Not Applicable

### **11.7.16. Audit Checks**

- i) To examine the Accounts of the Liquidator under Companies Act 2013
- ii) To examine Voluntary Winding Up Process
- iii) As on 31.03.2018, the Company had an amount of Rs 26.36 crore being Balance in Current Account with Punjab National Bank. To examine the utilization thereof, and any resultant idling of funds etc
- iv) As on 31.03.2018, the Company had Reserves and Surplus of Rs 21.37 crore. To examine the same on winding up; whether there is any erosion of Reserves.

## **Checklist for Compliance Audit/Review relating to Stock Brokers (as per Bombay Chartered Accounts Society Website)**

### *Books of Account*

- Books of Account as per SCRA & SEBI (Stock Brokers and Sub-Brokers) Regulations are maintained.
- Books of Account are maintained properly.
- Books of Account are maintained properly for branch / sub-broker.
- Exchange wise separate books of account are maintained.
- Securities Register, Margin Deposit Book, Grievance Register, etc. are maintained.
- Analysis of financial reports / statements.

### *Client Registration*

- Execution of Client Registration Form or maintaining complete client database.
- Execution of Rights and Obligations document.
- Risk Disclosure Document duly signed obtained from the client in SEBI prescribed format.
- Ensure that mandatory section of the account opening kit include only account opening form, Rights and Obligation document, RDD, Policies and Procedure, Guidance note dealing with Do's and Don'ts and tariff Sheet.
- Proof of Identity, Proof of Address, PAN Card Copy, Bank Account Proof & Demat Account Proof are obtained in case of Individual Clients.
- Proof of Address, Registration Copy, PAN Card Copy, Bank Account Proof & Demat Account Proof and other relevant proof as per category of client are obtained in case of Non-Individual Clients.
- 'In Person' verification is conducted for clients either by employee of the stock broker or by Sub-Broker or authorized person of the stock broker.
- Systems and procedures put in place by member for verification of PAN before opening of account
- Periodical review of client information is done.
- Monitoring of Trading activity of the client with financial information provided.
- Obtained documentary evidence in support of financial information provided by the client for equity derivatives segment.
- Updated annual financial statements are obtained from non-individual clients along with latest shareholding pattern for corporate clients on annual basis.

- The docket or folder is having two parts (a) Mandatory and (b) Non-Mandatory. The folder / book is having an index page listing all the documents contained in it and indicating briefly significance of each document.
- All the documents in both the mandatory & non-mandatory parts are printed in minimum font size of 11 and are legible for Investors to read.
- Client has countersigned against stock exchange as well as market segment where he intends to trade in KYC form.
- Authorizations from the client sought in non-mandatory document are separate & do have specific consent of the client.
- Broker had displayed the set of standard documents on their own website for information.
- Ensure that there is proper storage of client registration documents and retrieval mechanism.
- Broker has a specific policy regarding treatment of Inactive account and the same is displayed on the web-site of the broker.
- Ensure that all the mandatory clauses as stipulated by SEBI / Exchanges have been included in Rights and Obligation document.
- Ensure that any clause or document included in the account opening kit is not diluting responsibility of member or is not in conflict with any of the clauses in mandatory documents, Rules, Bye-laws, Regulations, Notices, Guidelines & Circulars issued by SEBI & Exchanges or is not against the interest of the Investor.
- No documentation shall give any exclusive right or control to the trading member or third party over the DP account or ledger account or bank account of the client except to the extent of and restricted to the client's obligation to the trading member in respect of the transactions done or to be done (like up-front margin) by the trading member on behalf of the client on the Exchange.
- Dispatch of copy of Client Registration Documents along with UCC and email id of the client within 7 days from the day of upload of UCC to the exchange by the trading member.
- Mandatory document dealing with policies and procedures for certain points are prepared and intimated to the clients (as per requirement of SEBI circular MIRSD/SE/Cir-19/2009 dated 3rd December, 2009) or included in account opening kit.
- Ensure that trading member is adhering to all guidelines which are stipulated in policies and procedures.
- Running account authorization which is taken by broker from client(s), should contain a clause which explicitly allows a client to revoke the said running account authorization at any time.

- Running account authorization taken by broker from client should be signed by client only and not by his Power of Attorney holder.
- Broker having website has prominently displayed a message on their websites informing their clients to update their Email ids & mobile numbers with the member.
- Broker has complied with the requirement of uploading the KYC information with the SEBI registered KRAs for the clients registered on or after January 1, 2012 within the prescribed time limit as per SEBI circular MIRSD/Cir-26/2011 dated December 23, 2011 and complied with the other provisions of the Circular.
- Broker has taken reasonable measures to verify the identity of such persons who beneficially own or control the securities as per SEBI Circular CIR/MIRSD/2/2013 dated January 24, 2013
- Broker has reviewed their KYC and AML policies in line with SEBI Circular CIR/MIRSD/2/2013 dated January 24, 2013 and SEBI Circular CIR/MIRSD/1/2014 dated March 12, 2014
- Ensure that there are processes in place for verification of alerts with KYC details

#### *Unique Client Code*

- Unique Client Code is assigned to all the clients.
- UCC is registered with the Exchange.
- Entered correct / unique client codes while placing the orders in the system / and mapping the client code with PAN / Passport, etc. in the back office, and entering the client details on BOLT.
- Separate code for buy and sell for NRI clients should be used.
- Ensure that both email id and mobile number is updated in UCC for the clients.

#### *Sub-Brokers, Remisiers & Branch offices*

A Remisier is a person who is engaged by a member-broker primarily to solicit business in securities on a commission Basis. Remisiers can operate BOLT (BSE Online Trading) terminals at member's office only. However, it is clarified that at present, BOLT terminals cannot be installed at Remisier's Office in view of SEBI circular no SMDRP/Policy/Cir-49/2001 dated October, 22, 2001 which states that BOLT terminals should be installed at Members Offices' or their associated Sub-Brokers offices only. The applications for remisiers are approved by the exchange only. SEBI approval is not required for remisiers application

- Stock Broker is dealing with registered sub-brokers, authorised person and remisiers.
- Sharing commission or brokerage with registered sub-broker / authorised person / remisiers with the exchange / SEBI.
- Members of other exchanges, routing orders of their clients through trading terminals, after being registered as Sub-brokers with SEBI.



- Verify there is no sharing of brokerage with another trading member or employee of another trading member or a person who has been suspended / expelled / forbidden to do business.
- Periodical inspection has been carried out and reports are maintained.
- Internal controls with Sub-brokers and branch offices.
- System and policy followed for opening/closing of branch offices.
- Survey is conducted by the member for opening / closing of branches
- In case of closure of branch, advance notice of the same is sent to clients.
- Monitoring mechanism in place to identify sudden increase / decrease in client level turnover from any specific branch.

#### *Contract Notes*

- Issuance of contract notes with the signature of the authorised signatory and which bear a running serial number or bear a serial number, which is initialized at the beginning of each financial year.
- Contract Note is as per the format prescribed by the Exchange.
- Board Resolution/Power of Attorney for signing of Contract Notes submitted to the Exchange.
- Contract notes are issued to all the clients.
- Contract notes are issued within 24 hours of trade execution.
- Duplicates of the contract notes issued are acknowledged by clients/record of dispatch in case of dispatch through courier or post is maintained.
- Duplicates of the contract notes are maintained in case of physical contract notes. Counter foils maintained are having adequate details.
- The authorization for receiving electronic contract note should be in writing and should be signed by client only, not by power of attorney holder.
- The authorization of electronic contract note contains a clause that any change in the e-mail id shall be communicated by the client through a physical letter to the trading member.
- Broker has collected physical letters from the clients who have opted for change in e-mail id.
- In case of contract notes issued through electronic media, Log of ECN is maintained and ECN are signed digitally.
- Details of the trade have been attached as an Annexure to the contract note (original/duplicate) issued, in case of consolidated trade shown in contract note.
- All ECNs sent through the e-mail shall be digitally signed, encrypted, non tamperable and shall comply with the provisions of the IT Act, 2000. In case the ECN is sent

through e-mail as an attachment, the attached file shall also be secured with the digital signature, encrypted and non-tamperable.

- The member shall clearly communicate to the client/in client registration documents executed with the client for this purpose that non-receipt of bounced mail notification by the member shall amount to delivery of the contract note at the e-mail ID of the client. In addition to the e-mail communication of the ECNs in the manner stated above, in order to further strengthen the electronic communication channel, the member shall simultaneously publish the ECN on his designated web-site in a secured way and enable relevant access to the clients.
- In order to enable clients to access the ECNs posted in the designated website in a secured way, the member shall allot a unique user name and password for the purpose, with an option to the client to access the same and save the contract note electronically or take a print out of the same.
- Provision for printing of PAN of the member and PAN of the constituents. It is compulsory to obtain PAN proof of the client and the same printed on the Contract Note issued to client.
- Dealing Office and Registered Office Details are printed on the contract notes.
- Details of Compliance officer like his name, telephone number and e-mail address are displayed prominently on Contract Notes.
- Brokerages charged are within the permissible limits
- Brokerage for option contracts are charged on the premium amount at which the option contract was bought or sold and not on the strike price of the option contract. Brokerage on options contracts shall not exceed 2.5% of the premium amount or Rs 100/- per lot whichever is higher.
- Client code, Market Rates, Order Time, Order ID, Trade ID, etc. of the Contract Notes are matching with trade file.
- Transactions for Institutions/custodian are properly reported through STP.
- Broker has not created/provided e-mail ids for clients.
- In cases wherein member has generated e-mail id for clients, whether trading member had taken duly signed physical confirmation letter confirming the e-mail id and exercising choice to receive documents on that e-mail id from clients.
- As per Regulations, the contract notes shall be numbered with unique running serial number commencing from one which shall be reset only at the beginning of every financial year. Financial year for the purpose of resetting the serial number of contract note is April to March.
- Broker may use the brand name / logo of its group companies, it must display more prominently its name as registered with SEBI, its own logo, if any, its registration number, and its complete address with telephone numbers, the name of the compliance officer, his telephone number and e-mail address in contract notes issued to the clients.

- Broker may, if it so desires, issue contract note cum bills without diluting the form prescribed for contract note.

#### *Terminal Operations and Systems*

- Terminals are provided in head office, branch office or the office of sub-brokers.
- Terminals are operated by approved users or approved persons with valid certification.
- Correct user name, login id, terminal location, etc. are reported to the exchange.
- CTCL / IML facility has been used only with the prior approval of the exchange.
- Internal controls relating to expiry of user certificates.
- Yearly System Audit for CTCL and IBT and submission of report to NSE.
- Yearly System Audit for IML, IBT and submission of report to BSE.
- Updated version of software is used.
- Back up facilities are in place and followed by the member.
- Sufficient system for data security is in place.
- The trading member has adequate systems to capture IP details of trades done using the IBT/wireless technology platform.
- Member has ensured that all approved users and sales personnel have valid NISM Series - IV certification (as applicable for Currency Derivatives and IRF Segment vide SEBI notification LAD-NRO/GN/2010-11/12/10230 dated June 29, 2010).
- In case where member who has opened terminals abroad, whether member has complied with the provisions pertaining to 'Terminals Abroad' as given under Exchange Circular no. NSE/MA/22732 dated February 13, 2013.
- Member has implemented appropriate checks for value and / or quantity based on the respective risk profile of their clients as per the provisions of SEBI Circular CIR/MRD/DP/34/2012 dated December 13, 2012.
- Member has put-in place a mechanism to limit the cumulative value of all unexecuted orders placed from their terminals to below a threshold limit set by them as per the provisions of SEBI Circular CIR/MRD/DP/34/2012 dated December 13, 2012.
- Member has taken adequate steps as specified by Exchange circular NSE/INSP/28434 dated December 24, 2014 to review & monitor the Trading Terminals mapped to its Branch/AP/Sub Broker.

#### *Transactions done without executing on Trading Terminal (BOLT/NEAT)*

- All trades are needs to be executed on the BOLT/NEAT except for off-market trades allowed in BSE, which is required to be reported to the exchange within prescribed time limit.
- Ensure that contract notes are not issued for transactions in securities not listed /permitted on the Exchange.

- Taken written consent from the client for principal to principal transactions.
- Contract Notes are issued in prescribed Form 'B' for principal to principal transactions (off market transactions). (in case of BSE)
- Transactions done on a spot basis are reported to the Exchange within the prescribed time limit. (Applicable where such transactions are allowed).

#### *Client Monies*

- Client's funds are routed through designated 'Client Account' only.
- Proper Segregation of own and client transactions in separate bank account.
- Use of Client account only for purposes allowed by the exchange/SEBI.
- Payments to clients should not be made from own bank account.
- Ensure that clients' funds are not used for own purposes / are not misutilised/are not transferred from one client's account to another client's account.
- Payments to clients are made within the prescribed time limit.
- Payment of dividend amounts to clients and reconciliation of dividend account.
- Running Account of the client is settled as per preference (monthly/quarterly) selected by the client in Running Account authorization letter.
- Periodicity of actual settlement of funds/securities is not more than 3 months/1 month in cases wherein client has consented for quarterly/monthly settlement respectively.
- Member should not deal with clients in cash.
- Internal controls while dealing in dormant client account.
- System for verification of third party cheque.
- In case where aggregate value of banker's cheque / demand draft/ pay order is of Rs50,000 or more per client per day, then the same are accompanied with name of bank account holder and number of bank account debited, duly certified by issuing bank as per the provisions of SEBI Circular CIR/MIRSD/03/2011, dated June 9, 2011.
- Member maintains audit trail of the funds received through electronic fund transfers to ensure that the funds are received from their respective clients only.
- Statement of accounts for funds sent to client should contain an extract from the client ledger for funds displaying all receipts/deliveries of funds while settling the account explaining retention of funds.
- Statutory levies /fee / charges such as STT, Service Tax, SEBI Turnover fees, Exchange Transaction charges are collected from clients should not be in excess of actual.
- If debit balances arise out of client's failure to pay such amount for more than fifth trading day reckoned from date of pay-in, and further exposure is granted to client it would be construed as a funding violation even if fully paid collaterals are available for margins. However, if no further exposure is granted to client from the sixth trading day

reckoned from the date of pay-in, such debit balance would not be construed as violation relating to funding. (NSE)

- Funding by the member to its clients in contravention to Exchange/SEBI requirement. (Exchange's circular no. NSE/MEMB/261 dated 27-May-97 and NSE/INSP/20638 dated Apr 26, 2012).
- Ensure that the funds & securities available in the client bank/s and client beneficiary account/s together with balances available with clearing Member and funds with clearing corporation are not less than the funds and securities payable to the client at all times.
- Verify that Broker is not operating any assured returns schemes and mobilizing deposits from investors.
- Payment for own trades (PRO) are not made from client bank accounts.
- Ensure that Broker has not transferred funds from client bank account to any third party or any other non-client account. Also verify that Broker has not transferred funds to its Group companies/ Associates from client bank accounts.

#### *Clients Securities*

- Securities due to the clients should not be transferred to the members' beneficiary account.
- client's securities received as margin should not be deposited in own beneficiary account.
- Delivery of securities to client should not be made from own beneficiary account.
- Securities due to one client should not be transferred to another client or Securities due to the clients should not be used for meeting the pay-in obligation of the member/other client.
- Collaterals of clients were not pledged with banks / other entities for raising funds. If funds are raised by pledging client securities, then ensure that funds were utilised for respective client only.
- Member should not accept securities from third party account for pay-in obligation of the client and should not deliver securities to third party account for pay-out obligation of the client.
- Complete 'Statement of Accounts' for funds and securities with error reporting clause and also the clause that 'the running account authorization would continue until it is revoked by clients' has been sent to the clients within 30 days on every Calendar quarter.
- Statement of accounts for securities sent to clients should contain an extract from the register of securities displaying all receipts/deliveries of securities while settling the account explaining retention of securities and pledge (if any).

- Error reporting clause in statement of accounts for funds and Securities should not be less than 7 days.
- Inter-client adjustment for the purpose of running account settlement is not allowed.
- The statement of Account for securities to be sent at the time of settlement of account, should contain security wise pay in pay out / securities retained as margin / securities pledged for the period from the date of last settlement done till the current settlement date
- The statement of Account for funds to be sent at the time of settlement of account, should contain transactions / MTM / margins debited and reversed /pay in and pay out of funds for the period from the date of last settlement done till the current settlement date
- Ensure that Broker has not taken securities from any client for purposes other than margin or meeting the client's obligation.

#### *Collection of Margins*

- Collection / Maintenance of Initial Margins are properly accounted and reported to exchange in case of Derivative segments.
- Compliances related to Margin Trading Facility (MTF) is adhered to.
- Risk Management Policy is well documented in case of cash segment.
- Whether Client Margin information is given to clients on day-to-day basis.
- Whether records relating to receipt of collateral from client is maintained.
- If the member has passed on the penalty to the clients on account of failure on part of client to pay the required margins in equity derivatives segment, then whether the member has provided the relevant supporting documents to the clients.
- Daily Margin statement is issued to the respective clients with the details as specified by the exchange. Verify whether Proof of delivery / dispatch is maintained.
- Members can lodge their own securities only to the Clearing Corporation and not the clients' securities. Where Member has accepted securities with appropriate hair cut for margin purpose, but has to deploy his funds for meeting margin requirements of the client at the Exchange, Members may levy interest or delayed payment charge on debit balance as per the terms consented by the client.

#### *Advertisement*

- Prior written approval obtained from the exchange for advertisement to be made for business purposes or issue circular or other business communications to persons other than Member's own constituents.

#### *Prevention of Money Laundering*

- Appointment of Principal Officer for ensuring Compliance of the provisions of the PMLA (Prevention of Money Laundering Act).
- Existence of adequate Anti-Money Laundering Policy.
- Compliances of Guidelines on Anti-Money Laundering Standards.
- Categorization of clients as per risk perception.
- Adequate system to generate alerts for suspicious transactions.
- Adequate system in place to scrutinize the alerts and arrive at suspicious transactions
- Adequate system and procedures in place to ensure screening of employees while hiring
- Appropriate procedures in place for reporting of suspicious transactions to FIU
- Ongoing training programme is conducted for employees for adequately trained them in AML and CFT procedures.
- Adherence to SEBI Circular CIR/MIRSD/1/2014 dated 12th March' 2014 and necessary modifications are made in PMLA Policy as per the said circular.
- Ensure that Member has complied with the requirements of the various FATF public statements and updated UNSC lists which are circulated by the exchanges.

*Others*

- Appointment of Compliance Officer as per SEBI (Stock Brokers and Sub Brokers Regulation 18A (1992).
- Details regarding appointment of Compliance Officer and changes, if any, should be informed to the exchange.
- One client code for order entry for each client should be maintained.
- Modifications to client code post trade execution should be made only in case of genuine error or wrong data entry made by broker.
- System should be put in place to monitor/prevent the use of client code modification facility for purposes other than correcting mistakes arising out of client code order entry.
- If broker is doing pro trading, whether broker has disclosed this information to his clients.
- If broker is doing pro trading from multiple locations, whether broker has obtained prior approval from the exchange in this regard.
- SEBI Fees based on Turnover is paid to SEBI.
- Business done on behalf of suspended / defaulter / expelled members without obtaining prior permission of the exchange.
- Maintenance of Securities Register, Margin Deposit Book, Investor's Grievance Register, Dividend Ledger.

- Net worth is within the limit prescribed by the exchange.
  - Permission of Exchange & SEBI is taken for change in shareholding pattern, Directors, Dominant Promoters Group, mergers and amalgamations.
  - Code of conduct as prescribed by SEBI adhered to.
  - Display of Notice Board & SEBI Registration Certificate.
  - Information about the grievance redressal mechanism as specified by SEBI circular CIR/MIRSD/3/2014 dated August 28, 2014 is displayed at all the offices of the Broker for information of the investors.
  - Member has displayed prominently the following details in its portal /web site, if any, notice / display boards, advertisements, publications, account opening kit –
    - i. name of the member as registered with SEBI,
    - ii. its own logo, if any,
    - iii. its registration number and
    - iv. its complete address with telephone numbers
  - Member has displayed prominently the following details on contract notes, statement of funds and securities, daily margin statement / information and correspondences with the clients –
    - i. name of the member as registered with SEBI,
    - ii. its own logo, if any,
    - iii. its registration number,
    - iv. its complete address with telephone numbers,
    - v. the name of the Compliance Officer, his telephone number and e-mail address
- 12 Adherence to Prohibition of Insider Trading Regulations.
- 13 Exclusive e-mail id of the grievance redressal division / compliance officer has been designated and informed to the exchange about the same.
- 14 Power of Attorney executed in favour of Broker should be only limited purposes allowed as per regulatory provisions.
- 15 Power of Attorney executed should be revocable any time without notice.
- 16 Duplicate copy of Power of Attorney (POA) should be provided to client(s) after execution.
- 17 Verify whether Flagging of POA has been undertaken in the UCC with respect of all clients registered after February 13th, 2015 by the Broker.
- 18 Broker has not undertaken or was not party to or has not facilitated any fund based activity through financier.



- 19 Broker has adequate systems and checks in place to ensure that SEBI debarred entities are unable to trade.
- 20 STT statement is provided to clients on annual basis unless otherwise required by the client.
- 21 Prior Permission obtained for Securities Lending and Borrowing Scheme from the exchanges.
- 22 Submission of Annual Compliance Report, Annual Returns to exchanges.
- 23 Submission of half yearly Internal Audit Report / certificate to the exchanges.
- 24 Proper internal code of conduct and controls should be put in place.
- 25 Employees/temporary staff/voluntary workers, etc. employed/working in the Offices of market intermediaries do not encourage or circulate rumours or unverified information obtained from client, industry, any trade or any other sources without verification.
- 26 Employees should be directed that any market related news received by them either in their official mail/personal mail/blog or in any other manner, should be forwarded only after the same has been seen and approved by the concerned Intermediary's Compliance Officer. If an employee fails to do so, he/she shall be deemed to have violated the various provisions contained in SEBI Act/Rules/Regulations etc. and shall be liable for action. The Compliance Officer shall also be held liable for breach of duty in this regard.
- 27 Trading member has not outsourced their core business activities and compliance functions.
- 28 Member has ensured that all associated person as defined in SEBI Notification LAD-NRO/GN/2010-11/21/29390 dated December 10, 2010 have valid NISM series VII certification – (Securities Operations and Risk Management Certification Examination)
- 29 In case the trading member has outsourced any activities (other than core business activities and compliance functions), whether it has adhered to the provisions of SEBI circular CIR/MIRSD/24/2011 dated 15<sup>th</sup> December' 2011.
- 30 Member has ensured that the associated persons functioning as compliance officers shall obtain certification from the National Institute of Securities Markets (hereinafter referred to as "NISM") by passing the NISM-Series-III A - Securities Intermediaries Compliance (Non Fund) Certification Examination ("SICCE") as mentioned in the NISM communiqué No. NISM/Certification/Series-III A SIC/2013/01 dated January 7, 2013.
- 31 In cases where trading member is acting as investment advisers, whether member has complied with INVESTMENT ADVISERS REGULATIONS, 2013 (SEBI Notification No. LAD-NRO/GN/2012-13/31/1778 on 21st January 2013)
- 32 Member has prepared Surveillance Policy based on parameters provided by the exchanges and the same has been approved by Board of Directors of the stock broker.

- 33 Member has analyzed the alerts provided by the exchanges and reported in case of any suspicious transaction is noticed based on the parameter set by the exchanges and also set by the member internally.
- 34 Member has put in place systems for dealing with conflict of interest as per SEBI circular CIR/MIRSD/5/2013 dated August 27, 2013.
- 35 Disclosure by the Member or its group entities holds more than 1% of share capital of a listed company, then the same has been disclosed to the Exchange as per circular No. NSE/INVG/25130 dated November 29, 2013
- 36 Member has properly documented and disclosed to their clients details of schemes where funds are being collected in advance from them towards brokerage and other allied services as per NSE Circular No NSE/INSP/ NSE/INSP/26252 dated March 24, 2014.).

## Chapter XII

### Finance- Investment and Securities Companies

#### 12.1 BOI MERCHANT BANKERS LIMITED

##### 12.1.1 Introduction

BOI Merchant Bankers Limited was incorporated 31 October 2014 as a wholly owned subsidiary of Bank of India. The Company is engaged in providing Merchant Banking services in all aspects, acting as agents of and /or dealers in the securities, acting as financial consultant, advisors and counsellors in investment and capital market and providing allied services.

The Company is under the Administrative Control of Ministry of Finance, Department of Financial Services. The Registered Office of the Company is at Mumbai. Bank of India is the Company's Holding Company.

The following are the Fellow Subsidiaries of the Company

- i) Bank of India (Uganda) Ltd
- ii) Bank of India (Tanzania) Ltd
- iii) Bank of India (New Zealand) Ltd
- iv) PT Bank of India Indonesia TBK
- v) Bank of India (Botswana) Ltd
- vi) BOI Shareholding Ltd
- vii) BOI Axa Investment Managers (P) Ltd
- viii) BOI Axa Trustee Services (P) Ltd

##### 12.1.2 Objectives

The main objective of the Company is to provide Merchant Banking services, and also acting as dealers in securities, acting as financial consultant, advisors and counselors in investment and capital market and providing allied services. As per SEBI (Merchant Bankers) Regulations, 1992, '**Merchant Banker**' means any person who is engaged in the business of issue management either by making arrangements regarding selling, buying or subscribing to securities or acting as manager, consultant, adviser or rendering corporate advisory service in relation to such issue management. '**Issue**' means an offer of sale or purchase of securities by any body corporate, or by any other person or group of persons on its or his or their behalf, as the case may be, to or from the public, or the holders of securities of such body corporate or person or group of persons through a merchant banker.

An application for registration as a Merchant Banker shall be made for any one of the following categories of the merchant banker namely—

(a) Category I, that is— (i) to carry on any activity of the issue management, which will, inter alia, consist of preparation of prospectus and other information relating to the issue, determining financial structure, tie up of financiers and final allotment and refund of the subscriptions; and (ii) to act as adviser, consultant, manager, underwriter, portfolio manager;

(b) Category II, that is to act as adviser, consultant, co-manager, underwriter, portfolio manager;

(c) Category III, that is to act as underwriter, adviser, consultant to an issue;

(d) Category IV, that is to act only as adviser or consultant to an issue.

### 12.1.3 Activities

As on 31 March 2018, the Principal Business Activities of the Company contributing 10 *per cent* or more of the total turnover of the Company are as follows:

Sl. No.	Name and description of main products/services	% of total turnover of the Company
1	Loan Syndication	68.60 %
2	Interest on Fixed Deposit	31.40 %

The following are the areas of Operations of the Company.

### Capital Markets

#### Equity Issue

BOI Merchant Bankers Ltd. (the Company) shall ensure that all activities related to public issue of Initial Public Offer (IPO), Follow on Public Offer (FPO) and Rights Issue in Indian Markets are in total compliance with the relevant statutes, rules and regulations of SEBI, Stock Exchanges, Registrar of Companies (ROC) and authorities under various corporate laws and economic laws for issue of securities. The Company also undertakes the following activities

- Underwrites Issues of Equity and Debt Instruments and market it to High Networth Individuals (HNIs), Corporate and Retail investors.
- Acts as a Book Running Lead Manager, a Lead Manager, a Co-Manager or an Advisor to the Issue
- Prepares all documents like Prospectus / Letter of Offer.
- Advisory services on structuring of capital and debt, timing for raising the same, choice of agencies to assist in the process of raising funds, etc.

#### Bonds Issue

Bonds are commonly referred to as fixed income securities issued for a period of more than one year with the purpose of raising Capital by Borrowing. The different types of bonds issued for raising capital are as under

- Tier I, Tier II Bonds.
- Infrastructure Bonds.
- Corporate Bonds.
- Commercial Papers.

The Company acts as an arranger/intermediary between a bond issuer and a bond buyer. The Company performs the following activities:

- Underwrites the bonds and then resell the bonds to the public or to dealers who sell them to the public.
- Acts as a Book Running Lead Manager, a Lead Manager, a Co-Manager or an Advisor to the Issue.
- Prepares required documents for SEBI filing, helps set a price for the issue, and takes the lead in forming and managing an underwriting group.

### **Private Equity**

Private Equity includes equity capital that is not quoted on a public exchange. Private Equity consists of investors and funds that make investments directly into private companies or conduct buyouts of public companies that result in a delisting of public equity. The Company helps in assisting the investor in identifying the appropriate company to invest the funds and also assiststo find out a suitable investor. The Company also helps in providing the following services:

- Shortlisting the investors.
- Preparation of Business and Financial plans.
- Finalising the Term Sheet.
- Discussion and negotiation with Investors/Companies.
- Preparation of Information Memorandum.
- Deal Closure and Execution of Documents.

### **Delisting**

Delisting means removal of a listed security from the exchange on which it trades. The Company handles assignment in respect of delisting of shares as per SEBI (Delisting of Securities) Guidelines, 2009.

### **QIP**

Qualified institutional placement (QIP) is a capital-raising tool, whereby a Listed Company can issue equity shares, fully and partly convertible debentures, or any securities other than warrants which are convertible to equity shares to a Qualified Institutional Buyer (QIB). The Company has strong research support and relationship with financial institutions that helps in management of QIPs.

## **Project Appraisal**

The Company has a team of well-qualified professionals having expertise in various sectors to carry out the detailed appraisal of the project. The appraisal extensively covers the project details, industry, financial model, etc. These appraisals assist the Company to arrange the debt for the project, to attract the investors, to take decision on the viability of the project, etc.

The Company offers syndication services to corporates engaged in infrastructure development viz. road, port, power, telecom, logistics etc. as well as to those in the manufacturing sectors viz. steel, cement, sugar etc. Syndication services can be availed for:

- Long Term Loan
- Working Capital Fund & Non-Fund based
- Bridge Finance
- Acquisition Finance
- Refinancing

The Company offers debt restructuring services to the Companies who are facing liquidity crisis. The Company assists in arranging the required funds to overcome temporary financial mismatches. The Company is in the process of establishing an in-house technical team to conduct the Techno-Economic Viability (TEV) study. As a part of debt restructuring, the Company shall be offering following services:

- Preparation of Information Memorandum and Restructuring package.
- Finalise the term sheet.
- Negotiate with the existing lenders of the Company/new lenders.
- To assist the Clients in entering into Restructuring.
- Deal closure and execution of Master Restructuring Agreement.

The Company plans to offer services ranging from financial advisory to Project advisory services. The Company is in the process of developing the required skills to provide various other services. Some of the services to be provided by the Company are as under:

- Mergers & Acquisitions.
- Techno Economic Viability Study.
- Security Trusteeship.
- Research services.
- Other financial and project advisory services.

#### 12.1.4 Organizational Set up

The Company has a Board of Directors that supervises the overall operation and activities of the Company. There are 2 functional committees which include the Audit Committee and the Nomination & Remuneration Committee that report to the Board of Directors. The Board of Directors of the Company comprises of six Directors as on 31 March 2018 including the Chairperson, Managing Director, two Non Executive Directors and two Independent Directors. No Director is related to any other Director on the Board.

In order to execute the day to day operations, the necessary powers are delegated by the Board to the Managing Director. The Company's Financial Statements are authenticated by Managing Director, Company Secretary and one Director.

#### 12.1.5 Capital Structure

The Authorized Share Equity Share Capital of the Company as on 31.03.2018 is 2 crore equity shares of Rs 10 each aggregating to Rs 20 crore. The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 1 crore equity shares of Rs 10 each aggregating to Rs 10 crore. As on 31 March 2018, the Holding Company held 100 *per cent* Equity Holding in the Company.

#### 12.1.6 Budget and Planning

(Rs in crore)

Years	2015-16	2016-17	2017-18
Particulars	Actual	Actual	Actual
Capital Expenditure	0.12	--	--
Revenue Expenditure	1.23	1.14	1.11
Revenue/Turnover	3.57	2.18	2.63
Profit for the year After Tax	1.48	0.71	1.09

#### 12.1.7 Accounting System

The Company has a Centralized Tally – Single user System for upkeep of the accounts. The Company prepares its financial statements in accordance with the Indian Generally Accepted Accounting Principles (Indian GAAP) and the Accounting standards prescribed under Section 133 of the Companies Act 2013.

Every merchant banker shall keep and maintain the following books of account, records and documents namely —

- (a) a copy of balance sheet as at the end of each accounting period;
- (b) a copy of profit and loss account for that period;
- (c) a copy of the auditor 's report on the accounts for that period
- (d) a statement of financial position.

(e) Records and documents pertaining to due diligence exercised in pre-issue and post –issue activities of issue management and in case of takeover, buyback and delisting of securities. The merchant banker shall preserve the books of account and other records and documents maintained under SEBI (Merchant Banker) Regulation 14 for a minimum period of five years.

#### **12.1.8 Manpower Analysis**

The Company had 4 employees as on 31 March 2018, which consisted 3 managerial employees and 1 non – managerial employees.

#### **12.1.9 MOU Targets and Achievements**

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

#### **12.1.10 Computerization**

The Company has Tally- Single User System (SUS) ERP/IT System.

#### **12.1.11 Internal Audit**

The internal audit function of the Company is under the functional operation of the Audit Committee. The internal audit is conducted by the Company using its own resources on a periodicity of 18 months. The Audit committee maintains supervision over the functioning of the Internal Auditors.

#### **12.1.12 Act, Rules, Documents**

- i) The Companies Act 2013 and the rules made thereunder.
- ii) The Securities Contract (Regulation) Act, 1956 and the rules made thereunder.
- iii) Foreign Exchange Management Act, 1999 and the rules & regulations made thereunder.
- iv) SEBI /RBI guidelines for Merchant Banks., SEBI (Merchant Bankers) Regulations, 1992, as amended from time to time
- v) SEBI (Issue of Capital & Disclosure) Regulations

#### **12.1.13 Operational Results**

The Revenue from Operations were as follows:

(Rs. in crore)

Particulars	2017-18	2016-17
Sale of Services	1.80	1.39
<b>Total Revenue from Operations</b>	<b>1.80</b>	<b>1.39</b>

The Company's focus was on Capital Market Segment, in particular, Debt Market like Bonds and NCDs. During FY 2017-18, the Company obtained mandates from six Companies for a total loan arrangement of Rs 2947 crore. Apart from Debt Syndication, the Company proposes to continue to target proposals/transactions in SME Segments to address their working capital requirements, term funding needs and listing requirements.



### 12.1.14 Financial Working Results

(Rs. in crore)

Particulars	2017-18	2016-17
Revenue from Operations	1.80	1.39
Other Income	0.83	0.78
<b>Total Income</b>	<b>2.63</b>	<b>2.18</b>
Total Expenses	1.11	1.14
Profit Before Exceptional items	1.52	1.04
Exceptional items	--	--
<b>Profit Before Tax</b>	<b>1.52</b>	<b>1.04</b>
<b>Tax</b>	<b>0.43</b>	<b>0.33</b>
<b>Profit After Tax</b>	<b>1.09</b>	<b>0.71</b>

### 12.1.15 Disinvestment (Upto 2017-18)

Not Applicable

### 12.1.16 Environment Management

Not Applicable

### 12.1.17 Audit Checks

- i) To examine the Revenue receivable as per the terms. Whether total consideration paid or received on purchase or sale on outright basis, of coupon bearing debt securities is as per the terms agreed and are identified separately as principal consideration and accrued interest. Amount paid as accrued interest on purchase, and received on sale, of such securities, shall be netted and reckoned as expense or income by way of interest
- ii) To examine whether the Interest on Fixed Coupon Debt Securities, held as on the Balance Sheet date, is accrued for the broken period at the coupon rate.
- iii) To examine whether Interest on Floating Rate securities is accrued at rates determined as per the terms of the issue
- iv) Whether the investments have been disposed off profitably? Whether, the profit on Sale of Investments is recognized on the Settlement Date. It represents the excess of Sale/Redemption proceeds over Acquisition cost. Profit on Sale of Investments shall be netted with loss on sale of Investments
- v) Whether the Devolvement of Equity Shares in respect of issues underwritten by the Company is treated as Investments. Underwriting Income on those issues shall be credited to P & L Account and shall not be netted against the value of investments.
- vi) Whether Brokerage and Commission earned on Secondary Market Operations are received in time and are recognized on the basis of Trade dates.

- vii) To examine whether Brokerage and Commission in respect of Issue Marketing and Resource Mobilization is received in time and is accrued to the extent of availability of information
- viii) To examine whether the Depository, Portfolio Management, Investment Banking and other Fees are received as per the agreed terms and received in time.
- ix) To examine whether Revenue from services is recognized on proportionate completion method by relating revenue with work accomplished and certainty of consideration receivable.
- x) To examine whether Purchases and Sales of Dated Government Securities, Treasury Bills and other Securities are disclosed in the P & L Account to indicate the turnover of the funds of the Company and include only outright transactions. For this purpose, sales shall also include redemption proceeds when these securities are held by the Company till the date of Maturity.
- xi) To examine Whether the Company, as a merchant banker has disclosed to the SEBI (Board), as and when required, the following information, namely—
  - (i) his responsibilities with regard to the management of the issue;
  - (ii) any change in the information or particulars previously furnished, which have a bearing on the certificate granted to it;
  - (iii) the names of the body corporate whose issues he has managed or has been associated with;
  - (iv) the particulars relating to the breach of the capital adequacy requirement as specified in regulation 7;
  - (v) relating to his activities as a manager, underwriter, consultant or adviser to an issue, as the case may be
- xii) Whether the Company has appointed a compliance officer who shall be responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions, etc., issued by the Board (SEBI) or the Central Government and for redressal of investors' grievances. Whether the Compliance Officer has immediately and independently reported to the Board, any non-compliance observed by him and has ensured that the observations made or deficiencies pointed out by the Board on/in the draft prospectus or the letter of offer as the case may be, do not recur.
- xiii) **Code of Conduct for Merchant Bankers- Compliance to be seen**
  1. A merchant banker shall make all efforts to protect the interests of investors.
  2. A merchant banker shall maintain high standards of integrity, dignity and fairness in the conduct of its business.

3. A merchant banker shall fulfil its obligations in a prompt, ethical, and professional manner.
4. A merchant banker shall at all times exercise due diligence, ensure proper care and exercise independent professional judgment.
5. A merchant banker shall endeavour to ensure that— (a) inquiries from investors are adequately dealt with; (b) grievances of investors are redressed in a timely and appropriate manner; (c) where a complaint is not remedied promptly, the investor is advised of any further steps which may be available to the investor under the regulatory system.
6. A merchant banker shall ensure that adequate disclosures are made to the investors in a timely manner in accordance with the applicable regulations and guidelines so as to enable them to make a balanced and informed decision.
7. A merchant banker shall endeavour to ensure that the investors are provided with true and adequate information without making any misleading or exaggerated claims or any misrepresentation and are made aware of the attendant risks before taking any investment decision.
8. A merchant banker shall endeavour to ensure that copies of the prospectus, offer document, letter of offer or any other related literature is made available to the investors at the time of issue or the offer.
9. A merchant banker shall not discriminate amongst its clients, save and except on ethical and commercial considerations.
10. A merchant banker shall not make any statement, either oral or written, which would misrepresent the services that the merchant banker is capable of performing for any client or has rendered to any client.
11. A merchant banker shall avoid conflict of interest and make adequate disclosure of its interest.
12. A merchant banker shall put in place a mechanism to resolve any conflict of interest situation that may arise in the conduct of its business or where any conflict of interest arises, shall take reasonable steps to resolve the same in an equitable manner.
13. A merchant banker shall make appropriate disclosure to the client of its possible source or potential areas of conflict of duties and interest while acting as merchant banker which would impair its ability to render fair, objective and unbiased services.
14. A merchant banker shall always endeavour to render the best possible advice to the clients as per their needs.
15. A merchant banker shall not divulge to anybody either orally or in writing, directly or indirectly, any confidential information about its clients which has come to its knowledge, without taking prior permission of its clients, except

where such disclosures are required to be made in compliance with any law for the time being in force.

16. A merchant banker shall ensure that any change in registration status/any penal action taken by the Board or any material change in the merchant banker's financial status, which may adversely affect the interests of clients/investors is promptly informed to the clients and any business remaining outstanding is transferred to another registered intermediary in accordance with any instructions of the affected clients.

17. A merchant banker shall not indulge in any unfair competition, such as weaning away the clients on assurance of higher premium or advantageous offer price or which is likely to harm the interests of other merchant bankers or investors or is likely to place such other merchant bankers in a disadvantageous position while competing for or executing any assignment.

18. A merchant banker shall maintain arms length relationship between its merchant banking activity and any other activity.

19. A merchant banker shall have internal control procedures and financial and operational capabilities which can be reasonably expected to protect its operations, its clients, investors and other registered entities from financial loss arising from theft, fraud, and other dishonest acts, professional misconduct or omissions.

20. A merchant banker shall not make untrue statement or suppress any material fact in any documents, reports or information furnished to the Board.

21. A merchant banker shall maintain an appropriate level of knowledge and competence and abide by the provisions of the Act, regulations made thereunder, circulars and guidelines, which may be applicable and relevant to the activities carried on by it. The merchant banker shall also comply with the award of the Ombudsman passed under the Securities and Exchange Board of India (Ombudsman) Regulations, 2003.

22. A merchant banker shall ensure that the Board is promptly informed about any action, legal proceedings, etc., initiated against it in respect of material breach or non-compliance by it, of any law, rules, regulations, directions of the Board or of any other regulatory body.

23. (a) A merchant banker or any of its employees shall not render, directly or indirectly, any investment advice about any security in any publicly accessible media, whether real-time or non-real-time, unless a disclosure of his interest including a long or short position, in the said security has been made, while rendering such advice.

(b) In the event of an employee of the merchant banker rendering such advice, the merchant banker shall ensure that such employee shall also disclose the interests, if any, of himself, his dependent family members and the employer

merchant banker, including their long or short position in the said security, while rendering such advice.

24. A merchant banker shall demarcate the responsibilities of the various intermediaries appointed by it clearly so as to avoid any conflict or confusion in their job description.

25. A merchant banker shall provide adequate freedom and powers to its compliance officer for the effective discharge of the Compliance Officer's duties.

26. A merchant banker shall develop its own internal code of conduct for governing its internal operations and laying down its standards of appropriate conduct for its employees and officers in carrying out their duties. Such a code may extend to the maintenance of professional excellence and standards, integrity, confidentiality, objectivity, avoidance or resolution of conflict of interests, disclosure of shareholdings and interests, etc.

27. A merchant banker shall ensure that good corporate policies and corporate governance are in place.

28. A merchant banker shall ensure that any person it employs or appoints to conduct business is fit and proper and otherwise qualified to act in the capacity so employed or appointed (including having relevant professional training or experience).

29. A merchant banker shall ensure that it has adequate resources to supervise diligently and does supervise diligently persons employed or appointed by it in the conduct of its business, in respect of dealings in securities market.

30. A merchant banker shall be responsible for the Acts or omissions of its employees and agents in respect of the conduct of its business.

31. A merchant banker shall ensure that the senior management, particularly decision makers have access to all relevant information about the business on a timely basis.

32. A merchant banker shall not be a party to or instrument for— (a) creation of false market; (b) price rigging or manipulation; or (c) passing of unpublished price sensitive information in respect of securities which are listed and proposed to be listed in any stock exchange to any person or intermediary in the securities market.

- xiv) To examine Risk Management Policy of the Company – To ascertain as to whether various types of risks such as strategic, financial, credit, market, security, property, IT, legal, regulatory, etc have been identified and assessed and whether there is an adequate risk management infrastructure in place capable of addressing those risks.

## **12.2 BANK OF INDIA SHAREHOLDING LIMITED**

### **12.2.1 Introduction**

BOI Shareholding Ltd. was incorporated 14 September 1989 with a capital of Rs two crore as a joint venture between Bank of India and Bombay Stock Exchange Ltd with respective stakes of 51 *per cent* and 49 *per cent* respectively. In 2015-16, Bank of India purchased the stake held by the Bombay Stock Exchange Ltd. for a consideration amount of Rs 7.84 crore and the Company became a wholly owned subsidiary of the Bank of India.

The Company is engaged in the Depository Participant activity for NSDL and CDSL DP. The Company is also engaged in collection of Brokers' Turnover Stamp Duty for the states of Maharashtra, Tamil Nadu, Gujarat, NCT Delhi, Telangana, Karnataka, West Bengal and Haryana as on 31 March 2018. The Company is under the Administrative Control of Ministry of Finance.

### **12.2.2 Objectives**

- i) To provide Cost Effective Depository Services to Members
- ii) To provide prompt, hassle free and customer focused service to the individuals and Corporates, while accepting the amount of Stamp Duty on behalf of Government of Maharashtra and other states.

### **12.2.3 Activities**

The Company is a Depository Participant (DP) for four DPs of Central Depository and Securities Ltd (CDSL) exclusively maintained for:

- i) CM Pool/Principal Accounts
- ii) MCX Account
- iii) Collateral Account in Derivatives and Cash Segment
- iv) Beneficiary Accounts

The Company is also providing the service of collection of Broker Turnover Stamp Duty for the States of Maharashtra, Tamil Nadu, Gujarat, New Delhi, Telangana, Karnataka, and West Bengal. The Company is also in the process of shortly starting the collection for the States of Haryana and Uttar Pradesh.

### **12.2.4 Organizational Set up**

The Company has a Board of Directors that supervises the overall operation and activities of the Company. There are various Functional Committees which include the Audit Committee, Management Committee, Remuneration Committee & CSR Committee that report to the Board of Directors. The Board of Directors of the Company comprises of three Directors including the Managing Director. The Company's Directors are nominated by Bank of India, the Holding Company. The Company's Financial Statements are authenticated by the Managing Director and one Director.

In order to execute the day to day operations, the necessary powers are delegated by the Board to the Managing Director.

The Managing Director of the Company is the Key Managerial Personnel who is on deputation to the Company from Bank of India. The Managing Director is assisted by an Officer deputed from Bank of India (a Chartered Accountant) and also by five Officer employees of the Company. The Company has four Directors including the Managing Director. The following Operational departments are headed by Departmental Heads

- i) DP Activities
- ii) Human Resources & Administration
- iii) Information Systems
- iv) Broker Turnover Stamp Duty

### 12.2.5 Capital Structure

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 2,00,000 equity shares of Rs 100 each aggregating to Rs 2 crore. The Issued, Subscribed, and Paid Up Equity Share Capital as on 31 March 2018 is Rs 1,50,00,000 crore comprising of 1,50,000 equity shares of Rs 100 each fully paid up. As on 31 March 2018, all the equity shares in the Company were held by the Holding entity i.e. Bank of India.

### 12.2.6 Budget and Planning

(Rs in crore)

Years	2015-16		2016-17		2017-18	
	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	0.50	0.07	0.25	0.09	0.80	0.17
Revenue Expenditure	4.56	4.01	4.10	4.13	4.19	4.94
Revenue/Turnover	7.07	9.86	10.50	10.60	10.95	13.59
Profit for the year	5.22	5.19	5.50	5.45	5.95	7.92

### 12.2.7 Accounting System

The Company has no centralized system for upkeep of the accounts. The Company prepares its financial statements in accordance with the Indian Generally Accepted Accounting Principles (Indian GAAP) and the Accounting standards prescribed under Section 133 of the Companies Act 2013.

### 12.2.8 Manpower Analysis

The Company had 27 employees as on 31 March 2018, which consisted 2 managerial officers deputed from Bank of India, 5 managerial employees and 20 non – managerial employees which are directly engaged by the Company.

### 12.2.9 MOU Targets and Achievements

Not Applicable since the Company is not a Central Public Sector Enterprise.

### 12.2.10 Computerization

The following are the ERP/IT Systems- Operating Systems Software in the Company

- i) Windows
- ii) Unix
- iii) Linus
- iv) Operating System version Server 2008 R2

During the period from 2015-16 to 2017-18, the following IT Systems have been audited

- i) Operating system
- ii) Network Infrastructures
- iii) Physical Security
- iv) Environment Safety

The Company has upgraded DP back-office software for disclosing all information about BO's income, stage and occupation as per the requirement of SEBI regarding PMLA (Prevention of Money Laundering Act).

#### **12.2.11 Internal Audit**

The internal audit is conducted by the Company by engaging the services of professional Chartered Accountant firms on quarterly periodicity. The internal audit function of the Company is under the functional operation of the Audit Committee. The internal audit is conducted by the Company every quarter by engaging the services of professional Chartered Accountant firms. Further the scope of internal audit includes Checking of vouchers, verification of Bank Reconciliation Statements, Revenue, authorization for sanction of expenses, staff salary and other statutory deductions, various dues payable, group gratuity fund, sensitive stationery, Fixed Assets, updating company with new amendments in accounting standards, policies etc. Verification of Broker Turnover, Stamp Duty Collection, payment to respective Governments as per the agreements. The Audit committee maintains supervision over the functioning of the Internal Auditors.

#### **12.2.12 Act, Rules, Documents**

- i) Companies Act 2013 and the rules made thereunder.
- ii) SEBI Act 1992
- iii) Guidelines and Circulars issued by SEBI, CDSL and NSDL from time to time for Depository Participants
- iv) Depositories Act 1996

#### **12.2.13 Operational Results**

The Revenue from Operations were as follows:



(Rs. in crore)

Particulars	2017-18	2016-17
<b>Sale of Services</b>		
<b>I Depository Participant Activities</b>		
CDSL Charges	0.97	0.98
NSDL DP Charges	0.40	0.37
CDSL DP Outsourcing Charges	0.35	--
	<b>1.72</b>	<b>1.35</b>
<b>II Income from Collection of Stamp Duty</b>		
Commission on Broker Turnover Stamp Duty	<b>6.20</b>	<b>4.10</b>
<b>Total Revenue from Operations</b>	<b>7.92</b>	<b>5.45</b>

### Broker Turnover Stamp Duty Collection

The Company has been rendering this service to the Government of Maharashtra (GOM) since the year 2007-08, the state of Tamil Nadu w.e.f. May 2012, the state of Gujarat w.e.f. July 2014, the State of New Delhi w.e.f. May 2015, the State of Telangana w.e.f. September 2015, the state of Karnataka w.e.f. April 2016, the State of West Bengal w.e.f. June 2016 and the State of Haryana w.e.f. October 2016. During FY 2017-18, the Broker Turnover Stamp Duty Collection was Rs 1269.33 crore (Rs 861 crore in FY 2016-17) and the Commission earned thereon was Rs 6.20 crore (FY Rs 4.10 crore).

Income received from Depository activities for FY 2017-18 was as follows:

(Rs in crore)

Particulars	2017-18	2016-17
NSDL DP	0.40	0.37
CDSL DP	0.34	0.43
CDSL-BO-DP	0.63	0.55
Outsourcing receipts (Income received from BOI-DP for the outsourced staff)	0.35	--

### 12.2.14 Financial Working Results

(Rs. in crore)

Particulars	2017-18	2016-17
Revenue from Operations	7.92	5.44
Other Income	5.67	5.15
<b>Total Income</b>	<b>13.59</b>	<b>10.60</b>
Total Expenses	4.93	4.13
Profit Before Exceptional items	8.65	6.46
Exceptional items	---	--
<b>Profit Before Tax</b>	<b>8.65</b>	<b>6.46</b>
<b>Tax</b>	<b>2.24</b>	<b>2.11</b>
<b>Profit After Tax</b>	<b>6.41</b>	<b>4.34</b>

### 12.2.15 Disinvestment (Upto 2017-18)

During the FY 2016-17, on 29.03.2017, the Company bought back 25 *per cent* of the Equity Share Capital of the Company amounting to 50,000 Equity Shares of Rs 100 each at a premium of Rs 7,55,50,000 from its Holding Company Bank of India. On 29.03.2017, the Company paid total consideration of Rs 8,05,50,000 to Bank of India. Consequently, the share capital of the Company has been reduced to Rs 1.50 crore with Capital Redemption Reserve amounting to Rs 0.50 crore.

#### **12.2.16 Environment Management**

Not Applicable

#### **12.2.17 Audit Checks**

- i) Whether any Penalty has been imposed by SEBI on the Company in respect of Operations as Depository Participant
- ii) Whether the Company has complied with various SEBI and PMLA Regulations
- iii) Whether the Company's Revenue is properly recognized and accounted for in respect of DP Charges, Commission received from Broker Turnover Stamp Duty, Dividend from Mutual Funds etc DP charges are recognized when the right to receive is established. Commission received from Broker Turnover Stamp Duty is recognized when the right to receive is established. Dividend from Mutual Funds is recognized when right to receive is established.
- iv) Whether the Company has written off debts due from Beneficial Owners /clients of the Company in Depository Participant segment, if so, the reasons for the same to be examined and steps taken by the Company for Recovery of Bad Debts to be examined
- v) To examine compliance with SEBI (Depository Participant) Regulations, as amended from time to time.

The following are the relevant SEBI Regulations in respect of Depositories and Participants. The Compliance with the said Regulations needs to be examined in Audit. Board means SEBI.

SEBI Instructions for Depositories and Participants as per SEBI Regulations are as under. The compliance with the same to be examined in Audit

- ii) Every depository shall have systems and procedures in place which will enable it to co-ordinate with the issuer or its agent, and the participants, to reconcile the records of ownership of securities with the issuer or its agent, as the case may be, and with participants, on a daily basis
- iii) Every depository shall maintain continuous electronic means of communication with all its participants, issuers or issuers' agents, as the case may be, Clearing Houses and Clearing Corporations of the Stock Exchanges and with other depositories.

- iv) The depository shall satisfy the Board that it has a mechanism in place to ensure that the interests of the persons buying and selling securities held in the depository are adequately protected.
- v) Every depository shall have adequate mechanisms for the purposes of reviewing, monitoring and evaluating the depository's controls systems, procedures and safeguards.
- vi) Every depository shall cause an inspection of its controls, systems, procedures and safeguards to be carried out annually and forward a copy of the report to the Board.
- vii) A depository shall have adequate Business Continuity Plan for data and electronic records to prevent, prepare for, and recover from any disaster.
- viii) Every depository shall devise and maintain a Wind-down plan in accordance with guidelines specified by the Board. 'Wind-down plan' means a process or plan of action employed, for transfer of the beneficial owner accounts and other two operational powers of the depository to an alternative institution that would take over the operations of the depository in scenarios such as erosion of net-worth of the depository or its insolvency or its inability to provide critical depository operations or services.
- ix) Every depository shall take adequate measures including insurance to protect the interests of the beneficial owners against risks likely to be incurred on account of its activities as a depository
- x) Where records are kept electronically by the depository, it shall ensure that the integrity of the automatic data processing systems is maintained at all times and take all precautions necessary to ensure that the records are not lost, destroyed or tampered with and in the event of loss or destruction, ensure that sufficient back up of records is available at all times at a different place.
- xi) Every depository shall maintain the following records and documents, namely — (a) records of securities dematerialised and rematerialised; (b) the names of the transferor, transferee, and the dates of transfer of securities; (c) a register and an index of beneficial owners; (d) details of the holding of the securities of beneficial owners as at the end of each day; (e) records of instructions received from and sent to participants, issuers, issuers' agents and beneficial owners; (f) records of approval, notice, entry and cancellation of pledge or hypothecation, as the case may be; (g) details of participants; (h) details of securities declared to be eligible for dematerialisation in the depository; and (i) such other records as may be specified by the Board for carrying on the activities as a depository. (2) Every depository shall intimate the Board the place where the records and documents are maintained. (3) Subject to the provisions of any other law the depository shall preserve records and documents for a minimum period of eight years.

- xii) Every participant shall enter into an agreement with a beneficial owner before acting as a participant on his behalf, in a manner specified by the depository in its bye-laws.
- xiii) Separate accounts shall be opened by every participant in the name of each of the beneficial owners and the securities of each beneficial owner shall be segregated, and shall not be mixed up with the securities of other beneficial owners or with the participant's own securities. (2) A participant shall register the transfer of securities to or from a beneficial owner's account only on receipt of instructions from the beneficial owner and thereafter confirm the same to the beneficial owner in a manner as specified by the depository in its bye-laws. (3) Every entry in the beneficial owner's account shall be supported by electronic instructions or any other mode of instruction received from the beneficial owner in accordance with the agreement with the beneficial owner.
- xiv) Every participant shall provide statements of account to the beneficial owner in such form and in such manner and at such time as provided in the agreement with the beneficial owner.
- xv) Every participant shall allow a beneficial owner to withdraw or transfer from his account in such manner as specified in the agreement with the beneficial owner.
- xvi) Every participant shall maintain continuous electronic means of communication with each depository in which it is a participant.
- xvii) Every participant shall have adequate mechanism for the purpose of reviewing, monitoring and evaluating the participant's internal accounting controls and systems.
- xviii) Every participant shall reconcile his records with every depository in which it is a participant on a daily basis.
- xix) (1) Every participant shall maintain the following records and documents, namely — (a) records of all the transactions entered into with a depository and with a beneficial owner; (b) details of securities dematerialised, rematerialised on behalf of beneficial owners with whom it has entered into an agreement; (c) records of instructions received from beneficial owners and statements of account provided to beneficial owners; and (d) records of approval, notice, entry and cancellation of pledge or hypothecation, as the case may be.  
  
(2) Every participant shall make available for the inspection of the depository in which it is a participant all records referred to in sub-regulation (1).

(3) Every participant shall allow persons authorised by the depository in which it is a participant to enter its premises during normal office hours and inspect its records.

(4) Every participant shall intimate the Board the place where the records and documents are maintained.

(5) Subject to the provisions of any other law, the participant shall preserve records and documents for a minimum period of eight years.

xx) Where records are kept electronically by the participant it shall ensure that the integrity of the data processing systems is maintained at all times and take all precautions necessary to ensure that the records are not lost, destroyed or tampered with and in the event of loss or destruction, ensure that sufficient back up of records is available at all times at a different place.

xxi) The Board (SEBI) may appoint one or more persons as inspecting officer to undertake inspection of the books of account, records, documents and infrastructure, systems and procedures, or to investigate the affairs of a depository, a participant, a beneficial owner an issuer or its agent for any of the following purposes, namely— (a) to ensure that the books of account are being maintained by the depository, participant, issuer or its agent in the manner specified in these regulations;

(b) to look into the complaints received from the depositories, participants, issuers, issuers' agents, beneficial owners or any other person;

(c) to ascertain whether the provisions of the Act, the Depositories Act, the bye-laws, agreements and these regulations are being complied with by the depository, participant, beneficial owner, issuer or its agent;

(d) to ascertain whether the systems, procedures and safeguards being followed by a depository, participant, beneficial owner, issuer or its agent are adequate;

(e) to suo moto ensure that the affairs of a depository, participant, beneficial owner, issuer or its agent, are being conducted in a manner which are in the interest of the investors or the securities market.

## **12.3 CANARA BANK SECURITIES LIMITED**

### **12.3.1 Introduction**

Canara Bank Securities Limited (CBSL) was originally incorporated on 01 March 1996 as Gilt Securities Trading Corporation limited, promoted by Canara Bank, Bank of Baroda and Corporation Bank to act as Primary Dealer. It became a wholly owned subsidiary of Canara Bank in 2004. The Company forayed into stock broking in 2007 on relinquishing the Primary Dealer business in favour of Canara Bank.

The Company is a SEBI registered Stock Broker, member of Bombay Stock Exchange in Cash, Futures & options and a member of National Stock Exchange (NSE) in Cash, Futures & Options and Currency Derivative Segments. It is also a Depository Participant registered with National Securities Depository Limited (NSDL). The Company's Registered Office is at Mumbai.

### **12.3.2 Objectives**

The main objective function of the Company is Stock Broking and Depository Participant. As on 31.03.2018, the Principal Business Activity of the Company is Broking, constituting 96.28 *per cent* of the total turnover of the Company.

### **12.3.3 Activities**

The Company extends Online Trading facility to the clients of Canara Bank & Regional Rural Banks viz. Kerala Gramin Bank & Pragathi Krishna Gramin Bank sponsored by Canara Bank. With a view to provide efficient and prompt service to clients, the Depository Participant activity, which was hitherto handled by the Parent Bank is now being handled by the Company with effect from 1 April 2017.

During the FY 2017-18, the Company recorded a Turnover of Rs 37,407.74 crore and Profit After Tax (PAT) of Rs 9.54 crore. The Trading Income registered a growth of 201 *per cent* from Rs 25.31 lakh in 2016-17 to Rs 76.18 lakh in 2017-18. The Online Trading (OLT) Client Base increased to 46,811, registering a growth of 10.62 *per cent*.

### **12.3.4 Organizational Set up**

The overall operation and activities of the Company are under the administration of the Board of Directors.

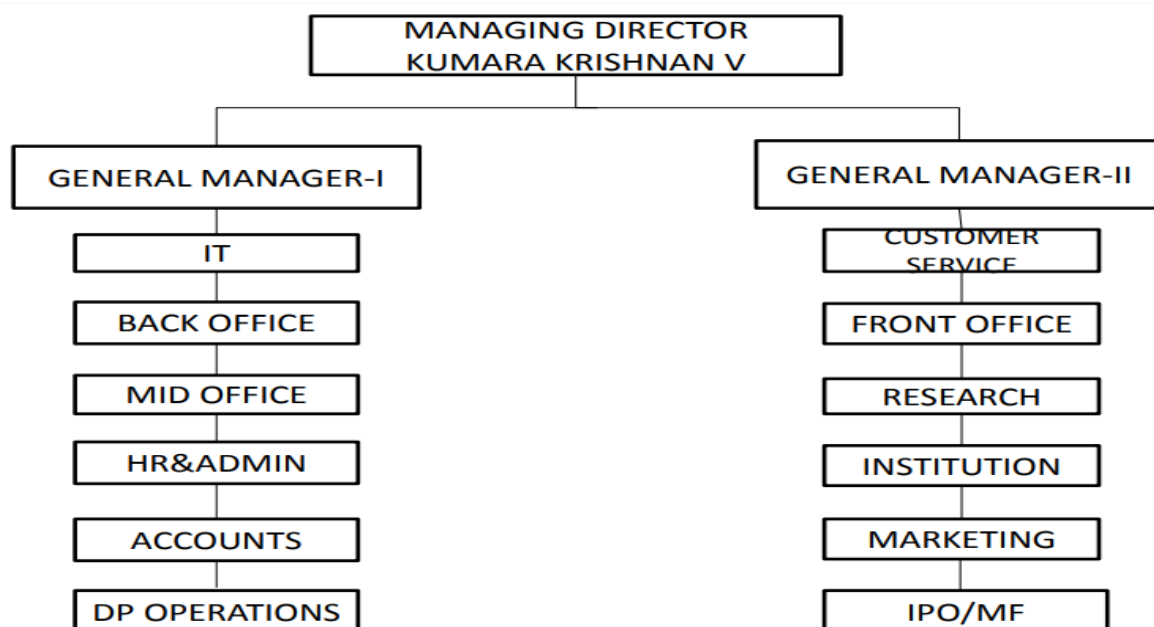
The Board of Directors of the Company comprised of eight Directors. The Managing Director is the Executive and Functional Director and other Directors are Non Executive Directors.

The Financial Statements of the Company are authenticated by the Chairman, Vice Chairperson, two Directors, two Independent Directors, Managing Director, Company Secretary and Chief Financial Officer.

The Board takes decision relating to major policy matters, reviewing corporate performance, ensuring adequate financial and other resources to facilitate effective performance. There are various functional committees such as the Audit Committee,

CSR Committee, Nomination & Remuneration Committee and Risk Management Committee that report to the Board of Directors.

In order to enable proficient execution of the routine operations, the Board has delegated the necessary powers to the Managing Director. The Organogram of the Company is attached below.



### 12.3.5 Capital Structure

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 10 crore equity shares of Rs 10 each aggregating to Rs 100 crore. The Issued, Subscribed, and Paid Up Equity Share Capital as on 31 March 2018 is Rs 40 crore comprising of 4 crore equity shares of Rs 10 each fully paid up.

As on 31 March 2018, all the 100 *per cent* equity holding in the Company was held by Canara Bank.

### 12.3.6 Budget and Planning

(Rs in crore)

Years	2015-16		2016-17		2017-18	
Particulars	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	2.55	0.85	2.21	0.70	3.25	1.16
Revenue Expenditure	0.12	0.10	0.12	0.07	0.15	0.09
Revenue/Turnover	22.75	16.07	19.05	19.66	25.00	20.78
Profit for the year	15.00	8.74	11.25	12.84	16.20	12.05

### 12.3.7 Accounting System

The Company has a centralized accounting system for upkeep of the accounts. The Company while accounting and preparation of its financial statements observes the Indian generally accepted accounting principles (Indian GAAP), the Accounting

standards prescribed under Section 133 of the Companies Act 2013, Companies (Accounts) Rules, 2014 and other relevant provisions of the Companies Act 2013.

#### **12.3.8 Manpower Analysis**

The Company had 57 employees as on 31 March 2018, which comprised of 5 managerial employees and 52 non – managerial employees

#### **12.3.9 MOU Targets and Achievements**

Not Applicable since the Company is not a Central Public Sector Enterprise.

#### **12.3.10 Computerization**

The Company has a Centralized IT system. The IS Audit and System Audit has been conducted every year during 2015-16 to 2017-18.

The following were the IT initiatives taken by the Company in FY 2017-18:

- i) Upgraded TSS Platform from .exe version to web based version with all the latest features.
- ii) Upgraded Trading Portal to latest HTML.5 technology.
- iii) Upgraded DP Software from Debos to Advanced DP Secure of TCS.
- iv) Upgraded Back Office Software to latest dot net technology.
- v) Migrated Front Office and Back Office Data Base on new San Storage.
- vi) Upgraded L2 and L3 data switches at Data Centre.
- vii) Introduced Network Monitoring Tool Software to monitor leased lines.
- viii) Upgraded Trade Confirmation services.

#### **12.3.11 Internal Audit**

The internal audit function of the Company is under the functional operation of the Audit Committee. The internal audit is conducted by the Company concurrently by engaging the services of professional Chartered Accountant firms. The Company does not have a Manual of Internal Audit.

#### **12.3.12 Act, Rules, Documents**

- i) Companies Act 2013 and the rules made thereunder.
- ii) SEBI Act 1992.
- iii) Stock Exchange Regulations.
- iv) Guidelines and Circulars issued by SEBI from time to time.
- v) Income Tax Act 1961
- vi) Goods and Service Tax Act 2016



### 12.3.13 Operational Results

The segment wise details of Broking Turnover was as follows:

(Rs. in crore)

	2017-18	2016-17
OLT (Online Trading)- Retail-Cash	4208.87	3981.95
OLT-Retail FNO/CDS	29015.19	25819.18
Institutional	2792.83	1924.61
Proprietary	90.12	187.30
IPO/MF	1300.73	4898.24
<b>Total Turnover</b>	<b>37407.74</b>	<b>36811.28</b>

The Revenue from Operations were as follows:

(Rs. in crore)

Particulars	2017-18	2016-17
Brokerage Income	8.32	7.18
Income from distribution of Mutual Funds/IPOs/Bonds	0.97	2.83
Income from DP Operations	1.22	--
<b>Total (A)</b>	<b>10.52</b>	<b>10.02</b>
Sales- Equity	1.10	0.94
Sales- Tax Free Bonds	15.76	93.80
Sales- Dated Government Securities	32.64	--
<b>Total (B)</b>	<b>49.51</b>	<b>94.74</b>
<b>Interest and Financial Income</b>		
Interest on Bank Deposits	2.12	1.99
Interest on Dated Government Securities	0.88	0
Interest on Corporate Bonds	5.69	5.52
Profit on Redemption of Mutual Funds	0.68	0.99
<b>Total (C)</b>	<b>9.39</b>	<b>8.50</b>
<b>Total Revenue from Operations (A+B+C)</b>	<b>69.42</b>	<b>113.26</b>

### 12.3.14 Financial Working Results

(Rs. in crore)

Particulars	2017-18	2016-17
<b>Revenue from Operations</b>		
Income from Services	10.52	10.02
Sale of Securities	49.51	94.74
Interest & Financial Income	9.39	8.50
<b>Total of a+b+c above</b>	<b>69.42</b>	<b>113.26</b>
Other Income	0.11	0.86
<b>Total Income</b>	<b>69.53</b>	<b>114.13</b>
Total Expenses	57.48	101.30
Profit Before Exceptional items	12.04	12.83
Exceptional items	--	---
<b>Profit Before Tax</b>	<b>12.04</b>	<b>12.83</b>
<b>Tax</b>	<b>2.50</b>	<b>2.31</b>
<b>Profit After Tax</b>	<b>9.54</b>	<b>10.52</b>

### **12.3.15 Disinvestment (Upto 2017-18)**

Not Applicable

### **12.3.16 Environment Management**

Not Applicable

### **12.3.17 Audit Checks**

#### **Audit Check List in Respect of Canara Bank Securities Company Limited**

1. To check the segmental revenue generated through Cash N Carry (CNC), Intra-Day Trading (IDT), BITSOT, F&O, CDS, UBO, TBO etc.
2. To review the POs for IT procurement and cross verify with the IT Procurement Policy
3. To review the Can-Money Profit Scheme
4. To review the reports of CVO and its compliance
5. To verify the Due Compliance Report and Legal Compliance Report
6. To check the NRI clients' accounts database and their documentation alongwith the status of being active or dormant in trading activities.
7. To review the various Board approved policies of the Company.
8. To review the Internal Audit Reports, SEBI Inspection Reports and their compliance
9. To test check the cases on Research and Analysis and its reports.
10. To go through the statutory compliances with RoC, SEBI, NSE, BSE, NSDL.
11. To test check the trading cases from the database maintained by the Company in LD software.
12. To review the error trade transactions and To check the GST returns with the invoices.
13. To review the status of the Company holding tax free bonds in the proprietary portfolio for more than a year and its sanctity in terms of the Investment/Trading Policy
14. To test check the cases on Pay-in and Pay-out of Funds and Securities (including Derivatives)
15. To check whether there is physical verification of Fixed Assets
16. To review the Debtors position/Trade receivables
17. To check the Depreciation on Fixed assets.

18. Whether Valuation of Inventories is properly done; in case of Central Government Dated Securities, at lower of cost or market value derived as per FIMMDA Valuation; in case of Equity Shares, at lower of cost or net realizable value; in case of Tax Free Bonds, at lower of cost or market value derived as per FIMMDA Valuation;
19. Whether Profit or Loss on Sale of Securities other than Equity Shares are recognized on settlement date, while that on sale of equity shares is recognized on Trade Date
20. Whether Interest accrued on Dated Government Securities/Tax Free Bonds is computed at CouponDate
21. Whether Brokerage and Commission earned through Secondary Market operations and online portal operations is recognized on the basis of trade dates
22. Whether Provision for Gratuity and Leave Encashment in respect of employees deputed from Holding Company (Canara Bank) is made on the basis of advice received from Bank.
23. Whether Dated Government Securities, Equity Shares and Tax Free Bonds in which The Companydeals are regarded as Current Assets and treated as Stock in Trade. Since these Securities are identified as Stock in Trade, whether the Gross Sale and Purchases are recognized in Statement of Profit & Loss.
24. Whether Investment in Mutual Fund units has been taken under Current Investments
25. To examine the financial implications in respect of sub-judice matter pertaining to Sub lease of premises at Fort Mumbai.

## **12.4 CORPBANK SECURITIES LIMITED**

### **12.4.1 Introduction**

Corp Bank Securities Limited was incorporated on 19 November 1999 and is a wholly owned subsidiary of Corporation Bank in Securities Trading. The Registered Office of the subsidiary is at Mumbai. The Company commenced operations in the year 2000 as a Non Banking Financial Company (NBFC) registered with RBI, and had been functioning as Primary Dealer till March 2007. The Company discontinued its Primary Dealership activities in 2007. The Company acted as a Primary Dealer till March 2007, when Primary Dealership activity was surrendered to the Parent Bank under approvals from both the RBI and the Company's Board.

Thereafter the Company started the distribution of Mutual Fund products. Besides, the Company has been deploying its funds by way of trading in approved instruments including Certificate of Deposits, Commercial Papers, Central Govt. Securities and Treasury Bills as part of its business activity. After securing the requisite regulatory approvals and registering with the NSE / BSE, the Company commenced equity broking business for institutional investors during the financial year 2015-16. During the year 2017-18, the Company started proprietary trading business in equity shares.

The Company is under the Administrative Control of Ministry of Finance.

### **12.4.2 Objectives**

The main objective functions of the Company are Investment, Institutional Broking, Mutual Fund distribution. The Company commenced operations in the year 2000 as a Non-Banking Financial Company (NBFC) registered with RBI. The Company acted as a Primary Dealer till March 2007 when the PD activity was surrendered to the Parent bank under approvals from both the RBI and The Company's board.

The Company is presently engaged in giving broking services to the Institutional clients in Capital Market Segment. Other than that, the Company has been undertaking various other business activities like distribution of Mutual Fund schemes; trading in the Dated Govt. Securities, Certificate of Deposits, Treasury bills, Commercial papers and investment in Fixed deposits.

The Company initiated the stock broking business in November 2015 with a focus on institutional segments after obtaining membership in BSE/NSE. The Company is presently engaged in providing Broking Services to leading Banks, Mutual Funds and Insurance companies.

The Company has observed Will Writing services as a sunrise sector in India in years to come hence the Company has decided to foray into will writing services. Considering India's digital position in world and substantial jump in India's Per Capital Income, an online will writing service is the right solution for Indians residing in India or abroad for ensuring smooth and proper transfer of assets

CBSL (The Company) has launched CorpWILL as an online Will writing service in association with WillJini.com, a leading succession services company of India. CBSL

will educate to create awareness about succession planning amongst all customers of Corporation Bank and public and offer a solution which is affordable, reliable and online viz. CorpWILL

### **12.4.3 Activities**

The Company was functioning as Primary Dealer till March 2007. The Company discontinued its Primary Dealership activities in 2007. Further to the discontinuation of the Primary Dealership activity, the Company ceased to be NBFC and accordingly the Certificate of Registration u/s 45 IA (6) of RBI Act 1934 was cancelled in the year 2007. Thereafter, the Company started the distribution of Mutual Fund products. Besides, the Company has been deploying its funds by way of trading in approved instruments including Certificate of Deposits, Commercial Papers, Central Govt. Securities and Treasury Bills as part of its business activity. After securing the requisite regulatory approvals and registering with the NSE / BSE, the Company commenced equity broking business for institutional investors during the financial year 2015-16. During the year 2017-18, the Company started proprietary trading business in equity shares.

### **12.4.4 Organizational Set up**

The overall operation and activities of the Company are under the administration of the Board of Directors. The Board takes decision relating to major policy matters, reviewing corporate performance, ensuring adequate financial and other resources to facilitate effective performance.

The Company is managed by its Board of Directors. The Board consists of 8 members presently. The Board is being chaired by the Managing Director (MD) & Chief Executive Officer (CEO) of Corporation Bank. Further, the Board also consists of 2 Independent Directors. The day to day affairs of the Company are managed by the Whole Time Director.

The Company's Financial Statements are authenticated by the Chairman, five Directors, Whole Time Director & Company Secretary and Chief Financial Officer. In order to enable proficient execution of the routine operations, the Board has delegated the necessary powers to the Managing Director.

### **12.4.5 Capital Structure**

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 12,50,00,000 equity shares of Rs 10 each aggregating to Rs 125 crore. The Issued, Subscribed, and Paid Up Equity Share Capital as on 31 March 2018 is Rs 75 crore comprising of 7,50,00,000 equity shares of Rs 10 each fully paid up.

As on 31 March 2018, all the equity shares in the Company were held by the Holding entity i.e. Corporation Bank.

### **12.4.6 Budget and Planning**

(Rs in crore)

Years	2015-16		2016-17		2017-18	
Particulars	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	0.50	0.35	0.00	0.00	0.05	0.04
Revenue Expenditure	0.50	1.32	0.60	1.25	1.25	1.16
Revenue/Turnover	9.55	8.18	9.97	8.04	7.50	6.77
Profit for the year	9.05	6.86	9.37	6.78	5.00	4.01

#### 12.4.7 Accounting System

The Company has a centralized Tally accounting system for upkeep of the accounts supplemented by NEAT, BOLT & LDBO IT systems for operational tasks. The Company while accounting and preparation of its financial statements observes the Indian generally accepted accounting principles (Indian GAAP), the Accounting standards prescribed under Section 133 of the Companies Act 2013, Companies (Accounts) Rules, 2014 and other relevant provisions of the Companies Act 2013.

#### 12.4.8 Manpower Analysis

The Company had 5 employees as on 31 March 2018, all of whom were managerial employees.

#### 12.4.9 MOU Targets and Achievements

Not Applicable, since the Company is not a Central Public Sector Enterprise (CPSE)

#### 12.4.10 Computerization

The ERP/IT systems in the Company include NEAT, BOLT, TALLY and LDBO.

#### 12.4.11 Internal Audit

The internal audit is conducted by the Company by utilizing own resources as well as engaging the services of professional Chartered Accountant firms on quarterly periodicity. The Company also maintains a manual of internal audit.

#### 12.4.12 Act, Rules, Documents

- Companies Act 2013 and the rules made thereunder.
- SEBI Act 1992
- Guidelines and Circulars issued by SEBI from time to time

#### 12.4.13 Operational Results

The Revenue from Operations were as follows:

(Rs. in crore)

Particulars	2017-18	2016-17
Trading in Certificate of Deposits	0.71	6.96
Trading in Commercial Paper	5.08	--
Trading in Equity Shares	(0.02)	--
Income from Broking Business	0.08	0.07

Commission/Brokerage on Distribution of Mutual Fund	0.06	0.31
<b>Total Revenue from Operations</b>	<b>5.90</b>	<b>7.34</b>

#### 12.4.14 Financial Working Results

(Rs. in crore)

Particulars	2017-18	2016-17
Revenue from Operations	5.90	7.34
Other Income	0.87	0.70
<b>Total Income</b>	<b>6.77</b>	<b>8.04</b>
Total Expenses	1.15	1.25
Profit Before Exceptional items	5.61	6.78
Exceptional items	--	--
<b>Profit Before Tax</b>	<b>5.61</b>	<b>6.78</b>
<b>Profit After Tax</b>	<b>4.01</b>	<b>4.60</b>

#### 12.4.15 Disinvestment (Upto 2017-18)

Not Applicable

#### 12.4.16 Environment Management

Not Applicable

#### 12.4.17 Audit Checks

##### Audit Check List in Respect of Corpbank Securities Limited

1. To review the Board Minutes Agenda of the Board of Directors and other Committees and delegation of powers alongwith Internal Audit Reports and Concurrent Audit Reports
2. To check the segment revenue and test check the cases
3. To check the GST returns with the invoices.
4. To review the POs for IT procurement and cross verify with the IT Procurement Policy.
5. To review the Investment Policy of the Company alongwith the Minutes of the Investment Committee
6. To check whether there is physical verification of Fixed Assets
7. To review the Debtors position/Trade receivables
8. To review the litigation cases of the Company
9. To review the half-yearly reports sent by the Company to SEBI

10. To review the Royalty Agreement of the Company with Corporation Bank for using its logo and brand.
11. Whether each type of Security is regarded as a separate category. Under each category, valuation is to be done scrip wise.
12. Whether depreciation in one category of securities is not set off against appreciation in another category
13. Whether Treasury Bills held on Balance Sheet date are valued at carrying cost or market value whichever is lower.
14. Whether the market value of Treasury Bills held on the Balance Sheet Date is determined as per the Rates provided by the Clearing Corporation of India
15. Whether market value of Central Government Dated Securities is determined as per Rates provided by Fixed Income and Money Market Dealers Association (FIMMDA)
16. Whether Interest accrued on Dated Government Securities is recognized at its Coupon Rate
17. Whether Profit/Loss on Sale of Securities is accounted on Weighted Average Price Method (WAP) and is recognized on Settlement Date
18. Whether Commission on business done as Intermediaries is recognized on accrual basis.
19. Whether Revenue from Brokerage business is recognized on the basis of confirmed Contract Note of the Trade.



## **12.5 SBI CAP SECURITIES LIMITED**

### **12.5.1 Introduction**

SBICAP Securities Limited (Company) was incorporated on 19<sup>th</sup> August 2005 as a wholly owned subsidiary of SBI Capital Markets Limited (SBICAP), the investment banking arm of the State Bank Group. The Company has been working with a single vision and mission of providing complete financial solution to its clients under one roof. The Company is under the Ministry of Finance.

The Company has 20 Associate Companies and 115 Branches. The Company services a large number of institutional and corporate investors, including Foreign Institutional Investors. The Company has a strong research team consisting of experienced analysts. Among the various sectors covered are Banking, IT, Pharma, Pipes, Real Estate, Shipping and Ship building, Logistics, Hotels, Fast Moving Consumer Goods (FMCG) and construction. The Company also tracks a large number of stocks and regularly brings out Research Reports on various companies and sectors by its dedicated team of research team. The Company is a member of both Bombay Stock Exchange and National Stock Exchange.

The Company offers equity broking services through the Internet as well as offline channels. The Company's Registered Office is at Mumbai. Through its 115 branches located all over the country, the entire range of broking services are offered to its clients. It has also teamed up with a number of franchisees to extend its reach beyond the areas served by its own branches.

### **12.5.2 Objectives**

The Company is engaged in the business of broking (retail and institutional) and third party distribution of financial products. The Principal Business Activities of the Company were Broking, Selling & Distribution and Other Operating Income comprising 43 *per cent*, 35 *per cent*, and 14 *per cent* respectively of the Total Turnover of the Company as on 31 March 2018.

### **12.5.3 Activities**

The Company is offering the following services to its clientele - both Institutional and Retail:

- Equity & Derivatives broking through physical & internet channel
- Institutional Broking
- Retail Broking
- Retail Investments and Services
- Home Loan
- Auto Loan

- Debt Issues- Municipal Bonds
- Depository Participant Services
- IPOs
- Distribution of Third party products.
- E-IPO and E-MF

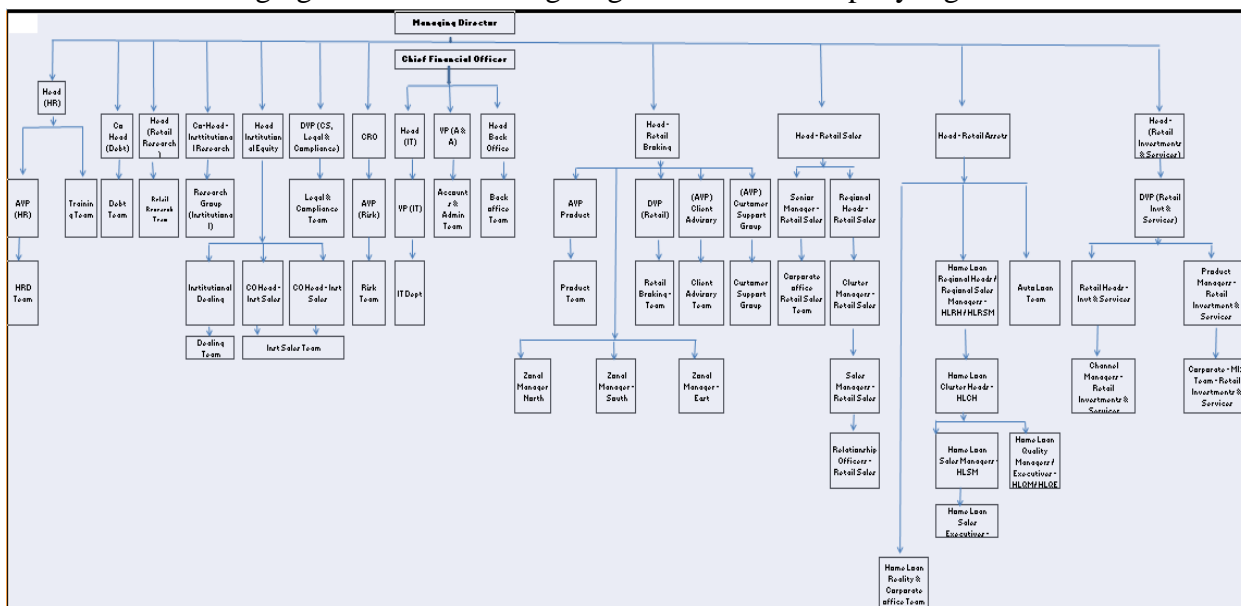
#### **12.5.4 Organizational Set up**

The Company has a Board of Directors that supervises the overall operation and activities of the Company. The Board of Directors comprised of Chairman, Managing Director, Whole Time Director and Chief Financial Officer (CFO), two Independent Directors, and four Directors. There are various functional committees such as the Audit Committee, Risk Management Committee, and CSR Committee that report to the Board of Directors.

The various Departments of the Company are:

- i) Debt
- ii) Retail Research
- iii) Institutional Research
- iv) Institutional Equity
- v) Legal & Compliance
- vi) IT
- vii) Back Office
- viii) Accounts
- ix) Risk
- x) HR
- xi) Institutional Dealing
- xii) Product Team
- xiii) Client Advisory Team
- xiv) Retail Broking

In order to execute the day to day operations, the necessary powers are delegated by the Board to the Managing Director. The Organogram of the Company is given below:



## 12.5.5 Capital Structure

The Authorized Share Equity Share Capital of the Company as on 31.03.2018 is 25 crore equity shares of Rs 10 each aggregating to Rs 250 crore. The Issued, Subscribed, and Paid Up Equity Share Capital as on 31 March 2018 is Rs 96,87,50,000 comprising of 9,68,75,000 equity shares of Rs 10 each fully paid up.

As on 31 March 2018, all the 9,68,75,000 equity shares of the Company (100 per cent equity) are held by the Holding Company, SBI Capital Market Ltd.

## 12.5.6 Budget and Planning

(Rs in crore)

Years	2015-16		2016-17		2017-18	
	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	--	13.13	--	3.53	--	6.98
Revenue Expenditure	175.58	176.60	195.42	226.83	320.00	257.12
Revenue/Turnover	171.90	160.82	200.30	250.35	370.00	357.55
Profit for the year Before Tax	(3.68)	(15.77)	4.87	23.51	50.00	100.43

## 12.5.7 Accounting System

The Company has a centralized accounting system for upkeep of the accounts supplemented. The Company while accounting and preparation of its financial statements observes the Indian generally accepted accounting principles (Indian

GAAP), the Accounting standards prescribed under Section 133 of the Companies Act 2013, Companies (Accounts) Rules, 2014 and other relevant provisions of the Companies Act 2013.

#### 12.5.8 Manpower Analysis

The Company had 3983 employees as on 31 March 2018, which includes 160 on-roll managerial employees, 1468 on-roll non-managerial employees and 2355 off-roll non – managerial employees

#### 12.5.9 MOU Targets and Achievements

Not Applicable since the Company is not a Central Public Sector Enterprise.

#### 12.5.10 Computerization

The ERP/IT systems of the Company are Trading Platform- Nest Trader, IT Appliances – DC and DR VAPT and E Mail- MS Exchange. The IT Systems have been audited for 2015-16 to 2017-18.

#### 12.5.11 Internal Audit

The Internal Audit has been entrusted to a Professional Outside Agency. The Periodicity of Audit is Monthly Trading and Depository Audit.

#### 12.5.12 Act, Rules, Documents

- i) Companies Act, 2013
- ii) Depositories Act
- iii) Securities Contract Regulation Act
- iv) SEBI (Brokers and Sub Brokers) Regulation
- v) SEBI (Research Analyst) Regulation
- vi) SEBI (PMS) Regulation
- vii) IRDA

#### 12.5.13 Operational Results

The Revenue from Operations were as follows:

(Rs. in crore)

Particulars	2017-18	2016-17
<b>Brokerage</b>	<b>155.40</b>	<b>111.41</b>
<b>Selling and Distribution Commission</b>		
Mutual Funds	5.19	3.46
IPOs	6.05	7.13
Bonds	23.33	32.82
Wholesale Debt	1.41	1.80
Home Loan/Car Loan	88.42	40.35
Others	2.03	2.44
<b>Total Selling and Distribution Commission</b>	<b>126.45</b>	<b>88.02</b>
<b>Depository Service Income</b>		

Annual Maintenance Charges	11.29	8.17
Transaction Charges	5.07	3.77
Dematerialisation charges	0.09	0.01
Others	0.34	2.33
<b>Total Depository Service Income</b>	<b>16.81</b>	<b>14.31</b>
<b>Other Operating Income</b>		
Account Opening charges	1.73	1.71
Research Income	0.66	0.01
Miscellaneous Income	47.75	29.69
<b>Total Other Operating Income</b>	<b>50.15</b>	<b>31.41</b>
<b>Total Revenue from Operations</b>	<b>348.82</b>	<b>245.17</b>

### 12.5.14 Financial Working Results

(Rs. in crore)

Particulars	2017-18	2016-17
<b>Revenue from Operations</b>		
Brokerage	155.40	111.41
Selling and Distribution	126.45	88.02
Depository Services Income	16.81	14.31
Other Operating Income	50.15	31.41
<b>Total Revenue from Operations</b>	<b>348.82</b>	<b>245.17</b>
Other Income (Non Operating Income)	8.73	5.18
<b>Total Income</b>	<b>357.55</b>	<b>250.35</b>
Total Expenses	257.12	226.83
Profit Before Exceptional items	100.43	23.51
Exceptional items	--	--
<b>Profit Before Tax</b>	<b>100.43</b>	<b>23.51</b>
Tax	24.84	(2.54)
<b>Profit After Tax</b>	<b>75.59</b>	<b>26.06</b>

### 12.5.15 Disinvestment (Upto 2017-18)

Not Applicable

### 12.5.16 Environment Management

Not Applicable

### 12.5.17 Audit Checks

- i) To examine whether Brokerage Income in relation to Stock Broking activity is recognized on the trade date of transaction and includes stamp duty, transaction charges, and is net of scheme incentives paid.
- ii) To examine whether amounts receivable from and payable to clients/stock exchanges for broking transactions are disclosed separately as trades executed but not settled.
- iii) To examine whether Commission relating to Public Issues is accounted for on finalization of allotment of the public issue/receipt of information from the intermediary. Brokerage Income relating to public issues/Mutual Fund/other

securities should be accounted for based on mobilization and intimation received from clients/intermediaries.

- iv) To examine whether Annual Maintenance Charges Depository Income is recognized on accrual basis and Transaction Charges should be recognized on trade date of transaction.
- v) The Company acts a Corporate Agent to distribute SBI Home Loan and SBI Auto Loan to potential customers for SBI. The Company earns the commission as per the commission structure and annual slabs of incentive for sourcing Home Loans and Auto Loans. The Company normally raises the invoice to SBI in the month next to the month in which the services have been rendered. One-month period is treated as Turn Around Time (TAT) for the Company and one month next to the month in which invoice was raised is the actual month of receipt for the services rendered. To check Realization of Commission
- vi) The Company offers equity broking services through the Internet as well as offline channels. Through its 115 branches located all over the country, the entire range of broking services are offered to its clients. SSL has also teamed up with a number of franchisees to extend its reach beyond the areas served by its own branches. During the course of trading, many a times dealing/bidding errors take place which may fetch sometimes profits to the Company and sometimes losses. Audit to scrutinize the records of dealing/bidding errors and to check whether the Company had suffered a loss of not due to any technical or other error.
- vii) The Board of Directors of the SBICAP Securities Limited (Company) gave financial approval (November 2017) for procurement of Hyper-Converged Infrastructure (HCI) with SDN and Unified SAN Storage at Primary Data Centre (Mumbai) and Disaster Recovery Site (Hyderabad). The purpose was for replacing existing servers and storage hardware which were more than five years old and out of support and an additional new storage of 30TB for existing blade servers. Audit to check the procurement thereof.
- viii) To check that the Company is carrying on its business as brokers, agents, traders, dealers and market makers in securities and commodities (Indian and Foreign) as defined in Section 2(h) of the Securities Contracts (Regulations) Act 1956 or any amendment or re-enactment thereof, and in compliance with the Regulations therein.
- ix) To review various Board approved Policies of the Company i.e. Information Security Policy, International Travel Policy, Prevention of Money Laundering Compliance Policy, Audit Policy, Revised Risk Management Limit Policy, Policy on treatment of inactive accounts, Integrated Risk Management Policy, Fraud Detection & Prevention Policy, Dealing/Bidding Error Policy etc. (in all 22 policies)
- x) To test check the cases on revenue generation aspects like Brokerage, Selling & Distribution, Depository Services Income, Other operating income etc

- xi) To review the Royalty Agreement of the Company with SBI for using its logo and brand.
- xii) To review the Consultancy fees paid by the Company for recruiting/hiring employees through agencies
- xiii) To review the Internal Audit Reports, NSDL Audit Reports, Investment Policy and its compliances and to check the GST returns with the invoices.
- xiv) To test check the Home Loan and Auto Loan disbursement cases.
- xv) To review the Concurrent Audit Report of Broking Operations and DP operations
- xvi) To review the cyber fraud cases, if any.
- xvii) To test check the cases of income sharing arrangement with SBI for NRI clients as per Agreement with SBI in respect thereof, if any.

## **12.6 SBI SG GLOBAL SECURITIES SERVICES PVT LIMITED**

### **12.6.1 Introduction**

SBI–SG Global Securities Private Limited is a private limited company and a subsidiary of State Bank of India. The Company was incorporated on 16 May 2008 to carry out custody and fund accounting services. The Company's Registered Office is at Mumbai. The Company is under the Administrative Control of Ministry of Finance. The Joint Venture Partner of the Company is Societe Generale through investing entity SG Markets (SEA) Pte Ltd (formerly known as SG Securities (Singapore) Pte Ltd).

The Company has been set up as a Joint Venture between SBI and Societe Generale Securities Services (SGSS), one of the world's leading global custodians, combining the banking and treasury experience of SBI with the operational and risk management proficiency of SGSS, to offer high quality Custody and Fund Accounting services to domestic and foreign clients. SBI SG has the unique distinction of being the first sub custodian in India to benefit from the local- foreign partnership.

The following are the fellow subsidiaries

- i) SBI Funds Management (P) Ltd
- ii) SBI Macquarie Infrastructure Trustee (P) Ltd
- iii) SBI DFHI Ltd
- iv) SBI General Insurance Co. Ltd
- v) SBI Life Insurance Co Ltd
- vi) SBI Mutual Fund Trustee Co. (P) Ltd
- vii) SBI Foundation
- viii) SBI Cards and Payments Services (P) Ltd

The custody services offered include a bouquet of services such as securities clearing & settlements, safe-keeping, forex services, cash management, corporate actions and reporting. Further, the Company provides valuation and NAV computation services by using an integrated and automated fund accounting software platform called Multifond. Apart from these the Company also provides other value added services such as derivatives clearing, securities lending and borrowing, domestic custody and deposit services & international securities settlement. The Company operates in a highly computerized environment further utilizing Custody and DP Secure software for its operations.

### **12.6.2 Objectives**



The main objective of the Company is to provide Custody and Fund Accounting services (Custodian and Depository Services), comprising 47.28 *per cent* and 15.80 *per cent* respectively of the total turnover of the Company as on 31 March 2018.

### **12.6.3 Activities**

The Company is engaged in Custodial Services and Fund Accounting Services.

#### **Custody Services**

The Company operates the full suite of custody and clearing services including securities clearing and settlements, safe-keeping, forex services, cash management, corporate actions and reporting. With SWIFT compatible systems and electronic linkages with stock exchanges, depository and banking systems, the Company supports its clients with their custody and clearing requirements in a variety of asset classes and trading patterns. The Company has also started providing third party forex services to potential private equity clients and FDI deals in close synergy with SBI.

#### **Fund Accounting Services**

The Company provides valuation and NAV (Net Assets Value) computation services by using fully integrated and automated fund accounting software platform. A benchmark software 'Multifond' has been adopted by the Company to cater to the clients' Fund Accounting and Valuation needs. The system is scalable with multi currency, multi location and multi lingual capabilities to support a whole host of business segments and asset classes.

The Company has been providing fund accounting services to varied clients including Domestic Mutual Fund clients, Alternate Investments Fund and Portfolio Management Services (PMS) providers.

#### **The Other Value Added Services provided by the Company are as follows:**

- i) Derivatives Clearing, Risk Management on Margins, Collateral Management, MTM (Marked to Market) Settlement and Reporting
- ii) Securities Lending and Borrowing
- iii) Domestic Custody and Depository Services
- iv) International Securities Settlement

As on 31.03.2018, the Company has crossed Rs 4,85,000 crore in Average Assets Under Custody, serving more than 150 Accounts. In Fund Accounting, the Company has crossed Rs 2,54,000 crore in Average Assets Under Management.

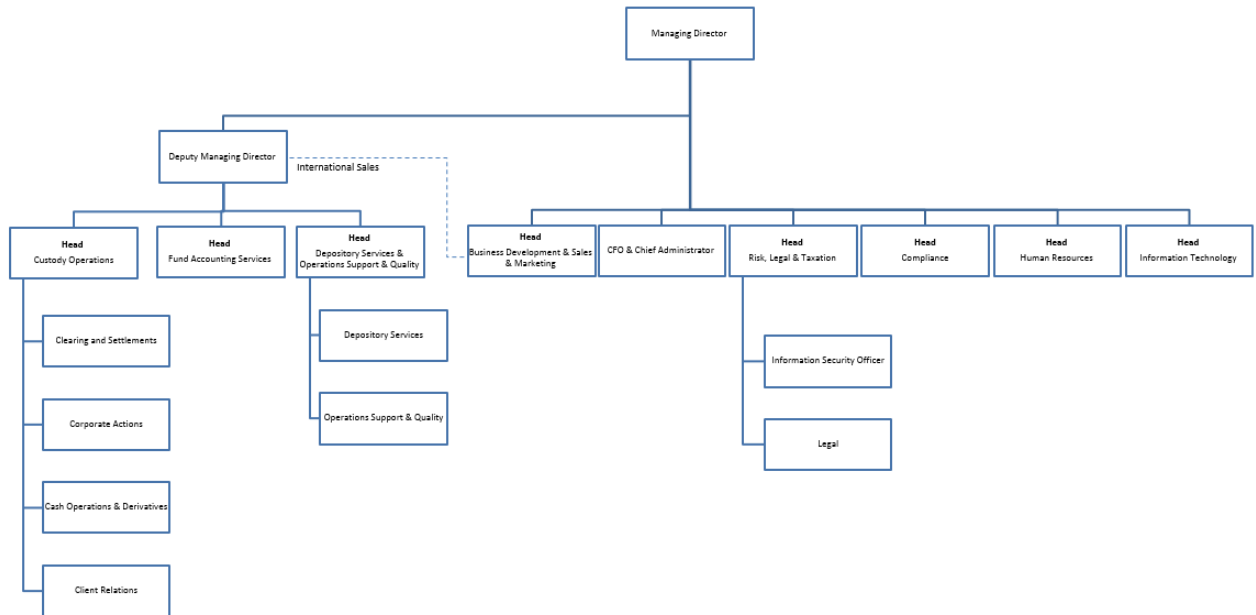
### **12.6.4 Organizational Set up**

The Company has a Board of Directors that supervises the overall operation and activities of the Company. There are various functional committees such as the Audit Committee, Committee of Directors, Risk Management Committee, Human Resources Committee and CSR Committee that report to the Board of Directors. As on 31 March 2018, the Board of Directors of the Company comprised of nine

Directors, out of whom two were Non Executive Independent Directors. The Nominees of SBI included four Directors including Non Executive Chairman and Managing Director. The Nominees of SG (Societe Generale) included two Non Executive Directors and one Deputy Managing Director.

The Company's Key Managerial Personnel are Managing Director, Deputy Managing Director, Company Secretary and Chief Financial Officer.

In order to execute the day to day operations, the necessary powers are delegated by the Board to the Managing Director. The Organogram of the Company is as below:



### 12.6.5 Capital Structure

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 10 crore equity shares of Rs 10 each aggregating to Rs 100 crore. The Issued, Subscribed, and Paid Up Equity Share Capital as on 31 March 2018 is Rs. 80 crore comprising of 8 crore equity shares of Rs 10 each fully paid up.

As on 31 March 2018, State Bank of India holds 65 *per cent* equity holding comprising of 5,20,00,000 equity shares in the Company, and SG Markets (SEA) Pte Ltd (formerly known as SG Securities (Singapore) Pte Ltd) holds 35 *per cent* equity holding comprising of 2,80,00,000 equity shares in the Company.

### 12.6.6 Budget and Planning

(Rs in crore)

Years	2015-16		2016-17		2017-18	
	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	3.56	0.47	1.32	0.64	0.04	0.81
Revenue Expenditure	21.52	21.21	25.75	25.28	30.66	27.17
Revenue/Turnover	34.59	34.67	42.05	43.22	52.25	63.69
Profit for the year	9.39	8.60	12.10	12.12	17.25	30.17

### 12.6.7 Accounting System

The Company has a centralized accounting system for upkeep of the accounts. The Company while accounting and preparation of its financial statements observes the Indian generally accepted accounting principles (Indian GAAP), the Accounting standards prescribed under Section 133 of the Companies Act 2013, Companies (Accounting Standards) Amendment Rules, 2016 and other relevant provisions of the Companies Act 2013.

#### **12.6.8 Manpower Analysis**

The Company had 113 employees as on 31 March 2018, which consisted 22 managerial employees and 91 non – managerial employees.

#### **12.6.9 MOU Targets and Achievements**

Not Applicable, since the Company is not a Central Public Sector Enterprise (CPSE).

#### **12.6.10 Computerization**

The Company has ERP/IT Systems such as Custody, Multifond, DP Secure. The said systems have been audited during the period from 2015-16 to 2017-18. The Company works in a highly computerized environment. The Company has in house capability to address all IT needs in terms of software development and maintenance, back office processing, database administration and network requirements.

#### **12.6.11 Internal Audit**

The internal audit function of the Company is under the functional operation of the Audit Committee. The internal audit is conducted by the Company on a quarterly basis by engaging the services of professional Chartered Accountant firms. Further, the Company maintains a manual of internal audit.

#### **12.6.12 Act, Rules, Documents**

- i) Companies Act, 2013/Rules/Notifications/Secretarial Standards issued by MCA
- ii) SEBI Act, 1992
- iii) PMLA Act, 2002/Rules/Notifications issued thereunder
- iv) Foreign Exchange Management Act, 1999/Rules/Notifications
- v) Information Technology Act 2000/ related guidelines/ notifications
- vi) SEBI (Custodian of Securities) Regulations, 1996; SEBI (Foreign Portfolio Investors) Regulations, 2014; SEBI (Depository Participant) Regulations, 1996; SEBI (Prohibition of Insider Trading) Regulations, 2015 and SEBI (Intermediaries) Regulations, 2008

#### **12.6.13 Operational Results**

The Revenue from Operations were as follows:

(Rs. in crore)

Particulars	2017-18	2016-17
Custody charges	32.74	20.43
Fund Accounting charges	8.75	6.82
Referral Fees	14.62	8.83
Total Revenue from Operations	56.11	36.09

#### **12.6.14 Financial Working Results**

(Rs. in crore)

Particulars	2017-18	2016-17
Revenue from Operations	56.11	36.09
Other Income	7.57	7.12
Total Income	63.68	43.21
Total Expenses	27.16	25.27
Profit Before Exceptional items	36.51	17.94
Exceptional items	--	--
Profit Before Tax	36.51	17.94
Profit After Tax	26.03	11.73

#### **12.6.15 Disinvestment (Upto 2017-18)**

Not Applicable

#### **12.6.16 Environment Management**

Not applicable

#### **12.6.17 Audit Checks**

- i) To check whether Custody fees, Fund Accounting Fees and Referral Fees are properly received, accounted on accrual basis as per the agreed terms of agreement. To examine the respective Agreements in respect of Fund Accounting Services, Custody Services etc.
- ii) To check whether the Company allocates the Intra Day Limit (IDL) charges optimally amongst its clients as per the commercial merits of the case.
- iii) To check whether the matter relating to reduction in IDL charges has been taken up with the Competent Authority so as to enable SBI SG to garner more of Mutual Fund Business.
- iv) To check whether the Investments are made by the Company out of the Profits/Surplus Funds in line with the Investment Policy of the Company, whether there is a balanced mix of investment options based on tenure of the Investments, average tenure thereof being eight years.
- v) Steps taken by the Company to tap and expand FPI (Foreign Portfolio Investments) client base.
- vi) To review the Royalty Agreement of the Company with SBI for using its logo and brand.
- vii) To check the revenue generation in segments of custody & clearing services including securities and settlements, safe-keeping, forex services, cash

management, corporation actions and reporting i.e. custody charges, referral charges, fund accounting charges, swift connectivity charges, etc.

- viii) To check the cases of Derivative Clearings, Lending and Borrowing Securities cases.
- ix) To check the database maintained in the “Multifond” software.
- x) To check the compliance report sent to SEBI/RBI and the implementation of the guidelines issued from time to time by the various Regulatory Authorities on the business of the Company.
- xi) To review the cases of domestic custody and depository services.

## 12.7 UTI CAPITAL PRIVATE LIMITED

### 12.7.1 Introduction

UTI Capital (Private) Ltd (the Company) is a wholly owned subsidiary of UTI Asset Management Company Ltd, incorporated on 13 May 2011 under the then Companies Act 1956 (now Companies Act 2013).

The Company's business consists of managing funds of India Infrastructure Development Fund (IIDF) and Structured Debt Opportunities Fund (SDOF) and providing advisory services to Pragati India Fund Ltd (PIFL). The Company's Registered Office is at Mumbai.

### 12.7.2 Objectives

The main objective of the Company is Investment Management. The Company has only one business that is Management and Advisory of Funds. Fund Management is the Principal Business Activity of the Company, comprising 100 *per cent* of the Turnover of the Company as on 31.03.2018.

### 12.7.3 Activities

UTI Asset Management Company Ltd had incorporated 100 *per cent* subsidiary Company UTI Capital (Pvt) Ltd on 13 May 2011 to act as the investment manager of India Infrastructure Development Fund, a SEBI registered venture capital fund for investments in various sectors including but not limited to infrastructure, real estate, distressed assets, special situations, fund of funds, software, agro processing, health care, pharmaceutical, biotechnology or any service or manufacturing industry.

UTI Structured Debt Opportunities Trust has been registered with SEBI as a Category II AIF on 8 August 2017. UTI Capital is the Investment Manager of the AIF and UTI Structured Debt Opportunities Fund I (UTI SDOF 1) is the first scheme of the Trust. The objective of UTI SDOF1 is to generate superior risk adjusted returns for its investors. UTI SDOF1 announced its first close on 15 November 2017. Assets under Commitment as on 31 March 2018 were approximately Rs 552.24 crore.

UTI Capital has launched UTI Emerging India Opportunities Fund, a PE Fund with a targeted corpus of USD 150 million, focused on less developed, high growth states of India. The fund has the broad theme of Pragati India Fund which is currently being advised by UTI Capital. The Company is already in discussions with potential investors as on March 2018 for Anchor Commitment of USD 25 million to the fund.

UTI Capital Ltd was appointed as an Advisor of Pragati India Fund Ltd (PIFL) in October 2015. PIFL is a private equity fund focused on the SME Sector, primarily in under developed states. It has a portfolio of four companies across healthcare, manufacturing, and Micro Finance with a corpus of Rs 1034.2 million. The Company is actively engaging with the management of the portfolio companies with a view to maximize value for the investors.

#### 12.7.4 Organizational Set up

The Company is managed by a Board of Directors, the Chief Executive Officer (CEO), apart from Chief Financial Officer (CFO). The Company's Financial Statements are authenticated by the Chairman, Director, CEO, CFO and the Company Secretary (CS). The Company's Key Managerial Personnel (KMP) are CEO, CFO and CS.

#### 12.7.5 Capital Structure

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 1,50,00,000 equity shares of Rs 10 each aggregating to Rs. 15,00,00,000. The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 1,20,00,000 equity shares of Rs 10 each aggregating to Rs 12,00,00,000. As on 31 March 2018, the Holding Company UTI Asset Management Co. Ltd held 100 *per cent* Equity Holding in the Company.

#### 12.7.6 Budget and Planning

(Rs. in crore)

Years	2015-16	2016-17	2017-18
Particulars	Actual	Actual	Actual
Capital Expenditure	0	0	0.07
Revenue Expenditure	4.35	4.95	10.48
Revenue/Turnover	7.06	7.52	13.01
Profit for the year After Tax	1.86	1.73	2.01

#### 12.7.7 Accounting System

The Company has a Centralized system of Accounting. The financial statements of the Company are prepared on Going Concern basis in accordance with the Generally Accepted Accounting Principles (GAAPs) in India, and comply in all aspects with the Accounting Standards specified under Section 133 of the Companies Act 2013, read with Rule 7 of Companies (Accounts) Rules, 2014, and the Companies (Accounting Standards) Amendment Rules 2016. The financial statements have been prepared under historical cost convention on accrual basis.

#### 12.7.8 Manpower Analysis

As on 31 March 2018, the Company had eight number of Managerial employees. The company did not have any Non Managerial employees.

#### 12.7.9 MOU Targets and Achievements

Not Applicable since the Company is not a Central Public Sector Enterprise.

#### 12.7.10 Internal Audit

The Internal Audit of the Company is conducted by an Outside Agency by a professional firm of Chartered Accountants on an Annual basis. The Manual of Internal Audit is available with the Company.

### 12.7.11 Act, Rules, Documents

- i) Companies Act 2013
- ii) SEBI Regulations in respect of Venture Capital funds, Alternate Investment Funds (AIFs) etc

### 12.7.12 Operational Results

The Revenue from Operations were as follows:

(Rs. in crore)

Particulars	2017-18	2016-17
Fund Management Fees	6.70	7.44
Advisory Fees	0.49	--
Setup Fees	0.82	-
Total Revenue from Operations	8.02	7.44

### 12.7.13 Financial Working Results

(Rs. in crore )

Particulars	2017-18	2016-17
Revenue from Operations	8.02	7.43
Other Income	4.99	0.09
Total Income	13.01	7.52
Total Expenses	10.48	4.95
Profit Before Exceptional items	2.52	2.56
Exceptional items	--	--
Profit Before Tax	2.52	2.56
Profit After Tax	2.01	1.74

### 12.7.14 Disinvestment (Upto 2017-18)

Not Applicable

### 12.7.15 Environment Management

Not Applicable

### 12.7.16 Audit Checks

- i) Whether the Management Fees/Advisory Fees and set-up Fees are accounted for on accrual basis in accordance with the Investment Management/Advisory Agreements signed with the Funds.
- ii) Whether the Company has fulfilled the main objective of generating superior risk adjusted returns for its investors, with a view to maximize value for investors.
- iii) To examine whether Profit from redemption of Units of Mutual Fund, Dividend Income on current investments etc is properly booked.



- iv) Whether the Company has made adequate Provisions for diminution in value of long term investments – both Quoted and Unquoted, Whether the Company has followed RBI Guidelines in respect of valuation of Unquoted Investments.
- v) To examine policy for Purchase and Redemption of Units of Mutual Fund, viz., UTI Money Market Fund Institutional Plan.
- vi) Whether the re-imbursment of Management Fee payable to LIC of India, one of the investors in India Infrastructure Development Fund has been charged on the portion of its commitment remaining undrawn at the end of Investment period of IIDF, in accordance with the Agreement dated 7 May 2010 entered into with LIC of India.

## 12.8 UTI INFRASTRUCTURE TECHNOLOGY AND SERVICES LIMITED

### 12.8.1 Introduction

UTI Infrastructure Technology and Services Ltd was incorporated on 19 May 1993. The Specified Undertaking of the Unit Trust of India (SUUTI), a Statutory Authority under the Ministry of Finance, holds the entire paid up share capital of the Company.

The Company was erstwhile known as UTI Technology Services Ltd, and was promoted by the erstwhile Unit Trust of India (UTI). The Company was incorporated to serve the investors of UTI Schemes. Consequent to enactment of the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002, the Company is 100 *per cent* held by the Administrator of the Specified Undertaking of Unit Trust of India (SUUTI). The Company is construed as a Government Company u/s 2 (45) of the Companies Act 2013.

The Company's Registered Office is situated at Navi Mumbai in Maharashtra. The Company has four Regional Offices located at Kolkata, Delhi, Chennai and Mumbai. The Company has its presence at 79 locations all over India.

The Company is under the Administrative Control of Ministry of Finance, DIPAM (Department of Investment and Public Asset Management). The Company has one wholly owned subsidiary, i.e., SUUTI Tech Options Ltd. The Company has 60 Branches all over India.

### 12.8.2 Objectives

UTI ITSL (the Company) is one of the largest Financial Services Providers in India. The Company is SEBI approved Category-I Registrar and Transfer Agent, offering R&T Services to the investors of Mutual Fund Asset Management Companies (AMC), Bond/Deposit/Shareholders of Corporates, Financial Institutions and Government Companies. The Company is thus a Government owned Company that provides technology and outsourcing services to the financial and Government Sectors of India.

The Company is primarily engaged in the business of issuing and processing of PAN Cards on behalf of the Central Board of Direct Taxes (CBDT) and also providing, consulting, back office operations, infrastructure, processing of medical bills under Central Government Health Scheme (CGHS) under Ministry of Health and Family Welfare, Ex-Servicemen Contributory Health Scheme (ECHS) under Ministry of Defence, Employees' State Insurance Corporation (ESIC) under Ministry of Labour and IT enabled services delivered through a network of multiple locations around India.

The following are the Principal Business Activities of the Company

Sl	Name and description of main products/services	% to total turnover of the Company (as on 31 march 2017)
1	Registrar & Transfer Agents	10.48 %

2	Government Services Department	86.70 %
3	Infrastructure Department	2.82%

As on 31 March 2018, the Principal Business Activities of the Company comprising 75 per cent of the Total Turnover of the Company are- Government Services Department.

### **12.8.3 Activities**

The Company provides services to Financial and Government Sectors/Enterprises in India. It is primarily assigned with activities like issuance of PAN Card, Settlement of E-Claims under CGHS, ECHS, ESIC etc. The Company also provides services in the field of transaction processing for the investors in Equity and Bond holdings, Mutual Funds and Fixed Deposits.

The Company undertakes maintenance and design, development and implementation of different IT/Web based solutions. The Company also assists the Government of India in implementing Information and Communication Technology Programs through SSDG gateways and State Portals.

The Company is also the distributor of Mutual Funds in the Government Sector and is also registered with SEBI with a permanent license as Category-I R&T Agents.

The Company also provides Property related services like acquisition, disposal of properties, leasing of properties, valuation, interior works, Facility and Infrastructure Management.

The Company also provides support to the SUUTI regarding their maintenance, disposal of the properties, handling their investment schemes and the remaining investors (of the erstwhile Unit Trust of India) by helping them to resolve their schemes related issues and funds etc.

The Services offered by the Company are thus summarized below:

#### **a) Registrar and Transfer Service for Mutual Funds –**

- i) Sales and Application Processing
- ii) After Sales Services
- iii) Income Distribution Warrants (IDWs)
- iv) Collection of Paid instruments from Banks
- v) Management Information System (MIS) Reports

#### **b) Medical Bill Processing**

#### **c) Registrar and Transfer Agent's Services for Companies –**

- i) Share Transfer Agents

**The Company also handles**

- i) Servicing of Bonds/Pass Through Certificates of Securitization Deals of Banks/Corporates
- ii) Point of Service (POS) for carrying KYC (Know Your Customer) documentation of investors of Mutual Fund Schemes
- iii) Issue of EPIC (Electors Photo Identity Card) – Election Commission- Tamil Nadu
- iv) Issue of Driving License (ELCOT- Electronic Corporation of Tamil Nadu)

#### **12.8.4 Organizational Set up**

The Company is managed by a Board of Directors, consisting of seven Directors (including Government Nominee Director and Managing Director & Chief Executive Officer – CEO). The following Board Committees are operative in the Company

- i) Audit Committee
- ii) HR Nomination and Remuneration Committee
- iii) Corporate Social Responsibility Committee
- iv) Risk Committee (merged with Audit Committee)
- v) Infrastructure Division Review Committee

The following are the other Internal Committees which are operative in the Company

- i) IT-Review Committee
- ii) Tender Evaluation and Awards Committee
- iii) Advisory Committee
- iv) Property Advisory Committee
- v) Hindi Committee
- vi) Committee for resolving Investor Cases
- vii) Project Management Committee

The following is the Organizational Hierarchy

- i) The Executive Director and Chief Executive Officer (CEO) of the Company reports to the Board of Directors
- ii) The following are the main sub-units headed by VP/AVP/DVP (Vice President/ deputy Vice President/Assistant Vice President)
  - i) Secretariat
  - ii) Vigilance
  - iii) Internal Audit
  - iv) Accounts
  - v) PAN-PPC
  - vi) Medical Bill Processing Division

- vii) Admin
- viii) Infrastructure
- ix) Company Secretary & Compliance Officer
- x) Legal
- xi) Data Centre Group
- xii) E-Governance Projects
- xiii) R&D Group
- xiv) Development Group-I Marketing, Research, Product Development, Corporate Tie-Ups, PAN, Mutual Fund
- xv) Development Group –II
- xvi) Operations
- xvii) HR

The Company has four service Wings- Western Region, Eastern Region, Southern Region and Northern Region, each headed by a Regional Manager (RM).

#### 12.8.5 Capital Structure

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 10 crore equity shares of Rs 10 each aggregating to Rs. 100 crore.

The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 3,12,50,000 equity shares of Rs 10 each aggregating to Rs 31.25 crore.

As on 31 March 2018, the Holding Company SUUTI held 100 *per cent* Equity Holding in the Company.

#### 12.8.6 Budget and Planning

(Rs in crore)

Years	2015-16		2016-17		2017-18	
	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	11.13	4.00	12.59	2.20	16.16	6.58
Revenue Expenditure	123.90	128.4	140.88	170.28	169.63	218.45
Revenue/Turnover	158.57	182.32	186.85	255.32	341.88	370.85
Operational Result (PAT)	--	32.08	--	52.35	--	99.08

#### 12.8.7 Accounting System

For the period upto and including the year ended 31 March 2017, the Company prepared its financial statements in accordance with generally accepted accounting principles in India (GAAP), and complied with the Accounting Standards u/s 133 of Companies Act, 2013, read with Rule 7 of Companies (Accounts) Rules, 2014. In accordance with the Notification dated 16 February 2015 issued by the Ministry of Corporate Affairs, the Company prepared its financial statements in accordance with Ind ASs for the year ended 31 March 2018. The Company has a Centralized system of Accounting.

#### **12.8.8 Manpower Analysis**

The Company has a pool of human resources with a variety of skill sets appropriate to its business requirements. The Company has Engineering professionals in Information technology, Civil Engineering, Electrical Engineering, Medical Professionals, Legal Professionals, Finance, Management and other professionals. As on 31 March 2018, the Company had 456 Regular Employees and 899 Direct Contractual and Hired Resources.

#### **12.8.9 MOU Targets and Achievements**

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

#### **12.8.10 Computerization**

The Company is constantly enhancing its capabilities and is active in management of networks, providing and managing, large and complex database management, migration of data from legacy systems to RDBMS etc

The Company is a CMMi ML5 appraised, ISO/IEC 27001:2013, ISO/IEC 20000-1:2011 & ISO-9001:2008 Certified Company with its own data Centre at Navi Mumbai and back centre at Hyderabad.

The Company has identified the following four domains to cover various IT initiatives in the e-governance space

- i) Consulting Projects
- ii) Software Development/support projects
- iii) Facility Management/Data Centre, Network etc) Projects
- iv) Other Projects executed through technical support agencies, Data centre etc

The Company has In-House developed system for each business vertical such as PAN, MBPD/Bonds-MF Processing etc. All Computerization and applications are developed and managed in-house, no external ERP system is in use within UTIITSL. IT Systems have been regularly audited during 2015-16 to 2017-18.

#### **12.8.11 Internal Audit**

The Company has an Internal Control System commensurate with the size, scale and complexity of its operations. The Company has in place a mechanism to identify, assess, monitor and mitigate various risks to key business objectives. Major risks identified by the businesses and functions are systematically addressed through

mitigating action on continuing basis. These are routinely tested and certified by Statutory as well as Internal Auditors.

Internal Audit is conducted by Own Resources and by Outside Agency, on a yearly basis. The Manual of Internal Audit is available with the Company.

#### **12.8.12 Act, Rules, Documents**

- i) Companies Act 2013
- ii) SUUTI Act, 2002
- iii) Income Tax Act 1961
- iv) Goods and Service Tax Act 2017
- v) Shops & Establishment Act
- vi) SEBI Guidelines

#### **12.8.13 Operational Results**

The Revenue from Operations were as follows:

(Rs in crore.)

Particulars	2017-18	2016-17
Sale of Services		
Registrar & Transfer Agents	19.06	18.40
Government Services Dept	314.06	206.02
Infrastructure Dept	4.67	5.77
Total Revenue from Operations	337.79	230.19

#### **12.8.14 Financial Working Results**

(Rs. in crore)

Particulars	2017-18	2016-17
Revenue from Operations	337.79	230.19
Other Income	33.05	26.07
Total Income	370.84	256.26
Total Expenses	221.80	173.11
Profit Before Exceptional items	149.05	83.15
Exceptional items	--	--
Profit Before Tax	149.05	83.15
Tax	49.98	30.76
Profit After Tax	99.07	52.38

#### **12.8.15 Disinvestment (Upto 2017-18)**

Not Applicable

#### **12.8.16 Environment Management**

Not Applicable, However, the Company segregates and disposes off on daily basis, Dry and Wet Waste, to maintain hygienic conditions in Office premises.

#### **12.8.17 Audit Checks**

- i) To examine proper recognition and accounting of Revenue from Services rendered. To examine proper revenue accrual in case of PAN Services.
- ii) In case of PAN Services, Income from Sale of coupons is accounted upon the dispatch of PAN Cards. Income from Service charges is booked net of GST. Commission and Incentives paid to PAN Service Agent Commission against sale of PAN processing amount, is recognized immediately upon receipt of PAN processing amount irrespective of corresponding income accruing from such PAN processing coupon, which is recognized upon dispatch of PAN Card to applicant. To examine the same in Audit.
- iii) To examine whether Upfront Professional fee from hospitals is recognized while processing medical bill from serving Hospitals. To examine whether it is deducted while remitting payment of their Bill and income from bill clearing services under CGHS is recognized as per the contractual terms of the agreement.
- iv) To examine whether in case of ECHS and ESIC, income of bill processing services is recognized on recommendation of medical bill of serving hospitals.
- v) To examine whether Service Income is recognized as per the terms of IT Contracts with Customers when the related services are performed or the agreed milestones are achieved.
- vi) To examine whether Revenue from maintenance contracts is recognized ratably over the period of the contract using the percentage of completion method. When services are performed through an indefinite number of repetitive acts over a specified period of time, whether revenue is recognized on a straight line basis over the specified period.
- vii) To examine whether Revenue from Software Development on a time and material basis is recognized as the services are performed. To examine whether Revenue from fixed price contracts is recognized based on the milestones achieved as specified in the Contracts, on the percentage of completion basis.
- viii) To examine whether Revenue from Annual Maintenance Contracts and Training Revenues are recognized on a pro-rata basis over the period in which such services are rendered.
- ix) In certain projects, a fixed quantum of service or output units is agreed at a fixed price for a fixed term. In such cases, whether Revenue is recognized with respect to the actual output achieved, as a percentage of total contractual revenue.



- x) Whether Revenue from Real Estate Consultancy is recognized on the transfer of all the significant risk and rewards of ownership to the buyers, to examine whether revenue is recognized in respect of sale of properties on the basis of certain percentage of it
- xi) Whether Revenue from project consultancy is recognized on the percentage of project cost at the inception of the project and thereafter whether revenue is recognized on the basis of percentage of completion of work as certified by the engineers i.e., proportion completion method.
- xii) To examine whether Income from Bill Processing from CGHS, ECHS, ESIC etc is as per the respective Agreements.
- xiii) To examine the Contracts in respect of Software Development Contract Work executed, Real Estate consultancy work, maintenance contract work etc.
- xiv) To examine Revenue from Distribution of Mutual Fund Products.
- xv) To examine the Contracts in respect of Project Consultancy work.
- xvi) To examine whether adequate Provision has been made in respect of 13777 bills of various hospitals, stated to have been burnt in fire, for which payments have been made to respective hospitals, but the amount is not recouped by CGHS and is doubtful of recovery.
- xvii) To examine whether adequate provision has been made in respect of bills of various de-empanelled hospitals, for which payments have been made to respective hospitals and the amount is doubtful of recovery.
- xviii) To examine whether there is any non payment pertaining to earlier years on account of discount on early settlement of bills of empanelled hospitals as per MOU entered with CGHS/ECHS/ESIC, pending reconciliation of Accounts.
- xix)** When UTIITSL examines the bills and recommends the specified payments to CGHS, then, as per the Agreement and laid down procedure, the said amount has to be paid to the hospital. Subsequently, if CGHS on re-examination comes to a conclusion that the UTIITSL has recommended for the payment which is of more amount and has paid it as per procedure, in that case, UTIITSL is authorized to recover the difference from the said hospitals. To examine whether the Company has followed the above Procedure for Recovery from Hospitals concerned.

## **12.9 ZENITH SECURITIES AND INVESTMENT LIMITED**

### **12.9.1 Introduction**

Zenith Securities & Investment Limited is a public company domiciled in India and incorporated under Companies Act 1956 on 28 August 1916. The Company is a subsidiary of United India Insurance Company Limited.

As on 31 March 2018, the Holding Company M/s United India Insurance Co Ltd held 69.45 *per cent* Equity in the Company. The Company's Registered Office is at Mumbai. The Company does not have any Subsidiary/Joint Venture/Associate Companies.

The Company is an investment company and the main business is of investing in short or long term investments. The main risk is on the account of the market movements and performance of the Company's shares and Mutual Funds in which investments have been made.

### **12.9.2 Objectives**

The Company's objective and Principal Business Activity of the Company is Investment in Shares and Securities.

### **12.9.3 Activities**

The Company mainly deals in Long Term Investment in Shares and Securities.

### **12.9.4 Organizational Set up**

The Company has a Board of Directors that supervises the overall operation and activities of the Company. Considering the size and the share capital of the committee, the company has not constituted Audit Committee and Nomination & Remuneration Committee. However, the Company has a Corporate Social Responsibility Committee. The Financial Statements of the Company are authenticated by Chairman and two Directors of the Company. The Company has four Directors, of which two Directors are Nominee Directors (nominated by the Board of United India Insurance Company Ltd).

### **12.9.5 Capital Structure**

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 20,000 equity shares of Rs 100 each aggregating to Rs 20,00,000. The Issued, Subscribed, and Paid Up Equity Share Capital as on 31 March 2018 is Rs 20,00,000 comprising of equity 20,000 shares of Rs 100 each fully paid up.

As on 31 March 2018, United India Insurance Co. Ltd held 13,890 Equity Shares of Rs 100 each amounting to Rs 13,89,000 constituting 69.45 *per cent* Equity Holding.

### 12.9.6 Budget and Planning

(Rs in crore)

Years	2015-16	2016-17	2017-18
Particulars	Actual	Actual	Actual
Capital Expenditure	--	--	--
Revenue Expenditure	0.19	0.36	0.32
Revenue/Turnover	1.02	2.18	1.39
Profit for the year	0.26	0.97	0.62

The Company is engaged in Investment activity and has identified Credit, Interest rate and Market Risks as potential risks that may affect the Portfolio of Investments. The Company has been placing the performance of the Portfolio periodically before the Board of Directors as monitoring mechanism. However, the Company does not have a formal Risk Management Policy.

### 12.9.7 Accounting System

The Company has Centralized Accounting system. The financial statements of the Company are prepared in accordance with the generally accepted Accounting principles in India (Indian GAAP) and Accounting Standards as notified under the Companies (Accounting Standards) Rules 2006, and the relevant provisions of the Companies Act, 1956 and 2013. The Accounts are prepared on Historical Cost basis.

### 12.9.8 Manpower Analysis

The Company had only one Managerial employee as on 31 March 2018.

### 12.9.9 MOU Targets and Achievements

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

### 12.9.10 Computerization

The Company uses Tally Accounting Software.

### 12.9.11 Internal Audit

The Company does not conduct internal audit due to size and nature of business.

### 12.9.12 Act, Rules, Documents

- a) The Companies Act 2013 and the rules made thereunder.
- b) Rules, Regulations and Bye-laws of BSE and NSE
- c) Circulars issued by SEBI, BSE and NSE from time to time
- d) RBI Guidelines
- e) SEBI Guidelines and circulars

### 12.9.13 Operational Results

The Revenue from Operations were as follows:

(Rs in crore)

Particulars	2017-18	2016-17
Dividend Income from long term investments	0.88	0.86
Long Term Capital Gain on Sale of Shares	0.17	1.02
Long Term Capital gain on Redemption of Mutual Fund	0.34	0.30
Total Revenue from Operations	1.39	2.18

### 12.9.14 Financial Working Results

(Rs. in crore)

Particulars	2017-18	2016-17
Revenue from Operations	1.39	2.18
Other Income	-	--
Total Income	1.39	2.18
Total Expenses	0.32	0.36
Profit Before Exceptional items	1.07	1.82
Exceptional items	--	--
Profit Before Tax	1.07	1.82
Tax	0.10	0.22
Profit After Tax	0.97	1.60

### 12.9.15 Disinvestment (Upto 2017-18)

Not Applicable

### 12.9.16 Environment Management

Not Applicable

### 12.9.17 Audit Checks

- i) To examine the Investment Policy of the Company and whether the Company's Investments in short and long term investments are as per the said Policy.
- ii) To examine Risk Management Policy of the Company so as to effectively safeguard the Company's interest on account of market movements and the performance of the Company's shares and Mutual Funds in which the investments of the Company are made.
- iii) Whether in respect of investments made by the Company in Unquoted equity and preference shares, hundred *per cent* provision has been made for diminution in value and shown as a deduction from investment.
- iv) Whether there exists a mechanism for periodical review of investments made by the Company in Equity and Debt Instruments at the Board level.

- v) To verify the records relating to buying and selling of securities with reference to rates prevailing at the particular time and date as per quotations available and ensure that the dealings were correctly made.
- vi) To examine liability arising on account of Subjudice Suit in the Court of Law in respect of eviction proceedings against the Company by the Landlord for eviction of premises occupied by the Company.

## 12.10 STOCK HOLDING SECURITIES IFSC LIMITED

### 12.10.1 Introduction

The Board of Stock Holding Corporation of India Ltd. (SHCIL), at its Meeting held on 23 December 2016, had approved the incorporation of a wholly owned subsidiary, viz., Stock Holding IFSC Limited, to be set up at Gujarat International Finance Tec City (GIFT City), Gandhinagar (GIFT SEZ), subject to Industrial Finance Corporation of India (IFCI)'s approval. IFCI, vide letter dated 3 April 2018, had communicated its approval thereto. The Company is the wholly owned subsidiary of SHCIL. With effect from 28 March 2014, SHCIL, the Holding Company, has become a subsidiary of IFCI Ltd, and hence, IFCI is the Ultimate Holding Company of Stock Holding Securities IFSC Ltd.

The Company (Stock Holding IFSC Ltd) has been incorporated on 16 July 2018.

The Registered Office of the Company is at GIFT City, Gandhinagar, Gujarat. The Company does not have any Branch/Unit/Office other than the Registered Office.

The Company is under the Administrative Control of Department of Financial Services, Ministry of Finance, Government of India.

The Company has applied to SEBI (Securities & Exchange Board of India) for membership as Professional Clearing Member and would commence operations upon receipt of requisite approvals. The Company would offer services in accordance with SEBI (IFSC) Regulations, 2015, and would include Derivative Clearing and other financial services to all eligible investors as may be permissible to invest at IFSC, GIFT City.

### 12.10.2 Objectives

The Objects of the Company as per the Memorandum of Association are as follows:

- 1) To carry on the business at IFSC (International Financial Service Centre) Unit in accordance with the SEBI (IFSC) Guidelines, 2015 (including any amendments therein), to act as intermediary as per such guidelines in IFSC i.e, Professional Clearing Member (PCM), Trading Member (TM), Proprietary Trading, Stock Broking, Research Advisory, Custody and Depository Participant Services, Portfolio Manager, Investment Advisor.
- 2) To deal in any global exchanges including IFSC in shares, stocks, debentures, debentures stock, bonds, depository receipts, hedge instruments, warrants, certificates, options, futures, money market securities, marketable or non marketable securities, derivatives and other instruments or securities issued or guaranteed by any Government, semi Government, or any other authority or to deal in other permissible securities as prescribed in such guidelines or as may be amended from time to time.
- 3) To carry financial services activities, as permitted under Special Economic Zones Act 2005 read with Special Economic Zone Rule 2006, and any matter considered

necessary in furtherance thereof, in accordance with license to operate, from International Financial Services Centre located in an approved multi services Special Economic Zone, granted by the Reserve Bank of India or the Securities and Exchange Board of India or the Insurance Regulatory and Development Authority of India.

### **12.10.3 Activities**

The Company, a wholly owned Subsidiary of Stock Holding Corporation of India, was incorporated on 16.07.2018. Stock Holding received SEBI approval for Capitalization of Subsidiary on 29.11.2018, and accordingly, the Capitalization was completed on 09.01.2019.

Post Capitalization, having achieved the minimum required Net worth of Rs 10 crore, the Company has, on 26.02.2019, applied to SEBI, through India International Clearing Corporation Ltd, the Clearing Corporation of India Inx Exchange for membership as a Professional Clearing Member on the exchanges at IFSC, Gift City. Any operations by the Company can be commenced only after receipt of the membership. On account of above, as at 31 March 2019, the Company is yet to commence any business operations.

The Company proposed (August 2018) to commence its business operations at International Financial Services Centre (IFSC) initially with Professional Clearing member (PCM) services. The Company was in the process of making an application for setting up of ISFC unit for providing financial services as Capital Market Intermediary in IFSC in accordance with the SEBI (IFSC) Guidelines 2015, pursuant to Special Economic Zones Act 2005 and Rules thereunder and in accordance with SEBI (IFSC) Guidelines, 2015, within the jurisdiction of Development Commissioner KASEZ-SEZ.

### **12.10.4 Organizational Set up**

The three senior executives of Stock Holding have been appointed as first Directors of the Company. The Company also has Vice President & Company Secretary. The Company would be appointing the Key Managerial Personnel (KMP) shortly (as on November 2018) pursuant to receipt of SEBI NOC (No Objection Certificate).

### **12.10.5 Capital Structure**

The Authorized Equity Share Capital of the Company as on 16.07.2018 is 1,50,00,000 equity shares of Rs 10 each aggregating to Rs 15 crore.

As on 31.03.2019, the Issued, Subscribed and Paid Up Capital was 1,50,00,000 Equity Shares of Rs 10 each aggregating to Rs 15 crore. Stock Holding Corporation of India held all the 1,50,00,000 Equity Shares in the Company constituting 100 *per cent* Equity Holding.

### **12.10.6 Budget and Planning**

The Company is newly incorporated. The Company was yet to commence its operations as at August 2018.

#### **12.10.7 Accounting System**

As per Guideline 19 of SEBI (IFSC) Guidelines, the entities issuing and/or listing their debt securities in IFSC shall prepare their statement of accounts in accordance with IFRS/US GAAP or accounting standards as applicable to them in their place of incorporation. In case an entity does not prepare its statement of accounts in accordance with IFRS/US GAAP, a quantitative summary of significant differences between national accounting standards and IFRS shall be prepared by such entity and incorporated in the relevant disclosure documents to be filed with the exchange.

The Financial Statements of the Company are prepared in accordance with Indian Accounting Standards (Ind AS) under Historical Cost on accrual basis. The Ind AS are prescribed u/s 133 of the Companies Act 2013, read with Rule 3 of the Companies (Indian Accounting Standards) Rules, 2015, and the Companies (Indian Accounting Standards) Amendment Rules, 2016.

#### **12.10.8 Manpower Analysis**

The Company is newly incorporated. The Company was yet to commence its operations as at August 2018/March 2019.

#### **12.10.9 MOU Targets and Achievements**

Not Applicable since the Company is not a Central Public Sector Enterprise.

#### **12.10.10 Computerization**

The Company is newly incorporated. The Company was yet to commence its operations as at August 2018/March 2019. The Company does Process Accounting Transactions through TALLY ERP System.

#### **12.10.11 Internal Audit**

The Internal Auditors of the Company were yet to be appointed (August 2018) by the Company.

#### **12.10.12 Act, Rules, Documents**

1. Companies Act 2013
2. Securities' Contract Regulations Act 1956
3. The Securities Contracts Regulations (Stock Exchanges and Clearing Corporation) Regulations, 2012
4. Depositories Act 1996
5. SEBI (International Financial Services Centres) Guidelines, 2015
6. Special Economic Zones (SEZ) Act 2005 and the Rules framed thereunder

#### **12.10.13 Operational Results**



The Company was yet to commence its operations as at August 2018/March 2019, pending regulatory Approvals. The Company proposed (August 2018) to commence its business operations at International Financial Services Centre (IFSC) initially with Professional Clearing Member (PCM) services

#### **12.10.14 Financial Working Results**

The Company was yet to commence its operations as at August 2018/March 2019, pending Regulatory Approvals. The Company proposed (August 2018) to commence its business operations at International Financial Services Centre (IFSC) initially with Professional Clearing Member (PCM) services. As on 31 March 2019, the Company's Total Revenue was Nil, whereas the total expenditure was Rs 52.06 lakh. The Company posted Net Loss After Tax of Rs 50.50 lakh for the Year Ending (Y/E) 31.03.2019.

#### **12.10.15 Environment Management**

Not Applicable

#### **12.10.16 Audit Checks**

1. To examine compliance with the Rules, Regulations and Guidelines issued by SEBI in respect of SEBI (IFSC) Guidelines
2. To examine compliance with Rules and Regulations in respect of SEZs
3. To examine commencement of Business operations in accordance with the Memorandum of Association Objects Clause
4. To examine compliance with Securities Contracts Regulations (Stock Exchanges and Clearing Corporation) Regulations, 2012

## CHAPTER XIII

### ALTERNATIVE INVESTMENT FUND

The Office of The Director General of Commercial Audit and *ex-Officio* Member, Audit Board-I, Mumbai, conducts the Audit of the following Alternative Investment Funds (AIFs)/Venture Capital Funds (VCFs)

1. SIDBI Venture Capital Ltd
2. SBI Cap Ventures Ltd
3. NAB Ventures Ltd

“**Alternative Investment Fund**” means any fund established or incorporated in India in the form of a trust or a company or a limited liability partnership or a body corporate which,

- i) is a privately pooled investment vehicle which collects funds from investors, whether Indian or foreign, for investing it in accordance with a defined investment policy for the benefit of its investors; and
- ii) is not covered under the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, Securities and Exchange Board of India (Collective Investment Schemes) Regulations, 1999 or any other regulations of the Board to regulate fund management activities.

The following shall not be considered as Alternative Investment Fund for the purpose of SEBI regulations,

- (i) family trusts set up for the benefit of ‘relatives’ as defined under Companies Act, 2013
- (ii) ESOP Trusts set up under the Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 or as permitted under Companies Act, 2013
- (iii) employee welfare trusts or gratuity trusts set up for the benefit of employees;
- (iv) ‘holding companies’ as defined under sub section 46 of section 2 of Companies Act, 2013;
- v) other special purpose vehicles not established by fund managers, including securitization trusts, regulated under a specific regulatory framework;
- (vi) funds managed by securitisation company or reconstruction company which is registered with the Reserve Bank of India under Section 3 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002; and
- (vii) any such pool of funds which is directly regulated by any other regulator in India.

Alternative Investment Funds have to seek registration with SEBI in one of the following categories

**Category I Alternative Investment Fund**” which invests in start up or early stage ventures or social ventures or SMEs or infrastructure or other sectors or areas which the government or regulators consider as socially or economically desirable shall include venture capital funds,

SME Funds, social venture funds, infrastructure funds and such other Alternative Investment Funds as may be specified;

**Category II Alternative Investment Fund**” which does not fall in Category I and III and which does not undertake leverage or borrowing other than to meet day to day operational requirements and as permitted in SEBI Regulations.

**“Category III Alternative Investment Fund”** which employs diverse or complex trading strategies and may employ leverage including through investment in listed or unlisted derivatives.

For the purpose of this clause, Alternative Investment Funds such as hedge funds or funds which trade with a view to make short term returns or such other funds which are open ended and for which no specific incentives or concessions are given by the government or any other Regulator shall be included.

For the purpose of the grant of certificate to an applicant, the Board shall consider the following conditions for eligibility, namely

- (a) The Memorandum of Association in case of a Company; or the Trust Deed in case of a Trust; or the Partnership Deed in case of a limited liability partnership permits it to carry on the activity of an Alternative Investment Fund;
- (b) The applicant is prohibited by its memorandum and articles of association or trust deed or partnership deed from making an invitation to the public to subscribe to its securities;
- (c) In case the applicant is a Trust, the instrument of trust is in the form of a deed and has been duly registered under the provisions of the Registration Act, 1908;
- (d) In case the applicant is a limited liability partnership, the partnership is duly incorporated and the partnership deed has been duly filed with the Registrar under the provisions of the Limited Liability Partnership Act, 2008;
- (e) In case the applicant is a body corporate, it is set up or established under the laws of the Central or State Legislature and is permitted to carry on the activities of an Alternative Investment Fund;
- (f) The key investment team of the Manager of Alternative Investment Fund has adequate experience, with at least one key personnel having not less than five years experience in advising or managing pools of capital or in fund or asset or wealth or portfolio management or in the business of buying, selling and dealing of securities or other financial assets and has relevant professional qualification;
- (g) the Manager or Sponsor has the necessary infrastructure and manpower to effectively discharge its activities;
- (h) the applicant has clearly described at the time of registration the investment objective, the targeted investors, proposed corpus, investment style or strategy and proposed tenure of the fund or scheme.

## **Investment Strategy**

All Alternative Investment Funds shall state investment strategy, investment purpose and its investment methodology in its placement memorandum to the investors.

Any material alteration to the fund strategy shall be made with the consent of at least two thirds of unit holders by value of their investment in the Alternative Investment Fund.

### **Investment in Alternative Investment Fund**

Investment in all categories of Alternative Investment Funds shall be subject to the following conditions

- (a) The Alternative Investment Fund may raise funds from any investor whether Indian, foreign or non resident Indian by way of issue of units;
- (b) Each scheme of the Alternative Investment Fund shall have corpus of at least twenty crore rupees;
- (c) The Alternative Investment Fund shall not accept from an investor, an investment of value less than one crore rupees
- (d) The Manager or Sponsor shall have a continuing interest in the Alternative Investment Fund of not less than two and half percent of the corpus or five crore rupees, whichever is lower, in the form of investment in the Alternative Investment Fund and such interest shall not be through the waiver of management fees

Provided that for Category III Alternative Investment Fund, the continuing interest shall be not less than five percent of the corpus or ten crore rupees, whichever is lower.

- (e) The Manager or Sponsor shall disclose their investment in the Alternative Investment Fund to the investors of the Alternative Investment Fund;
- (f) no scheme of the Alternative Investment Fund shall have more than one thousand investors
- (g) The fund shall not solicit or collect funds except by way of private placement

**Alternative Investment Fund shall raise funds through private placement by issue of information memorandum or placement memorandum, by whatever name called.**

### **General Investment Conditions**

**Investments by all categories of Alternative Investment Funds shall be subject to the following conditions**

- (a) Alternative Investment Fund may invest in securities of companies incorporated outside India subject to such conditions or guidelines that may be stipulated or issued by the Reserve Bank of India and the Board from time to time;
- (b) Co investment in an investee company by a Manager or Sponsor shall not be on terms more favourable than those offered to the Alternative Investment Fund;
- (c) Category I and II Alternative Investment Funds shall invest not more than twenty-five percent of the investable funds in one Investee Company;

(d) Category III Alternative Investment Fund shall invest not more than ten percent of the investable funds in one Investee Company

(e) Alternative Investment Fund shall not invest in associates except with the approval of seventy-five percent of investors by value of their investment in the Alternative Investment Fund;

(f) Uninvested portion of the investable funds may be invested in liquid Mutual Funds or bank deposits or other liquid assets of higher quality such as Treasury bills, CBLOs, Commercial Papers, Certificates of Deposits, etc. till deployment of funds as per the investment objective

## **GENERAL OBLIGATIONS AND RESPONSIBILITIES AND TRANSPERANCY**

### **General Obligations**

- (1) All Alternative Investment Funds shall review policies and procedures, and their implementation, on a regular basis, or as a result of business developments, to ensure their continued appropriateness.
- (2) The Sponsor or Manager of Alternative Investment Fund shall appoint a custodian registered with the SEBI (Board) for safekeeping of securities if the corpus of the Alternative Investment Fund is more than five hundred crore rupees
- (3) All Alternative Investment Funds shall inform the SEBI (Board) in case of any change in the Sponsor, Manager or designated partners or any other material change from the information provided by the Alternative Investment Fund at the time of application for registration.
- (4) In case of change in control of the Alternative Investment Fund, Sponsor or Manager, prior approval from the Board shall be taken by the Alternative Investment Fund.
- (5) The books of accounts of the Alternative Investment Fund shall be audited annually by a qualified auditor.

### **Conflict of Interest**

The Sponsor and Manager of the Alternative Investment Fund shall act in a fiduciary capacity towards its investors and shall disclose to the investors, all conflicts of interests as and when they arise or seem likely to arise.

### **All Alternative Investment Funds shall ensure transparency and disclosure of information to investors on the following**

- a) Financial, risk management, operational, portfolio, and transactional information regarding fund investments shall be disclosed periodically to the investors;
- b) Any fees ascribed to the Manager or Sponsor; and any fees charged to the Alternative Investment Fund or any investee company by an associate of the Manager or Sponsor shall be disclosed periodically to the investors
- c) any inquiries/ legal actions by legal or regulatory bodies in any jurisdiction, as and when occurred;

- d) any material liability arising during the Alternative Investment Fund's tenure shall be disclosed, as and when occurred;
- e) any breach of a provision of the placement memorandum or agreement made with the investor or any other fund documents, if any, as and when occurred;
- f) change in control of the Sponsor or Manager or Investee Company.
- g) Alternative Investment Fund shall provide at least on an annual basis, within 180 days from the year end, reports to investors as may be applicable to the Alternative Investment Fund

The Alternative Investment Fund shall provide to its investors, a description of its valuation procedure and of the methodology for valuing assets.

Category I and Category II Alternative Investment Funds shall undertake valuation of their investments, at least once in every six months, by an independent valuer appointed by the Alternative Investment Fund

### **Maintenance of Records**

The Manager or Sponsor shall be required to maintain following records describing

- (a) the assets under the scheme/fund;
- (b) valuation policies and practices;
- (c) investment strategies;
- (d) particulars of investors and their contribution;
- (e) rationale for investments made.

The records shall be maintained for a period of five years after the winding up of the fund.

## 13.1 SIDBI VENTURE CAPITAL LIMITED

### 13.1.1 Introduction

**SIDBI Venture Capital Limited** was incorporated on 19<sup>th</sup> July 1999 under The Company Act 1956. It is wholly owned subsidiary of Small Industries Development Bank of India (SIDBI), the Holding Company. The Company's Registered Office is at Navi Mumbai.

The Company was established to carry out the business of setting up, advising and managing venture capital funds. SIDBI Trustee Company Ltd (STCL), Trustee to the National Venture Fund for Software & Information Technology Industry (NFSIT), SME Growth Fund (SGF) (first unit scheme of SIDBI SME Venture Fund) , India Opportunities Fund (IOF) , Samriddhi Fund (SF) , TEX Fund (TF) (unit scheme of LaghuVikas Trust), West Bengal MSME VC Fund (WB Fund) (unit scheme of Biswa Bangla Silpa trust) and Maharashtra State Social Venture Fund (MS Fund) (unit scheme of Maharashtra LaghuVikas Trust) has appointed SVCL to act as the Investment Manager of NFSIT, SGF, IOF, SF, TF, WB Fund and MS Fund by way of Investment Management Agreements which were executed between the two Companies in August 1999, July 2004, September 2010, January 2013, February 2014, September 2015 and October 2015 respectively.

### 13.1.2 Objectives

The main objective of the Company is managing Venture Capital Funds and Alternative Investment Funds.

The following are the Objectives of various Funds

Sl No	Name of the Fund	Objectives of the Fund	Size of Fund (Corpus) Rs in crore
1	National Venture Fund for Software and Information technology Industry	To provide venture capital support by way of equity and equity linked instruments to unlisted SME enterprises in the areas of software and information technology	100
2	SME Growth Fund	To provide Growth Capital support, primarily to unlisted SME enterprises across diverse sectors by way of equity and equity linked instruments	500
3	India Opportunities Fund	To meet growth capital needs of India's growing and unlisted MSMEs operating in emerging sectors such as educational services, IT/ITES, light engineering, clean tech, agro based industries, logistics, infrastructure etc	421.30
4	Samriddhi Fund	To promote early stage/growth stage and sustainable social enterprises which provide economic, social or environmental benefits and can deliver both financial and social returns in 8 low Income States (LIS) , namely, Bihar, Uttar Pradesh, Madhya	432.99

		Pradesh, Odisha, Chattisgarh, Jharkhand, Rajasthan and West Bengal	
5	Tex Fund	To invest in small enterprises, as defined under MSME Act 2006, and as amended from time to time, in the textile sector, more particularly related to Powerloom Sector	40.83
6	West Bengal MSME VC Fund	To invest in start-ups, emerging or early growth stage investments in West Bengal MSMEs both manufacturing and services	144.00
7	Maharashtra State Social Venture Fund	To identify and invest in scalable business ventures including innovative business model or new products and technologies which would have potential to provide social benefits (economic and/or social and/or environmental) to the people of Maharashtra	116.67

### 13.1.3 Activities

The Company was established to carry out the business of setting up, advising and managing Venture Capital Funds. The following was the status of Activities thereof as on March 2018

Sl No	Name of the Fund	Sector	Commitments (No. of Companies)	Investments (No. of Companies)	Exits (No. of Companies)	Size of Fund (Corpus) Rs in crore	Distribution (Rs in crore)
1	National Venture Fund for Software and Information technology Industry (SEBI Registration Date-6.9.1999)	IT industries	31	31	27 (Full) 1 (Partial) 2 (Write off)	100	196.47
2	SME Growth Fund (SEBI Registration Date- 2.9.2004)	Sector Agnostic	25	25	15 (Full) 2 (Partial)	500	369
3	India Opportunities Fund (SEBI Registration Date- 2.9.2004)	Sector Agnostic	31	30	2 (Full) 3 (Partial)	421.30	46.94
4	Samriddhi Fund (SEBI Registration Date- 27.2.2013)	Social Venture Fund	28	17	--	432.99	---
5	Tex Fund (SEBI Registration Date- 9.6.2014)	Textile Sector	6	4	--	40.83	--
6	West Bengal MSME VC Fund (SEBI Registration Date-9.11.2015)	Sector Agnostic	6	3	--	144.00	--
7	Maharashtra State Social Venture Fund (SEBI Registration Date- 10.12.2015)	Sector Agnostic Fund	7	6	--	116.67	--

### 13.1.4 Organizational Set up

SVCL is a Board managed Company. As on 31 March 2018, the total strength of the Board of Directors was eight Directors, comprising one Whole Time Director, and



seven Non Executive Directors. The Board of Directors of the Company consist of eminent persons with considerable professional expertise and experience in business and industry, finance, management etc. The Company's Chairman has been nominated by SIDBI (Small Industries Development Bank of India).

Two Senior Vice Presidents (Sr VP) and two Vice Presidents (VP) (team leaders) report to the MD & CEO. In addition to venture capital investment function, the Sr. VPs and VPs each have other responsibilities such as accounts, administration, premises, HR, company secretarial and IT etc. functions. They are supported by Assistant Vice President (AVP), Manager, Investment Principal, Senior Investment Associates and other Investment Associates.

The Company's Key Managerial Personnel are Whole Time Director designated as Managing Director and Chief Executive Officer, Senior Vice President & Chief Financial Officer, and Vice President & Company Secretary.

The Authorized Signatories to the Company's Financial Statements include one Whole Time Director, one Director, Senior Vice President and Chief Financial Officer and Vice President and Company Secretary.

### 13.1.5 Capital Structure

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 30,00,000 equity shares of Rs 100 each aggregating to Rs 30 crore. The Issued, Subscribed, and Paid Up Equity Share Capital as on 31 March 2018 is Rs 15 crore comprising of 15,00,000 equity shares of Rs 100 each fully paid up.

As on 31 March 2018, SIDBI held 14,99,994 equity shares of Rs 10 each in the Company, comprising 99.99 *per cent* of the equity holding in the Company.

### 13.1.6 Budget and Planning

(Rs in crore )

Years	2015-16		2016-17		2017-18	
Particulars	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	Nil	0.07	Nil	0.01	Nil	0.002
Revenue Expenditure	8.85	6.79	7.07	7.20	8.94	7.51
Revenue/Turnover	15.66	15.79	17.04	17.22	16.59	16.50
Profit for the year	4.60	6.58	6.27	5.58	5.05	5.82

### 13.1.7 Accounting System

The Company has Centralized Accounting system. The Financial Statements of the Company are prepared under historical cost convention, in accordance with Generally Accepted Accounting Principles in India comprising the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India, and as per the provisions of Section 133 of the Companies Act, 2013, on accrual basis, in accordance with Companies (Accounting Standards) Rules, 2006, as amended.

### 13.1.8 Manpower Analysis

As on 31 March 2018, the Company had 14 employees, consisting of 5 nos of Managerial (SVP-2, VP-2, AVP-1) and 9 nos of Non Managerial employees.

### 13.1.9 MOU Targets and Achievements

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

### 13.1.10 Computerization

The ERP/IT Systems used in the Company are MS Office 2016 and Tally.

### 13.1.11 Internal Audit

Internal Audit is conducted by an Outside Agency on Quarterly basis. Manual of Internal Audit is not available.

### 13.1.12 Act, Rules, Documents

- i) Companies Act 2013 and the applicable Rules
- ii) Income Tax Act 1961, and the applicable Rules
- iii) Central GST Act, 2017 and the applicable Rules
- iv) SIDBI Act, 1989
- v) SEBI Regulations on Alternative Investment Funds/Venture Capital Funds – SEBI (AIF) Regulations 2012

### 13.1.13 Operational Results

The Revenue from Operations were as follows:

(Rs. in crore)

Particulars	2017-18	2016-17
Management Fees	14.83	15.41
Sitting Fees from Investee Companies	0.01	0.01
Total Revenue from Operations	14.84	15.42

The Break-up of Management Fees from Funds under Management is as follows:

(Rs in crore )

Particulars	2017-18	2016-17
India Opportunities Fund (IOF)	4.66	6.31
Samriddhi Fund (SF)	4.12	2.91
Tex Fund (TF)	0.81	0.81
West Bengal MSME VC Fund (WBF)	2.88	2.96
Maharashtra State Social Venture Fund (MSF)	2.33	2.38
Total Management Fee	14.83	15.41

### 13.1.14 Financial Working Results

(Rs. in crore)

Particulars	2017-18	2016-17
Revenue from Operations	14.84	15.42

Other Income	1.66	1.79
Total Income	16.50	17.21
Total Expenses	7.50	7.20
Profit Before Exceptional items	8.99	10.01
Exceptional items/Prior Period items	0	0.58
Profit Before Extra Ordinary items	8.99	9.42
Extra-Ordinary items	0.16	0.60
Profit Before Tax	8.83	8.82
Tax	2.81	3.03
CSR Contribution	0.20	0.20
Profit After Tax	5.81	5.58

### **13.1.15 Disinvestment (Upto 2017-18)**

Not Applicable

### **13.1.16 Environment Management**

Not Applicable

### **13.1.17 Audit Checks**

- i) To examine whether the Company realizes Revenue by way of Management Fee on a Quarterly basis as stipulated in the Agreements with respective funds, from the Venture Capital Funds/AIFs managed by it at the agreed Rates. The Agreed Rates for India Opportunities Fund (IOF) during the commitment period are 1.50 *per cent* per annum (plus applicable taxes) of drawable corpus; Samriddhi Fund at the rate of 1.50 *per cent* (plus taxes) of the portion of aggregate Capital Commitments invested in Portfolio Investments as adjusted for complete/partial write offs; TEX Fund at the rate of 2 *per cent* per annum (plus taxes) of the drawable corpus; West Bengal MSME VC Fund at the rate of 2 *per cent* per annum (plus taxes) of the drawable corpus; Maharashtra State Social Venture Fund at the rate of 2 *per cent* per annum (plus taxes) of the drawable corpus. The charging of the Management Fee in respect of National Venture Fund for Software and Information Industry (NFSIT) has been stopped from 12 August 2012. Similarly, the charging of the Management Fee in respect of SME Growth Fund has been stopped from 20 September 2014.
- ii) To examine and verify the drawable corpus of various Funds on the basis of which the Management Fee is charged by the Company.
- iii) To examine whether the objectives of various Venture Capital Funds have been realized
- iv) To examine the Distribution of Funds to various Venture Capital funds/AIFs
- v) To examine the reasons for Exits of Companies from VCFs/AIFs
- vi) During FY 2013, pursuant to the directives from the Ministry of Finance, Government of India, SVCL had purchased 46 residual investments/scrips of Industrial Investment Bank of India (IIBI) at a Nominal value of Re 1 each. To examine the relevant records, and the financial implication thereof. The Company

recognizes income at the rate of 5 *per cent* of the Net Profits received from sale of investments assigned by IIBI. To examine the same in Audit.

vii) To examine whether the Company has adequately provided for diminution in the value of Investments for Class A Units of India Opportunities Fund (IOF) and Class B units of IOF and SME Growth Fund

viii) To examine compliance with SEBI Guidelines in respect of AIF/VCFs (Alternate Investment Funds/Venture Capital Funds).

## **13.2 SBICAP VENTURES LIMITED**

### **13.2.1 Introduction**

SBI CAP ventures limited was established on 10 November 2005 as a wholly owned subsidiary of the SBI Capital Markets Limited. The Company's Registered Office is at Mumbai. The Company is in the business of alternative asset management. The Company manages the Neev Fund, which is registered with SEBI as an AIF category I Infrastructure Fund.

Neev Fund is the outcome of a partnership between State Bank of India and UK's Department for International Development (DFID). It is an Infrastructure private equity fund focused on creating sustainable development. The fund provides growth capital to companies operating in India with a focus on providing infrastructure services such as road, renewable power, education, agro infrastructure, water and waste management & healthcare to eight low income states. The Neev Fund had committed Rs. 207.3 crore across four portfolio companies as on 31 March 2018.

### **13.2.2 Objectives**

The objective of the Company is to provide growth capital to companies operating in India with a focus on providing infrastructure services such as roads, renewable power, education, agro infrastructure, water, waste management and healthcare to eight low income states.

Further, the Company is in the process to set up new fund under Affordable Housing segment. The Principal Business Activities of the Company are Fund Management Activities, constituting 100 *per cent* of the Turnover of the Company as on 31 March 2018.

### **13.2.3 Activities**

SBICAP Ventures Limited (the Company) manages the Neev Fund (which was launched in 2015 and is registered with SEBI as a Category I Infrastructure Fund). It is also a Sponsor/Contributor to the Fund (13.54 *per cent*). The Investment is made from this Fund in renewable energy, agri logistics, dairy and education sectors on low income States in India namely Rajasthan, Uttar Pradesh, Madhya Pradesh, Bihar, Chhattisgarh, Jharkhand, Odisha and West Bengal – The "Target States".

### **13.2.4 Organizational Set up**

The overall supervision of the activities and operations of the Company vests with the Board of Directors. The Company has further constituted functional committees such as the Audit Committee and Nomination & Remuneration Committee that report directly to the Board. The Company's Board of Directors comprised of Chairman, Whole Time Director & Chief Executive Officer (CEO), one Additional Director, three Nominee Directors of SBI Capital Market Ltd., and two Independent Directors.

To enable efficient execution of the day to day operations of the Company, the necessary powers are delegated by the Board to the Whole Time Director & Chief Executive Officer

### 13.2.5 Capital Structure

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 10 crore equity shares of Rs 10 each aggregating to Rs 100 crore. The Issued, Subscribed, and Paid Up Equity Share Capital as on 31 March 2018 is Rs 39,27,79,170 (Rs 39.27 crore) comprising of 3,92,77,917 equity shares of Rs 10 each fully paid up.

SBI Capital Markets Ltd along with its Nominees holds 100 *per cent* Equity Share Capital of the Company as on 31 March 2018.

### 13.2.6 Budget and Planning

(Rs in crore )

Years	2015-16		2016-17		2017-18	
Particulars	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	-	--	--	--	--	--
Revenue Expenditure	7.52	2.33	6.04	4.03	5.21	3.81
Revenue/Turnover	6.60	7.07	7.39	7.93	8.04	7.66
Profit for the year Before Tax	(0.92)	4.74	1.35	3.90	2.83	3.85

### 13.2.7 Accounting System

The Company uses Tally ERP 9 system for the upkeep and maintenance of accounts but the system is not centralized. The Company while maintaining its accounts and preparing financial statements observes the Indian generally accepted accounting principles (Indian GAAP), the Accounting standards applicable in India and other relevant provisions of the Companies Act 2013.

### 13.2.8 Manpower Analysis

The Company had 6 employees as on 31 March 2018, all of which are managerial employees and had no non-managerial employees as on date.

### 13.2.9 MOU Targets and Achievements

Not Applicable, since the Company is not a Central Public Sector Enterprise.

### 13.2.10 Computerization

The Company has Tally ERP-9 system. The IT system audited in 2016-17 is Security Hardware

### 13.2.11 Internal Audit

The internal audit of the Company is under the functional procedure of the Audit Committee. The internal audit is conducted by the Company by engaging the services of professional Chartered Accountant firms. The internal audit is executed by the

external agency for the Company on a quarterly basis. The Manual of Internal Audit is not available with the Company.

### 13.2.12 Act, Rules, Documents

- a) Companies Act 2013/Rules/Notifications
- b) SEBI Alternative Investment Funds (AIF) Regulations, 2012
- c) SEBI Foreign Venture Capital Regulations, 2000
- d) Income Tax Act 1961 and the applicable Rules
- e) Central GST Act 2017 and the applicable Rules

### 13.2.13 Operational Results

The Revenue from Operations were as follows:

(Rs. in crore)

Particulars	2017-18	2016-17
Base Management Fees	7.04	7.04
Total Revenue from Operations	7.04	7.04

### 13.2.14 Financial Working Results

(Rs. in crore)

Particulars	2017-18	2016-17
Revenue from Operations	7.04	7.04
Other Income	0.62	0.89
Total Income	7.66	7.93
Total Expenses	3.81	4.02
Profit Before Exceptional items	3.84	3.90
Exceptional items	--	--
Profit Before Tax	3.84	3.90
Tax	1.21	1.29
Profit After Tax	2.63	2.60

### 13.2.15 Disinvestment (Upto 2017-18)

Not Applicable

### 13.2.16 Environment Management

The Company is rendering asset management services, environment impact of which is minimal. The Company has appointed ESG Officer who ensures environment risk management aspects are adhered to and whether any positive impact is generated on the environmental front.

### 13.2.17 Audit Checks

- i) To examine the Performance and Management of the Neev Fund, registered with SEBI, as an Alternate Investment Fund (AIF)- Category-I Infrastructure Fund. To examine the growth capital provided by the Fund to Companies operating in India and to further examine whether the focus was on providing infrastructure services such as roads, renewable power, education, agro

infrastructure, water and waste management and healthcare to eight low income states.

- ii) As on 31 March 2018, Neev Fund had committed Rs 207.3 crore across four Portfolio Companies. To examine compliance with Regulatory guidelines in respect of the Fund so committed.
- iii) The Board of Directors of the Company, at Meeting held on 11 January 2017, had approved various Policies for the Company and Neev Fund. To examine compliance with the said Policies.
- iv) To examine the progress made by the Company in respect of setting up of new Fund under Affordable Housing segment.
- v) To examine compliance with SEBI Regulations in respect of AIFs
- vi) To check whether the Company is working as per the Objects as set out in the Memorandum and Articles of Association.
- vii) To check whether the Company is Managing Funds wisely and the transactions are in the carried out in the best interest of the Company
- viii) To verify Revenue Income /Base Management Fees
- ix) For the purpose of making Investments with the interested/proposed investors, the Company appoints/hires various Consultants for carrying out Due Diligence relating to Financial and Tax, Commercial, Environmental Social and Governance –ESG and background check matters .The main role of Consultant is to submit the Due Diligence Report to the Company for the respective matters .The Company appointed Consultants for the Investee Company namely KLYNVELD PEAT MARWICK GOERDLER (KPMG), Platinum Patterns, Ernst &Young LLP, Deloitte, Entura etc .for various Due Diligence matters during the period 2015-16 to 2017-18. Audit to scrutinize the records of the hiring/appointment of the Consultants.
- x) To verify as to whether any documentation has been maintained in respect of the method/procedure for appointment of Consultants.
- xi) To verify the compliance with the Procurement Policy which clearly states that ‘the consultants for specific deal shall be proposed by the Principal Investment Officer )either from a panel of consultants or on the basis of competitive quotes or on the basis of past experience.’
- xii) Whether the Company has devised a mechanism to ensure that documentation is maintained to ensure the fairness and transparency in awarding the work of Consultancy since it may further get other “Funds” to be operated in future.
- xiii) The Organisation has undertaken various procurement Contracts for various services such as IT, Management and Industry Research Services. To examine the compliance with the Company’s Policy for Procurement which elucidates that a minimum of three quotes are necessary which would be done after the Chief



Operating Officer (COO) submits the list of vendors and services providers to the Chief Investment Officer (CIO) for review. In case of procurement value less than two lakh rupees, then the approval of CIO is required and further the COO in consultation with CIO shall devise the methodology of procurement. Audit to examine The Company's Procurements as per Procurement Policy and General Financial Rules.

### **13.3 NAB VENTURES LIMITED**

#### **13.3.1 Introduction**

Nab Ventures Ltd is a wholly owned subsidiary of National Bank for Agriculture and Rural Development (NABARD). The Company has been incorporated on 23 April 2018. The Registered Office of the Company is at Mumbai.

The Company has been incorporated to operate and manage Securities and Exchange Board of India (SEBI) registered Alternative Investment Funds (AIF) with a primary investment objective to contribute to the development of agriculture, allied sector, Food Processing and sectors contributing to rural development.

NABARD, the Holding Company, has been set up under an Act of Parliament (NABARD Act, 1981), and is a Development Financial Institution (DFI) under the Department of Financial Services, Ministry of Finance, Government of India.

#### **13.3.2 Objectives**

The main objects of the Company as per the Company's Memorandum of Association are as follows:

- i) To carry on the business of advising and managing Alternative Investment Funds (AIF) for Government, private investors, trusts, institutional investors, banks, companies, individuals, or any other body corporate (whether incorporated or not in India or abroad), for investments in stocks, shares, finance, debenture bonds, property, depository receipts, options, obligations, derivatives, or in all kinds of financial instruments
- ii) To assist in the creation and build up of successful self-sustaining business enterprises through provision of equity or other forms of capital and sharing of risks and management skills; and for this purpose, to set up Alternative Investment Funds (AIF) which will arrange, manage and provide capital funds, loans, advances, guarantees, and other means of financial support with or without security to existing or proposed enterprises, whether a corporate or non corporate body and to promote directly or indirectly, industry, nationally and internationally, either individually or in collaboration with other local or offshore entities and to provide counsel and guidance in evaluation of investment projects and identification of opportunities, markets, products, technologies, collaborations, promoters and managers
- iii) To carry on the business of promotion, organizing, supervising, procuring incorporation of and giving financial or other assistance in India or abroad independently or in association with any other person, Government or any other agencies whether incorporated or not and to act as administrators or managers of any investment trusts or funds including any growth funds or capital funds, taxable or tax exempt funds, provident funds, pension funds, gratuity funds, superannuation funds, charitable funds and unit trusts or consortium , to act as

Trustees for bondholders, debenture holders and other purposes mentioned above.

- iv) To float various Alternative Investment Schemes for Investments in various sectors including but not limited to technology, agriculture, allied sector, agro processing warehousing, agro processing, health care, pharmaceutical, biotechnology, or in any service or manufacturing industry with special emphasis on handlooms, handicraft and small scale and micro industries.
- v) To constitute any Trust and to subscribe and act as and to exercise the powers of Trustees, Executors, Administrators, Receivers, Treasurers, Attorneys, Nominees, and agents and to manage the funds of all kinds of trusts and to render periodic advice on investments, finance, taxation and to invest these funds from time to time in various forms of investments including stocks, shares, finance, debentures, bonds, property, depository receipts, options, obligations, derivatives, or in all kinds of financial instruments.
- vi) To provide consultancy services related to software development and software management including development and production of computer software, entertainment software, television software, advertisement software, software conversion/re-engineering, re-programming of any and all kind of software activity from India as well as abroad.

The Company shall not do any Banking Business as defined in the Banking Regulation Act 1949, subject to the provisions of Section 58-A and directives of Reserve Bank of India and SEBI guidelines.

### **13.3.3 Activities**

The Company is engaged in carrying on the business of advising and managing the Alternative Investment Funds. The proposal of setting up of NABVENTURES Limited was placed and approved in the 219<sup>th</sup> meeting of the Board of Directors of NABARD held on November 3, 2017.

The Company (NAB Ventures Ltd) plans to launch an Alternative Investment Fund (“Fund”) with a corpus of Rs. 500 crore and proposes to request NABARD to be an anchor investor in the Fund with a base contribution of Rs. 200 crore (40 *per cent* of the corpus) in order to expedite the process of launch of the First Fund by February 2019. The overall exposure of NABARD to the Fund would be subject to extant regulations.

The Company (Nab Ventures) proposes to be the Sponsor of the Fund and would provide a capital commitment of Rs. 5 crore to the Fund in its capacity as the Sponsor. Furthermore, the Company proposes to be the Settlor of the Trust to be created for the purpose of fund administration and management.

The Indicative Fund Summary is as given below

S. No.	Parameters	Details
1.	Investment Manager	NABVENTURES Limited
2.	Fund Size	Rs. 500 crore
3.	NABARD base contribution amount as Anchor Investor	Rs. 200 crore
4.	Sponsor	NABVENTURES Limited
5.	Investment type	Investments in early to mid-stage entities
6.	Focus Areas	Agriculture, agribusiness, food, rural development and related areas
7.	Management Fee	2 per cent of committed amount + GST
8.	Hurdle Rate	10 per cent p.a. for domestic investors
9.	Share of Distributable Surplus (subject to catch-up)	8020 (80 per cent to contributors, 20 per cent to AMC)
10.	Investment Period	Up to 4 years from Final Closing (commitment amount would be invested from the date of Initial Closing till the end of the Investment period)
11.	Term of the Fund	8 years (can be extended twice for 1 year each)

The Chief Executive Officer (CEO) of the Company (Nab Ventures), had requested (January 2019) NABARD to be an anchor investor in the Alternative Investment Fund with base contribution of Rs.200 crore (40 *per cent* of the corpus) along with an option to increase its overall contribution up to an amount of Rs. 450 crore.

The Board of the Company(Nab Ventures) decided (January 2019) that the Company request NABARD to commit a base contribution amount of Rs. 200 crore only subject to the necessary approval from the Reserve Bank of India

The Company is in the process of filing (January 2019) an Alternative Investment Fund (AIF) application with Securities and Exchange Board of India (SEBI).

The Company will be the Investment Manager to the proposed first AIF fund, NABVENTURES FUND I, which would have a corpus of Rs. 500 crore. In order to have flexibility in case of oversubscription by potential contributors especially the foreign institutional contributors, it is proposed to have a greenshoe option of up to Rs. 200 crore.

#### **13.3.4 Organizational Set up**

The Board of Directors of the Company is responsible for the superintendence, management and control over the affairs of the Company under the provisions of the Companies Act 2013. As per the Articles of Association of the Company, Chairman, NABARD shall be the Chairman of the Company. Chairman, NABARD shall also appoint suitable person as Chairman.

The Board of Directors of the Company consists of Chairman and four Directors, including the Chief Executive Officer (CEO) and the Managing Director (MD). The CEO and MD is also presently (February 2019) acting as the Head of Finance. The Company also has a Company Secretary.

Pursuant to the provisions of Securities and Exchange Board of India(Alternative Investment Funds) Regulations, 2012 and any other applicable provisions, if any, an

Investment Committee of the Company/Alternative Investment Fund has been constituted consisting of two Directors of the Company and Chief Executive Officer. The Company Secretary shall act as the Secretary to the Investment Committee.

The Investment Committee shall perform the following functions

- i. Review and analyse all investments and divestments proposed by the Investment Manager
- ii. Actively oversee the Scheme's investment and exit process.
- iii. Do all other works, related to the above matter.

### **13.3.5 Capital Structure**

The Authorized Equity Share Capital of the Company as on 23.04.2018 is 50 lakh equity shares of Rs 10 each aggregating to Rs 5 crore. The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 23 April 2018 was 50 lakh equity shares of Rs 10 each aggregating to Rs 5 crore. As on 8 February 2019, the Holding Company NABARD held 49,99,994 number of Equity Shares in the Company constituting 100 *per cent* Equity Holding in the Company.

### **13.3.6 Budget and Planning**

The Company is newly incorporated and yet to commence its operations.

### **13.3.7 Accounting System**

The financial statements of the Company are prepared in accordance with the generally accepted accounting principles in India (Indian GAAP) to comply with the Accounting Standards as per the provisions of the Companies Act 2013. The financial statements are prepared on accrual basis under historical cost convention method as a going concern.

### **13.3.8 Manpower Analysis**

The Company is in the process (February 2019) of recruiting one full time analyst. Since the Company is in the process of being set up, Recruitments would be gradually done by the Company. The Board Members of the Company are all nominated by the Holding Company NABARD. The Company's Board of Directors and Key Managerial Personnel presently hold Managerial Positions in NABARD, or are presently on the Board of NABARD. The Company incurred Staff Cost of Rs 21.12 lakh in FY 2018-19.

### **13.3.9 MOU Targets and Achievements**

Not Applicable since the Company is not a Central Public Sector Enterprise.

### **13.3.10 Computerization**

All the Accounting Transactions of the Company are processed through IT system only. The Company uses Tally Software for Accounts. The Company, being a wholly owned subsidiary of NABARD, the IT set up of NABARD is relevant, till The Company has its own IT Infrastructure.

### **13.3.11 Internal Audit**

The Company has, in all material respects, adequate internal financial control system over financial reporting and such internal financial controls over financial reporting were operating effectively as on 31.03.2019, as per Independent Auditors' report for the year ended 31.03.2019.

### **13.3.12 Act, Rules, Documents**

- i) Companies Act 2013 and the applicable Rules
- ii) Income Tax Act 1961 and the applicable Rules
- iii) Central GST Act 2017 and the applicable Rules
- iv) SEBI Regulations in respect of Alternate Investment Funds (AIF Regulations, 2012)
- v) NABARD Act 1981

### **13.3.13 Operational Results**

The Company has been incorporated only on 23 April 2018. The Company is in the process of filing (January 2019) an Alternative Investment Fund (AIF) application with Securities and Exchange Board of India (SEBI). The Company is yet to commence its operations.

NABARD is an apex development financial institution in India. The Bank has been entrusted with "matters concerning policy, planning and operations in the field of credit for agriculture and other economic activities in rural areas in India". NABARD is active in developing financial inclusion policy and is a member of the Alliance for Financial Inclusion.

NABVENTURES proposes to set up an Alternative Investment Fund to support early to-mid stage companies in agriculture, food, waste management, rural development etc. It is in the process (January 2019) of applying for a SEBI Category II AIF license and proposes to launch its first fund.

The Company did not have any Revenue from Operations for the Year Ending (Y/E) 31.03.2019.

### **13.3.14 Financial Working Results**

The Company did not have any Revenue from Operations for the Year Ending (Y/E) 31.03.2019. During FY 2018-19, the Company earned Other Income of Rs 16.37 lakh, and booked Total expenditure of Rs 31.25 lakh, resulting in Profit Before Tax of minus Rs 14.87 lakh. After accounting for Deferred Tax of minus Rs 1.21 lakh, the Company booked Profit After Tax of minus Rs 13.65 lakh.

### **13.3.15 Disinvestment (Upto 2017-18)**

Not Applicable

### **13.3.16 Environment Management**

Not Applicable

### **13.3.17 Audit Checks**

- a) Whether the Company complies with the SEBI Regulations on Alternative Investment Funds 2012, as amended
- b) To examine the Company's investment strategy, investment purpose and its investment methodology
- c) Whether each scheme of the Alternative Investment Fund shall have corpus of at least twenty crore rupees
- d) Whether the Sponsor or Manager of Alternative Investment Fund has appointed a custodian registered with the SEBI (Board) for safekeeping of securities if the corpus of the Alternative Investment Fund is more than five hundred crore rupees
- e) Whether the Company, as an Alternative Investment Fund, has provided, at least on an annual basis, within 180 days from the year end, reports to investors as may be applicable to the Alternative Investment Fund
- f) Whether the Company, as an Alternative Investment Fund, has undertaken valuation of their investments, at least once in every six months, by an independent valuer appointed by the Alternative Investment Fund
- g) To examine the following records of The Manager or Sponsor of AIF
  - a) the assets under the scheme/fund;
  - b) valuation policies and practices;
  - c) investment strategies
  - d) particulars of investors and their contribution;
  - (e) rationale for investments made

## Chapter XIV

### PENSION FUNDS

The Office of the Director General of Commercial Audit & *ex-officio* Member Audit Board-I Mumbai conducts the Audit of the following Pension Funds

- i) LIC Pension Fund Ltd
- ii) SBI Pension Funds (P) Ltd
- iii) UTI Retirement Solutions Ltd

#### Role of Pension Funds

“Pension fund” means an intermediary which has been granted a Certificate of Registration by the Authority as a Pension Fund for receiving contributions, accumulating them and making payments to the subscriber in the manner as may be specified by the Authority.

The Appointed and registered Pension Funds manage pension corpus through various schemes under National Pension System. Pension Funds use their access codes to confirm receipt of netted assets and instructions regarding fund allocation, confirm allocation of funds and communicate the Net Asset Value (NAV) of each scheme to Central Record Keeping Agency (CRA) and the custodian on a regular basis.

Pension Funds also act as a bridge between the various intermediaries under NPS architecture and Pension Fund Regulatory and Development Authority (PFRDA) in order to protect the interests of the subscribers by providing the information and data as is required by the Regulator. Pension Fund Regulatory and Development Authority (Pension Fund) Regulations, 2015 were notified on 14th May, 2015 and the Pension Funds had to abide by the said regulations.

The following are the Pension Funds (PFs) for Government Sector

- LIC Pension Fund Limited
- SBI Pension Funds Pvt. Ltd
- UTI Retirement Solutions Ltd

The following are the Pension Funds (PFs) for Private Sector

- HDFC Pension Management Co. Ltd.
- ICICI Prudential Pension Fund Management Co. Ltd.
- Kotak Mahindra Pension Fund Ltd.
- LIC Pension Fund Ltd.
- Reliance Capital Pension Fund Ltd.
- SBI Pension Funds Pvt. Ltd
- UTI Retirement Solutions Ltd
- Birla Sun Life Pension Management Ltd



## **Roles and Responsibilities of the Pension Funds**

Pension Funds are generally responsible for receiving contributions and managing pension corpus through various schemes under National Pension System (NPS) in accordance with the provisions of the PFRDA Act, rules and regulations made thereunder, agreements executed with the National Pension System Trust and other intermediaries under NPS architecture. The functions of Pension Funds are summarized below

- Receiving of Subscribers funds from Trustee Bank for investments as per subscriber preferences.
- Investing the funds in securities prescribed in the investment guidelines issued by Authority and Investment Policy approved by the Board of Pension Fund.
- Constitution of Investment Committee and Risk Management Committee.
- Construction and review of Scheme Portfolio in compliance of prudential exposure norms and scheme objective.
- Maintenance of proper books of accounts for the Schemes managed by the Pension Fund.
- Declaration of Scheme Net Assets Value at the end of each working day and communicating to Central Record Keeping Agency (CRA) for Unitization in subscriber's Permanent Retirement Account Number (PRAN).
- Periodic reporting of its operational activities to NPS Trust.
- Pension Funds are required to adhere to the PFRDA Act 2013, PFRDA (Pension Fund) Regulations and PFRDA (National Pension System Trust) Regulations 2015. The management of pensions schemes shall be carried in accordance with the objects of the schemes, provisions of the Act, Trust Deed, rules, regulations, guidelines and circulars issued by the Authority from time to time and within the time lines as specified by the Authority or the National Pension System Trust.
- Pension Fund shall take all reasonable steps and exercise due diligence to ensure that the investment of funds, management of assets pertaining to any scheme is not contrary to the provisions of PFRDA Act 2013, the rules, Regulations and guidelines /directions or any law in force and are as per the norms of management of corpus of pension fund, including investment guidelines as approved by the Authority from time to time.
- Pension Funds shall carry out its operations as directed by the PFRDA/NPS Trust and having regard to obligations enunciated in PFRDA (Pension Fund) Regulations, 2015 Securities shall be held on behalf of, and in the name of the NPS Trust. The Trust shall be the registered owner of these securities and funds. However, individual subscribers under NPS shall remain beneficial owners of these assets and funds
- Pension Fund shall exercise all due diligence and vigilance in carrying out its duties and in protecting the rights and interests of the subscribers.
- To furnish periodic reports, information and documents as specified.

- Should comply with the disclosure requirements and code of conduct for the benefit of subscribers.
- To maintain absolute confidentiality of records/ data/ information including subscriber's data/ information.
- The Pension Fund shall, at all times render high standards of service, exercise reasonable care, prudence, professional skill, promptness, diligence and vigilance while discharging its duties in the best interests of the subscribers. The Pension Funds shall avoid speculative investments or transactions.
- The Pension Fund shall adopt best governance practices for investments and risk management viz. constitution of Investment Committee and Risk Committee, its composition, functions, policy contents and other like matters.

### **Functions of Pension Funds**

The pension fund functions in accordance with the terms of its Certificate of Registration and the Regulations issued by Authority from time to time. The Pension Fund is mandated to invest and manage the pension assets of the subscribers covered under NPS, which is inclusive of but not confined to the following-

1. Investment of contributions as per investment guidelines prescribed by the Authority.
2. Scheme portfolio construction.
3. Maintains books and records of its operations.
4. Reporting to the Authority at periodical intervals.
5. Public disclosure.

### **Regulations**

- Pension Fund Regulatory and Development Authority (Pension Fund) Regulations, 2015
- Pension Fund Regulatory and Development Authority (Pension Fund) (First Amendment) Regulations, 2016
- Pension Fund Regulatory and Development Authority (Exits and Withdrawals under the NPS)(Fourth Amendment) Regulations, 2018

The following are the Pension Funds being audited by Office of the Director General of Commercial Audit & Ex-Officio Member, Audit Board-I, Mumbai

1. LIC Pension Fund Ltd
2. SBI Pension Fund Private Ltd
3. UTI Retirement Solutions Ltd

The Assets Under Management through various schemes managed by Pension Fund Companies are not reflected in its Balance Sheet since these Assets do not form part of the Pension Fund Companies. Therefore, the C&AG Audit does not look into the operation of

these schemes including decision making regarding acquisition, management and disposal of the assets managed by the Pension Fund Companies and expresses no opinion on the soundness of the investments.

Thus, the Audit of Pension Fund companies being conducted by the C & AG of India is subject to above Disclaimer.

The Scope of Audit of Pension Funds as per Regulation 26 of the PFRDA (Pension Funds) Regulation 2015, is as follows:

#### **A. Board**

- i) At least fifty percent of the directors of the pension fund have adequate professional experience in finance and financial services related field
- ii) The board of directors of the pension fund has at least fifty per cent independent directors;
- iii) In case of any major change in management or ownership or shareholding pattern or any change in controlling interest of sponsor of the pension fund, prior approval is obtained from the Authority

#### **B. Senior Management**

- iv) The pension fund has appointed the key personnel viz. the Chief Executive Officer, Chief Investment Officer, Fund Manager, Operations Manager, compliance officer, chief information and security officer (CISO) and they have the adequate professional experience in the requisite field.
- v) Any change in the key personnel shall be intimated to the Authority within fifteen days of the occurrence of change.
- vi) The compliance officer is immediately and independently reporting, any non-compliance observed by him or her, to the Authority or the National Pension System Trust

#### **C. Corporate Governance**

##### **I. INVESTMENT COMMITTEE**

- vii) Pension fund constitutes an Investment Committee consisting of two directors, the Chief Executive Officer and the Chief Investment Officer or Fund Manager in case CEO and CIO are the same official.
- viii) Pension fund draws up an investment policy and places the same before the board of directors for its approval. In framing such a policy, the board is guided by issues relating to liquidity, prudential norms, exposure limits, stop loss limits in securities trading, management of all investment and market risks, management of assets liabilities mismatch, investment audits and investment statistics and the provisions of the Authority's guidelines or directions.

- ix) The investment policy as approved by the board is implemented by the Investment Committee, which keeps the board informed periodically about its activities.
- x) The board reviews its investment policy and its implementation on an half-yearly basis or at such short intervals as it may decide and makes such modifications in its existing investment policy as are necessary to bring them in tune with the requirements of law and regulations in regard to protection of subscribers' interest and pattern of investment laid down by the Authority.
- xi) The details of the investment policy or its review as periodically decided by the board is submitted to the National Pension System Trust within thirty days of its decision thereto. The National Pension System Trust calls for further information from time to time from the pension fund as it deems necessary and in the interest of the subscribers.
- xii) The Investment Committee reviews the changes, if any, in its team and any other matter relating to investments and forwards its recommendation to the Board of Directors of Pension Fund.
- xiii) The Investment Committee engages services of investment professionals, as required.

## **II. RISK MANAGEMENT COMMITTEE**

- xiv) Pension fund constitutes a Risk Management Committee which consists of at least one independent director, the Chief Executive Officer, Chief Investment Officer or fund manager in case CEO and CIO are the same official and the Risk or Compliance Officer. The director is not the same as the one on the Investment Committee.
- xv) The pension fund draws up a Risk Policy and places the same before its board of directors for its approval. In framing such a policy, the Board is guided by • Risk management functions • Disaster recovery and business contingency plans • Insurance cover against risks • Ensuring a risk adjusted return to subscribers consistent with the protection, safety and liquidity of such funds.
- xvi) The Risk policy as approved by the Board is implemented by the Risk Management Committee, which keeps the Board informed periodically about its activities.
- xvii) The Board reviews the Risk policy on a half-yearly basis or at such intervals as it may be decided and makes such modifications in its existing risk policy as are necessary to bring them in tune with the requirements of law and regulations. The Board periodically updates the National Pension System Trust on the same.
- xviii) The Risk Management Committee engages services of risk management professionals, as required.

## **III Conflicts of Interest-**

- xix) The pension fund pro-actively identifies and discloses any conflicts of interest that arise or may arise. These may relate to the pension fund itself or to service providers engaged by the pension fund. The pension fund promptly advises the National Pension System Trust as to how these conflicts of interest are to be managed prior to taking any action affected by these conflicts of interest.
- xx) The pension fund ensures, at all times, separation between its staff responsible for investments, settlement and book-keeping, distribution and sales, if any. The pension fund ensures, at all times, adequate firewalling between the investments of the sponsor and the pension fund. Notwithstanding the above, the National Pension System Trust or the Authority are fully empowered to give directions to the pension fund to forthwith remove such issue or /instances of conflict of interest without causing any prejudice to the investments in any manner.
- xxi) Confidentiality -Except as required by law or regulation, the pension fund does not directly or indirectly disclose to any other person, or use or permit to be disclosed without the prior written consent of the other party and each party must keep all such information confidential, except where publicly available . The confidentiality also extends to such other information as may be provided to the pension fund by other intermediaries like Trustee Bank, central recordkeeping agency in relation to National Pension System. The pension fund also executes a separate non-disclosure agreement to give further effect to this clause.
- xxii) The pension fund does not undertake any other business activities except activities relating to pension fund for schemes regulated by the Authority or any other activity as permitted by the Authority and does not charge any fees on investment of its own assets in its schemes.

#### **D. Process**

- xxiii) Investment Management Agreement with the National Pension System Trust as specified in Schedule XI is in force;
- xxiv) Non-disclosure agreement with the National Pension System Trust and is in force.
- xxv) The pension fund has complied with the documentation requirements of the other intermediaries with regard to opening of accounts, authorizing signatories, obtaining digital signatures, providing connectivity, software installation and other matters specified from NPS Trust from time to time.
- xxvi) The Pension Fund is interfacing with the CRA regularly for Sending and receiving reports in the required format, compilation and consolidation of investment instruction by central recordkeeping agency, confirmation Report by pension fund to central recordkeeping agency, daily investment report by pension fund, reporting of scheme wise payout position of pension fund to central recordkeeping agency, daily reporting on Net Asset Values as specified by the Authority, Net fund receipt from National Pension System Trust Account

report by PFs on different investment schemes, discrepancy/confirmation report on net payout, the daily performance reports of the schemes measured using Net Asset Values.

- xxvii) The operating procedures and systems of the Pension Funds are well documented and backed by operations manuals.
- xxviii) The pension fund creates and maintains the records of all documents and data pertaining to its activities in such manner that the tracing of such document or data is facilitated in the event of loss of original records or documents for any reason.
- xxix) The pension fund shall provide electronic interconnectivity to the central recordkeeping agency and Trustee bank.
- xxx) Where and as applicable, the pension fund transfers the withdrawal amount to the subscribers' Bank account or in any other manner that is prescribed by the Authority/ National Pension System trust from time to time.
- xxxi) Securities are purchased by the pension fund on behalf of, and in the name of the National Pension System Trust. The National Pension System Trust is the registered owner of these securities and funds. However, individual National Pension System subscribers' shall remain beneficial owners of these assets and funds.
- xxxii) The pension fund interfaces with the National Pension System custodian to receive detailed information and reports from the custodian. Accordingly, the pension fund provides electronic interconnectivity to custodian.
- xxxiii) The pension fund ensures Scheme wise segregation of securities account.
- xxxiv) The pension fund obtains from the custodian of the scheme, from time to time, such financial reports, proxy statements and other information relating to the business and affairs of the scheme as the Investment Manager reasonably requires in order to discharge its duties and obligations, or to comply with the Authority's guidelines or directions, or any applicable law, rules and regulations.
- xxxv) The pension fund is authorised to take such legal proceedings on behalf of the National Pension System Trust as may be necessary for the protection of the National Pension System Trust's investments including interest income and to engage advocates, counsel or other representatives for the effective execution of the claims on behalf of the National Pension System Trust as per the National Pension System Trust guidelines.
- xxxvi) The National Pension System Trust may authorise the pension fund to engage the services of independent legal and/or tax consultants and any other consultants, as may be required for the fund management or any allied activity excluding core functions of pension fund, as may be specified by the Authority, the National Pension System Trust from time to time Provided that the National

Pension System Trust may specify from time to time the limit on the expense that may be incurred towards such external consultants.

- xxxvii) The pension fund provides information on outsourcing arrangements, if any, to the National Pension System Trust, provided that core functions of the pension fund are not outsourced in any manner. The pension fund does not absolve itself of any responsibility for the outsourced activities and is liable for the same.
- xxxviii) The funds accepted are credited and held in a separate investment account in the name of the National Pension System Trust with the designated branch with due notice to the National Pension System Trust. All receipts, payments, income, expenses, sale proceeds, purchase, cost of transactions of investments are debited or credited, as the case may be, to this account.
- xxxix) While the account of the pension fund with the Trustee Bank where from the investments are to be made and the expenses to be incurred in connection with the investment thereof by pension fund on behalf of the National Pension System Trust are maintained by the pension fund, the National Pension System Trust maintains the account as per the agreement with the Trustee Bank.

#### **E. Investments**

- xl) The sponsor has provided the pension fund with adequate and necessary infrastructure, dedicated manpower, systems and procedures, information technology and information security systems with capabilities to adapt to future changes. The pension fund does not delegate any core function to any third party. Delegation of any other function is done only with the prior approval of the Authority. The PF is complying with the Outsourcing policy
- xli) The pension fund is ensuring exclusivity and segregation of pension fund business activities from its sponsors.
- xlii) The pension fund manages the schemes in accordance with the investment guidelines approved by the Authority from time to time
- xliii) The pension fund does not invest the funds of subscribers directly or indirectly outside India,
- xliv) The valuation of the assets under NPS is done in accordance with the guidelines issued by the Authority. The pension fund computes the net asset value of each scheme by dividing the net assets (to be derived by subtracting allowable charges approved by the Authority from the value of assets) of the scheme by the number of units outstanding on the valuation date of each scheme and the same is declared on each “Business Day” as per the timeline prescribed by the NPS Trust.
- xlvi) In respect of non-performing assets, income recognition, classification and provisioning is done in compliance with the guidelines issued by the Authority. The same are reported promptly to NPS Trust.

- xlvi) The Pension Funds are charging the investment management fee from the subscriber in accordance with Regulation 20 of the PFRDA Pension Fund Regulations, 2015, as amended by PFRDA Pension Fund Regulations, 2016.
- xlvii) All the Transaction expenses in excess of the limits contractually agreed to/approved by the NPS Trust or the Authority are borne by the Pension Funds and not charged to Net Asset Value (NAV).
- xlviii) Investment is stated as per Valuation Guidelines issued by the Authority from time to time, at Balance Sheet Date.
- xlix) Pension Funds should maintain their scheme wise Books of Accounts on Accrual basis
  - l) Dividend income earned by a scheme is recognised, not on the date the dividend is declared, but on the date the share is quoted on an ex-dividend basis.
  - li) In respect of all interest-bearing investments, income is accrued on a day to day basis. Therefore, when such investments are purchased, interest paid for the period from the last interest due date upto the date of purchase is not to be treated as a cost of purchase but to be debited to Interest Recoverable Account. Similarly, interest received at the time of sale for the period from the last interest due date upto the date of sale is not to be treated as an addition to sale value but is to be credited to Interest Recoverable Account.
  - lii) In determining the holding cost of investments and the gains or loss on sale of investments, the “weighted average cost” method is followed.
  - liii) Transactions for purchase or sale of investments are recognised as of the trade date and not as of the settlement date, so that the effect of all investments traded during a financial year are recorded and reflected in the financial statements for that year. Where investment transactions take place outside the stock market, for example, acquisitions through private placement or purchases or sales through private treaty, the transaction is recorded in the event of a purchase, as of the date on which the scheme obtains an enforceable obligation to pay the price or, in the event of a sale, when the scheme obtains an enforceable right to collect the proceeds of sale or an enforceable obligation to deliver the instruments sold.
  - liv) Bonus shares to which the scheme becomes entitled are recognised only when the original shares on which the bonus entitlement accrues are traded on the stock exchange on an ex-bonus basis. Similarly, rights entitlements are recognized only when the original shares on which the right entitlement accrues are traded on the stock exchange on an ex-rights basis.
  - lv) The cost of investments acquired or purchased include applicable taxes and stamp charges but exclude brokerage, applicable taxes on brokerage and other transactional charges. In respect of privately placed debt instruments any front-end discount offered are reduced from the cost of the investment.



- lvi) All taxes which are leviable and actually paid are charged to the NAV of the Fund and borne by the Subscriber. Any subsequent refund on this account, if any, is added to the scheme/fund as income.
- lvii) The Investment Management Fee is inclusive of all transaction related charges such as brokerage, transaction cost etc. except custodian charges and applicable taxes. The Investment Management Fee is calculated on the daily assets managed by the pension fund. The fees to be paid to the Authority are not charged to the scheme.
- lviii) The pension fund does not hypothecate, pledge and lend any assets or property of the Fund without the approval of the National Pension System Trust.
- lix) The pension fund enters into transactions relating to securities only in dematerialised form. The pension fund, for securities purchased in physical form gets the securities transferred in the name of the National Pension System Trust on account of the scheme in dematerialised form except for authorized investments that are available only in physical form. XXII. The pension fund invests funds made available to it by the Trustee Bank within the time lines specified by the Authority or the National Pension System Trust
- lx) The pension fund avoids all nature of speculative transactions or dealing in investments.
- lxi) The pension fund manages the Fund schemes independently of other activities and takes adequate steps to ensure that the interests of the subscribers are not being compromised in any manner.
- lxii) The pension fund takes prior approval of National Pension System Trust for any proposed transactions or engagement of a related party and provides reasons for the proposed transactions or engagement except investments of National Pension System Trust funds within the specified threshold limit. It makes disclosure of such transactions undertaken to the National Pension System Trust in its periodic reports.
- lxiii) The pension fund does not purchase or sell securities through any broker which is average of 5 per cent or more of the aggregate purchases and sale of securities under all schemes made by the pension fund unless the pension fund has recorded in writing the justification for exceeding the limit of 5 per cent and reports of all such investments are sent to the Authority the National Pension System Trust on a quarterly basis. Provided that the aforesaid limit of 5 per cent shall apply for annually.
- lxiv) The pension fund, being authorised and responsible to collect interest on maturity, redemption and sale proceeds relating to the investments, collects them on due dates and credits them to the appropriate accounts of the National Pension System Trust in time. While doing so, being the duty of the pension fund it informs the relevant institutions and authorities that the interest received

by the National Pension System Trust is not liable for deduction of tax at source under the Income-tax Act.

- lxv) Despite the above, if any tax is deducted at source (TDS) on such investments, it is the entire responsibility of the pension fund to obtain the refund of such tax within the financial year on behalf of the National Pension System Trust, at its own cost and expense, failing which the pension fund reimburses the National Pension System Trust, of the said amounts, being deducted as tax, upon being notified by the National Pension System Trust.
- lxvi) The pension fund exercises the voting rights on behalf of the National Pension System Trust as per the voting policy of the Authority in co-ordination with the National Pension System Trust.
- lxvii) The Investment account of the pension fund with the designated branch of the Trustee Bank is operated by the pension fund, whereas the National Pension System Trust maintains the account as per the agreement with Trustee Bank.
- lxviii) Without prejudice to any other clauses of the agreement all/any securities and other assets acquired by pension fund on behalf of the National Pension System Trust are kept at custodian facilities.

#### **F. Reporting and disclosures**

- lxix) The pension fund submits reports regularly on time all the reports prescribed by the Authority in the prescribed format
- lxx) The pension fund submits regularly on time all the reports prescribed by the NPS Trust in the prescribed format
- lxxi) The Pension Fund makes requisite disclosures as specified in Schedule V of PFRDA Pension Fund Regulations, 2015
- lxxii) The pension fund is maintaining books and records about the operation of pension schemes in compliance with the provisions of the Income-tax Act, the Companies Act and PFRDA Act under schedule VII,
- lxxiii) The pension fund maintains scheme wise bank account with the Trustee Bank to receive funds from the National Pension System Trust account maintained with the Trustee bank and remits funds into the same National Pension System Trust account as per instructions of the central recordkeeping agency from time to time.
- lxxiv) The pension fund maintains books and records and complies with the disclosure requirements specified by the Authority or National Pension System Trust as detailed in Schedule III.
- lxxv) Pension fund provides information regarding performance, NAV history, portfolio composition under its schemes, scheme financials to subscribers on a periodic basis as 31 specified by the Authority, the National Pension System

Trust including uploading of such information in electronic form on the website of the pension fund.

### **G. Infrastructure**

- lxxvi) The pension fund takes adequate and necessary steps to ensure that continuity in data and record keeping is maintained and that the data or records are not lost or destroyed. It also ensures that for electronic records and data, up-to-date back up is always available with it.
- lxxvii) The pension fund does not utilise the services of the sponsor or any of its associates, employees or their relatives, for the purpose of any securities transaction.

### **Auditor's Report**

(i) All Pension Funds (PF) shall be required to get accounts of their schemes audited in terms of *Clause 3* of PFRDA Guidelines. The Auditor's Report shall form part of the Annual Report. It shall accompany the Balance Sheet and Revenue Account. The auditor shall report to the NPS Trust.

(ii) The auditor shall state whether

1. he has obtained all information and explanations which, to the best of his knowledge and belief, were necessary for the purpose of his audit,
2. the Balance Sheet and the Revenue Account are in agreement with the books of account of the fund.
3. whether proper books of accounts of each scheme have been maintained.
4. all transaction expenses in excess of the limits contractually agreed to/approved by Authority are borne by the Pension Fund and are not charged to the NAV.

(iii) The auditor shall give his opinion as to whether

1. the Balance Sheet gives a true and fair view of the scheme wise state of affairs of the fund as at the end of the financial year,
2. the Revenue Account gives a true and fair view of the scheme wise surplus/deficit of the fund for the financial year.

#### **The Auditor shall further certify that**

1. Investments have been valued in accordance with the guidelines issued by the Authority;
2. The system, procedures and safeguards followed by the PF are adequate;
3. The provisions of appointment letter by Authority, IMA agreement signed with the Trust are being complied with by the PF;
4. Directions issued by the Authority/ NPS Trust from time to time or any other statutory requirements have been followed;

5. Affairs of the PF are being conducted in a manner which is in the interest of the subscribers;

6. Transaction and claims/ fee raised by different entities are in accordance with the prescribed fee.

## **14.1 LIC PENSION FUND LIMITED**

### **14.1.1 Introduction**

LIC Pension Fund Company was incorporated on 21 November 2017 as a wholly owned subsidiary of Life Insurance Corporation of India (LIC). The main object of the Company is to carry on the business of Pension fund management for pension fund schemes regulated by Pension Fund Regulatory and Development Authority (PFRDA) and to act as a Fund Manager for managing the funds received from National Pension System (NPS) Trust.

The total Assets under Management(AUM) of the Company for all the schemes under NPS stood at Rs.70,130.26 crore.

### **14.1.2 Objectives**

The main objective of the Company is to manage the pension funds under NPS of Government and Private Sector. The Principal Business Activity of the Company is Investment Management of Pension Assets, comprising 100 *per cent* of the total turnover of the Company.

### **14.1.3 Activities**

The Company manages the Investment Portfolio as prescribed in the Investment Management Agreement (IMA) signed between NPS Trust and LIC Pension Fund Ltd as well as according to Investment guidelines issued by PFRDA from time to time.

Till 2012-13, the Company had been managing the Funds for Central Government Scheme, State Government Scheme, NPS Lite Scheme (on Government Pattern) and Corporate Bonds/Government Securities (CG) Scheme. On 18.04.2013, the Company was authorized by PFRDA to manage the NPS Funds for Private Sector also and an Investment Management Agreement (IMA) was signed between LIC Pension Fund Ltd and NPS Trust stating the terms and conditions of managing pension fund under private sector. In the year 2015-16, a new scheme Atal Pension Yojana (APY) was introduced and The Company was entrusted with managing the funds under this scheme as one of the Fund manager.

The main source of income is by way of management fees on management of pension contributions of Central Government, State Government and Private Sector employees.

### **14.1.4 Organizational Set up**

The Company has a Board of Directors that supervises the overall operation and activities of the Company. The Company's Board of Directors comprises of Chairman, Managing Director (MD) and Chief Executive Officer (CEO), and five Directors. The Company's Financial Statements are authenticated by the Managing Director & CEO, one Director, Company Secretary and Chief Financial Officer.

There are various functional committees of the Board of Directors which includes Audit Committee, Investment Committee and Risk Management Committee. In order to

execute the day to day operations, the necessary powers are delegated by the Board to the Managing Director & CEO

#### **14.1.5 Capital Structure**

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 4 crore equity shares of Rs 10 each aggregating to Rs 40 crore. The Issued, Subscribed, and Paid Up Equity Share Capital as on 31 March 2018 is Rs. 30 crore comprising of 3 crore equity shares of Rs 10 each fully paid up. As on 31 March 2018, the entire Equity Holding in the Company was with LIC of India.

#### **14.1.6 Budget and Planning**

(Rs in crore)

Years	2015-16		2016-17		2017-18	
Particulars	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	0.16	0.06	0.35	0.11	0.31	0.13
Revenue Expenditure	5.43	5.64	6.39	6.34	8.18	7.91
Revenue/Turnover	--	3.01	---	4.55	--	6.30
Profit for the year	--	0.63	---	1.64	--	1.82

#### **14.1.7 Accounting System**

The Company has a centralized Tally ERP 9.0 system for upkeep of the accounts. The Company prepares its financial statements and maintains its accounts in accordance with the Indian Generally Accepted Accounting Principles (Indian GAAP), the Accounting standards specified under Section 133 and other relevant provisions of the Companies Act 2013.

#### **14.1.8 Manpower Analysis**

The Company had 22 employees as on 31 March 2018, out of which 19 were Managerial employee and 3 employees were non-managerial employees.

#### **14.1.9 MOU Targets and Achievements**

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

#### **14.1.10 Computerization**

The Company has Tally ERP 9 6.0 system.

#### **14.1.11 Internal Audit**

The Company does not have its own system of Internal Audit. It is done through an Outside Agency of professional Chartered Accountants on Quarterly basis, as per PFRDA Regulations on Internal Audit

#### **14.1.12 Act, Rules, Documents**

- i) Companies Act 1956/Companies Act 2013
- ii) PFRDA (Pension Fund Regulatory and Development Authority) Act 2016 and Regulations there under

- iii) Pension Fund Regulatory and Development Authority (Pension Fund) Regulations, 2015
- iv) Pension Fund Regulatory and Development Authority (Pension Fund) (First Amendment) Regulations, 2016
- v) Pension Fund Regulatory and Development Authority (Exits and Withdrawals under the NPS)(Fourth Amendment) Regulations, 2018

#### 14.1.13 Operational Results

The Revenue from Operations were as follows:

(Rs. in crore)

Particulars	2017-18	2016-17
Management Fees	6.30	4.56
Total Revenue from Operations	6.30	4.56

Summary of Assets Under Management (AUM) of the Company as on 31 March 2018 was as follows:

(Rs in crore)

Particulars	AUM
31 March 2016	35,537.76
31 March 2017	52,709.26
31 March 2018	70,130.26

The Company is managing the AUM of Rs 70130.26 crore as at 31 March 2018 under the following NPS Schemes

(Rs in crore)

Scheme	AUM Rs in crore As on 31.03.18
Central Govt	26379.36
State Govt	38095.11
NPS Lite	859.27
Corporate CG Scheme	2586.14
E Tier I	355.58
C Tier I	231.72
G Tier I	342.59
E Tier II	8.98
C Tier II	6.51
G Tier II	8.77
Atal Pension Yojana (APY)	1255.84
A Tier I	0.39
A Tier II	0.00
Total	70130.26

The Investment pattern of the Company for Schemes under Government Sector and Corporate CG/NPS Lite (based on the directives of the PFRDA) are as follows:

Instruments	Prescribed Limit
Government Securities	Upto 50 %

(Government Securities of Central Government and State Government)	
Corporate Bonds (PSU Bonds, Private Corporate Debt, Fixed Deposit)	Upto 45 %
Money Market Instruments	Upto 5 %
Equity	Upto 15 %

#### 14.1.14 Financial Working Results

(Rs. in crore)

Particulars	2017-18	2016-17
Revenue from Operations	6.30	4.56
Other Income	3.44	3.43
Total Income	9.74	7.99
Total Expenses	7.91	6.34
Profit Before Exceptional items	1.82	1.64
Exceptional items	--	--
Profit Before Tax	1.82	1.64
Tax	0.51	0.55
Profit After Tax	1.31	1.09

#### 14.1.15 Disinvestment (Upto 2017-18)

Not Applicable

#### 14.1.16 Environment Management

Not Applicable

#### 14.1.17 Audit Checks

- i) For FY 2017-18, the Company charged Management Fee at the rate of 0.0102 *per cent* on Funds managed for Government Sector including Atal Pension Yojana, and excluding Corporate CG Scheme. Management Fee for Private Sector Scheme and Corporate CG Scheme is 0.01 *per cent*. To examine and verify the Management Fees charged by the Company on the basis of Funds managed.
- ii) To examine compliance with the various Rules and Regulations as stipulated for management of Pension Fund schemes as regulated by Pension Fund Regulatory and Development Authority (PFRDA).
- iii) To examine whether Investment under Equity Asset Class are made in shares of bodies corporate listed on Bombay Stock Exchange (BSE) or National Stock Exchange (NSE) which have (i) Market Capitalization of not less than Rs 5000 crore on the date of Investments and (ii) Derivatives with the shares as underlying traded in either of the two stock exchanges.



- iv) To examine whether Asset Class 'G' is invested in Central Government Securities and State Development Loans
- v) To examine whether Asset Class 'C' (Credit Risk bearing Fixed Income Securities) contains Bonds issued by any entity other than Central and State Government, including Investment in Fixed Deposits and Credit Rated Debt Securities. This also includes rated bonds/securities of Public Financial Institutions and Public Sector Companies, Rated Municipal Bonds/Infrastructure Bonds etc
- vi) To examine whether Asset Class 'A' Investments are made in SEBI Regulated Alternative Investment Funds (Category-I and II only) as well as investment in units of Real Estate Investment Trusts (REIT), Infrastructure Investments Trusts (Inv ITs), and securitized papers.
- vii) To examine the investment strategy of the Company and the asset reallocation strategy adopted in fund management.
- viii) To examine whether amount due to the Sponsor (LIC of India) which was Rs 8.49 crore as on 31.03.2018, has been duly accounted for in the Management Expenses.
- ix) To examine whether the Company manages the Investment Portfolio as prescribed in the Investment Management Agreement (IMA) signed between NPS Trust and LIC Pension Fund Ltd as well as according to Investment guidelines issued by PFRDA from time to time

## 14.2 SBI PENSION FUND PRIVATE LIMITED

### 14.2.1 Introduction

SBI Pension Funds Private Limited (SBIPFPL) is a Private Limited Company incorporated on 14 December 2007. The Company is a subsidiary of State Bank of India. The Company is engaged in the business of fund management, wherein the Company manages the funds received under the pension schemes in the sphere of the National Pension System. The Company is under the regulatory supervision of Pension Fund Regulatory & Development Authority (PFRDA).

In the year 2009, SBIPFPL was authorized by PFRDA to also manage private sector funds. The Company receives the Management Fees for the Management of the Pension Funds.

The Company is under the Administrative Control of Ministry of Finance. The Company's Registered Office is at Mumbai.

### 14.2.2 Objectives

The primary objective of the Company is to carry on the business of Pension Funds Management Service. The Company is an Investment Manager of Pension corpus regulated by the PFRDA under the National Pension Scheme (NPS).

### 14.2.3 Activities

The Company manages the Pension Funds of Central and State Government Employees and private sector subscribers as per guidelines issued by PFRDA, and terms mentioned in the Investment Management Agreement. The Company closed the Fiscal 2017-18 with Assets Under Management (AUM) of Rs 89,283 crore representing a Growth of 34 *per cent* over the previous fiscal, to retain lead position amongst Pension Fund Managers (8 nos) in terms of Market Share- 35 *per cent* of the total AUM for the Government Sector and 58.21 *per cent* of the total AUM for the Private Sector. The scheme wise Assets Under Management (AUM) are as under

(Rs in crore)

Name of the Schemes	AUM as on 31 March 2018	AUM as on 31 March 2017
NPS Trust-A/c SBI Pension Funds Private Ltd-Scheme E- Tier-I	1,578.50	1026.32
NPS Trust-A/c SBI Pension Funds Private Ltd-Scheme-E-Tier-II	72.20	45.91
NPS Trust-A/c SBI Pension Funds Private Ltd-Scheme-C-Tier-I	1077.81	703.61
NPS Trust-A/c SBI Pension Funds Private Ltd-Scheme-C-Tier-II	54.06	37.07
NPS Trust-A/c SBI Pension Funds Private Ltd-Scheme-G-Tier-I	1912.47	1263.35
NPS Trust-A/c SBI Pension Funds Private Ltd-Scheme-G-Tier-II	67.07	44.72
NPS Trust-A/c SBI Pension Funds Private Ltd-Scheme-A- Tier-I	1.63	0.35
NPS Trust-A/c SBI Pension Funds Private Ltd-Scheme-State Govt	39482.15	28958.91

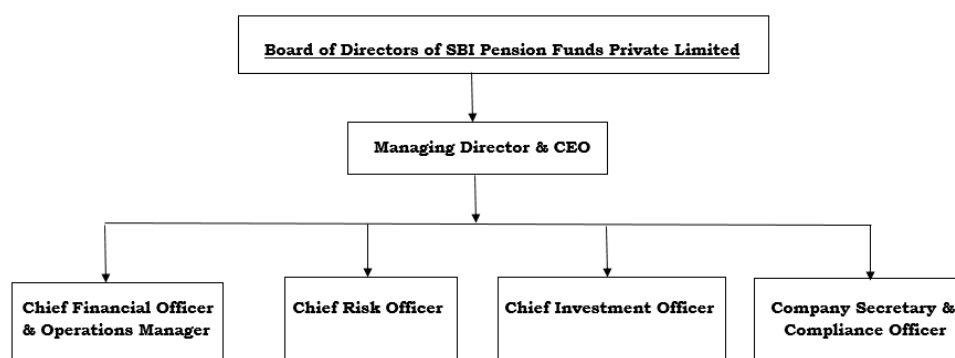
NPS Trust-A/c SBI Pension Funds Private Ltd-Scheme-Central Govt	30222.90	24027.27
NPS Trust-A/c SBI Pension Funds Private Ltd-Scheme-NPS Lite	1252.15	1093.23
NPS Trust-A/c SBI Pension Funds Private Ltd-Scheme-Corporate CG	12260.20	8880.49
NPS Trust-A/c SBI Pension Funds Private Ltd-Scheme-Atal Pension Yojana	1302.09	641.87
Total	89283.21	66723.16

#### 14.2.4 Organizational Set up

The overall operation and activities of the Company are under the administration of the Board of Directors. There are various functional committees such as the Audit Committee, Investment Committee and Risk Management Committee that report to the Board of Directors.

The Board of Directors of the Company oversees the business and operations of the Company. The Company has an optimum mix of Non-Independent and Independent Directors. As on 31st March, 2018, the Board of Directors of the Company comprises of seven Directors, which include four Independent Directors (including One Woman Director), two Nominee Directors and a Managing Director.

The Company's Financial Statements are authenticated by Chairman, Managing Director & Chief Executive Officer (CEO), Company Secretary and Chief Financial Officer. In order to enable proficient execution of the routine operations, the Board has delegated the necessary powers to the Managing Director & CEO. The Organogram of the Company is attached below.



#### 14.2.5 Capital Structure

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 10 crore equity shares of Rs 10 each aggregating to Rs 100 crore. The Issued, Subscribed, and Paid Up Equity Share Capital as on 31 March 2018 is Rs 30 crore comprising of 3 crore equity shares of Rs 10 each fully paid up.

As on 31 March 2018, State Bank of India held 1,80,00,000 equity shares (60 *per cent* equity), SBI Funds Management Pvt. Ltd. and SBI Capital Markets Ltd each held 60,00,000 equity shares each (20 *per cent* equity holding each) in the Company.

#### 14.2.6 Budget and Planning

(Rs in crore )

Years	2015-16		2016-17		2017-18	
Particulars	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	--	--	-	--	--	--
Revenue Expenditure	5.03	5.84	7.30	6.72	8.59	8.51
Revenue/Turnover	6.21	6.59	8.75	8.24	10.34	10.46
Profit for the year After Tax	0.79	0.51	0.98	1.03	1.17	1.39

#### 14.2.7 Accounting System

The Company has a centralized Tally accounting system for upkeep of the accounts which is supplemented by Strabus Treasury Software for Scheme accounting for funds managed on behalf of NPS Trust. The Company while accounting and preparation of its financial statements observes the Indian generally accepted accounting principles (Indian GAAP), the Accounting standards prescribed under Section 133 of the Companies Act 2013, Companies (Accounts) Rules, 2014 and other relevant provisions of the Companies Act 2013.

#### 14.2.8 Manpower Analysis

The Company had 16 employees as on 31 March 2018, which comprised of 12 managerial employees and 4 non – managerial employees.

#### 14.2.9 MOU Targets and Achievements

Not Applicable, since the Company is not a Central Public Sector Enterprise (CPSE).

#### 14.2.10 Computerization

The Company used Tally Accounting system for Pension Fund. The Starbus Treasury Software for scheme accounting for funds managed on behalf of NPS Trust. Information System Audit has been done by outside Agency for 2015-16 and 2017-18.

#### 14.2.11 Internal Audit

The internal audit function of the Company is under the functional operation of the Audit Committee. The internal audit is conducted by the Company on a quarterly basis by engaging the services of professional Chartered Accountant firms. The investment operations of the Company are also subject to Internal Audit, in accordance with the scope prescribed in the PFRDA (Appointment of Internal Auditors) Guidance Note, 2013.

The Internal Controls of the Company are adequate and commensurate with the size and scale of the operations. These controls operate through well documented standard operating procedures, policies and process guidelines that are designed to provide reasonable assurance to management of the reliability of financial information

compliance to operating and adherence to Statutory/ Regulatory requirements. The Internal Controls are routinely tested and certified by the Internal as well as the Statutory Auditors. Significant audit observations and the management actions thereon are reported to the Audit Committee on a quarterly basis. The Audit committee reviews the observations and assesses the adequacy of the actions proposed as well as monitors their implementation.

#### **14.2.12 Act, Rules, Documents**

- i) Companies Act, 2013/Rules/Notifications
- ii) Regulations and Guidelines issued by PFRDA from time to time.
- iii) Pension Fund Regulatory and Development Authority (Pension Fund) Regulations, 2015
- iv) Pension Fund Regulatory and Development Authority (Pension Fund) (First Amendment) Regulations, 2016
- v) Pension Fund Regulatory and Development Authority (Exits and Withdrawals under the NPS)(Fourth Amendment) Regulations, 2018

#### **14.2.13 Operational Results**

The Regulator i.e. Pension Fund Regulatory & Development Authority (PFRDA), have not prescribed any Capital Adequacy Ratio for the Pension Fund Industry. However, w.e.f. 1st November, 2012, Pension Fund Managers are required to maintain minimum positive Net Worth of Rs. 25 crore. The Net Worth of the Company as on 31st March, 2018 stood at Rs 36.50 crores

The Company closed the fiscal 2017-18 with Assets Under Management (AUM) of Rs. 89,283/- crore representing a growth of 34 *per cent* over the previous fiscal, to retain lead position amongst Pension Fund Managers (8 Nos) in terms of market share – 35 *per cent* of total AUM for the Government Sector and 58.21 *per cent* of total AUM for the Private Sector

During the year 2017-18, the fresh inflow of Rs. 13,646.35 crores coupled with accruals and net of appreciation on account of market valuation took the total AUM under Government Sector NPS to Rs. 69,705 crores with a market share of 35% (Rs. 2,00,943 crores). Under the Private Sector NPS (including NPS Lite), the fresh inflows of Rs. 5,345.15 crores accruals and net of appreciation took the AUM to Rs. 19,578 crores with a market share of 58.21 *per cent* (Rs. 33, 636 crores). Overall The Company recorded a growth of 34 *per cent* in its AUM during the year, which increased from Rs. 66,723 crores to Rs. 89,283 crores. Overall market share remained at 38 *per cent*.

The Revenue from Operations were as follows:

(Rs. in crore)

Particulars	2017-18	2016-17
Sale of Services	7.99	5.76
Total Revenue from Operations	7.99	5.76

#### 14.2.14 Financial Working Results

(Rs. in crore )

Particulars	2017-18	2016-17
Revenue from Operations	7.99	5.76
Other Income	2.47	2.46
Total Income	10.46	8.22
Total Expenses	8.51	6.71
Profit Before Exceptional items	1.95	1.52
Exceptional items	0.005	0.007
Profit Before Tax	1.94	1.52
Tax	0.55	0.49
Profit After Tax	1.39	1.03

#### 14.2.15 Disinvestment (Upto 2017-18)

Not Applicable

#### 14.2.16 Environment Management

Not Applicable

#### 14.2.17 Audit Checks

- i) Whether the Company has maintained minimum Positive Net Worth of Rs 25 crore as required to be maintained by the Pension Fund Managers as per PFRDA Guidelines.
- ii) To examine the Performance of the schemes managed by the Company
- iii) To examine the effectiveness of Asset Liability Management/Liquidity Management aspect in Investment Policy of the Company.
- iv) To examine the efficacy of the Management Action Trigger (MAT) threshold, which is in place to capture adverse movement in weighted average cost price of Bonds/Equity Investments made under NPS
- v) To examine whether Risk Control Self Assessment Exercise is carried out by the Company annually to identify and mitigate Risks pertaining to operations of the Company.
- vi) To examine whether all the Investments are carried out as per the provisions of PFRDA Guidelines/Directions and to ensure that all the investments are made

consistent with the protection, safety and liquidity of such funds, in the interest of the subscribers

- vii) To examine compliance with the provisions of the Investment Management Agreement (IMA) signed with NPS Trust
- viii) To examine whether the Management Fee is recognized by the Company at specific rates agreed with the relevant schemes, applied on daily net assets of each scheme, in conformity with the Regulatory Guidelines

## 14.3 UTI RETIREMENT SOLUTIONS LIMITED

### 14.3.1 Introduction

UTI Retirement Solutions Ltd. (UTI RSL), a wholly owned subsidiary of UTI Asset Management Company Ltd., was incorporated on 14 December, 2007. UTI RSL has been set up to carry out the operations as Pension Fund Manager as directed by the Pension Fund Regulatory and Development Authority (PFRDA) and the Board of Trustees of the National Pension System (NPS) Trust, set up under the Indian Trust Act, 1882, and to undertake wholesale asset management as prescribed by the Government or PFRDA.

The NPS is a defined contribution pension scheme introduced by Government of India and is applicable on a mandatory basis to all Central Government employees (except Armed Forces) who have joined services with effect from 1 January 2004.

The NPS is also available on voluntary basis to all other citizens of India including self employed professionals and others in the unorganized sector with effect from 1 May 2009. This is based on self defined contribution received from the citizen. The NPS is regulated by the PFRDA.

UTI RSL manages the pension funds of Central and State Government employees and private sectors subscribers as per guidelines of PFRDA and terms mentioned in the Investment Management Agreement (IMA). UTI RSL receives Management fees for the management of the pension funds of NPS Trust.

### 14.3.2 Objectives

The Company was incorporated with the main objective of wholesale asset management of pension funds under NPS. The total Assets Under Management (AUM) as on 31 March 2018 of all the NPS Schemes managed by the Company taken together stood at Rs 69483.27 crore, as compared to Rs 52043.16 crore as on 31 March 2017.

### 14.3.3 Activities

The Company managed the following NPS Schemes as on 31 March 2018

(Rs in crore)

Name of the Schemes	AUM	
	31.03.2018	31.03.2017
NPS Trust- A/c UTI Retirement Solutions Pension Fund Scheme E tier I	225.40	129.64
NPS Trust- A/c UTI Retirement Solutions Scheme E Tier II	15.33	9.86
NPS Trust- A/c UTI Retirement Solutions Pension Fund Scheme C Tier I	139.80	81.94
NPS Trust- A/c UTI Retirement Solutions Scheme C Tier II	9.87	6.68
NPS Trust- A/c UTI Retirement Solutions Pension Fund Scheme G Tier I	209.06	122.90
NPS Trust- A/c UTI Retirement Solutions Scheme G Tier II	11.81	8.15
NPS Trust- A/c UTI Retirement Solutions Pension Fund Scheme A Tier I	0.38	0.05
NPS Trust- A/c UTI Retirement Solutions Scheme A Tier II*	0.00	0.01
NPS Trust- A/c UTI Retirement Solutions Pension Fund Scheme Central Govt	28352.47	22291.17
NPS Trust- A/c UTI Retirement Solutions Pension Fund Scheme State Govt	38411.37	28024.28
NPS Trust- A/c UTI Retirement Solutions- NPS Lite Scheme Govt Pattern	847.85	746.12



NPS Trust- A/c UTI Retirement Solutions- Pension Fund Scheme Corporate CG*	0.00	0.00
NPS Trust- A/c UTI Retirement Solutions- Atal Pension Yojana	1259.93	622.35
Total	69483.27	52043.15

\*Schemes are inoperative as on 31 March 2018

#### 14.3.4 Organizational Set up

The Company is managed by a Board of Directors which comprises of professionals from financial/investment/accounting/audit field. The Company has Chairman & Director, Chief Executive Officer & Whole Time Director, three Independent Directors and one Associate Director. The Company's Financial Statements are authenticated by Chairman & Director, CEO & Whole Time Director, Company Secretary and Chief Financial Officer.

The Board has various Committees such as Audit Committees, Investment Management Committee, in compliance of Pension Fund Regulatory and Development Authority (Pension Fund) Regulations 2015 to monitor the investment operation of the pension corpus of NPS Schemes managed by the Company and also to monitor the compliance of the Investment Management Agreements entered into with NPS Trust. The Investment Management Committee comprises of one Independent Director who is the Chairman of the said Committee, one Director, CEO and Chief Investment Officer.

#### 14.3.5 Capital Structure

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 2,50,00,000 equity shares of Rs 10 each aggregating to Rs 25,00,00,000 (Rs 25 crore). The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 2,20,00,000 equity shares of Rs 10 each aggregating to Rs 22,00,00,000 (Rs 22 crore). As on 31 March 2018, the Holding Company UTI Asset Management Company Ltd held 2,19,99,300 number of Equity Shares constituting 99.99 *per cent* Equity Holding in the Company.

#### 14.3.6 Budget and Planning

(Rs in crore)

Years	2015-16	2016-17	2017-18
Particulars	Actual	Actual	Actual
Capital Expenditure	--	--	--
Revenue Expenditure	3.48	4.59	5.61
Revenue/Turnover	5.05	5.44	8.45
Profit for the year After Tax	1.06	0.58	2.25

#### 14.3.7 Accounting System

The Company prepares the financial statements on accrual basis and under historical cost convention, in accordance with generally accepted Accounting Principles in India

(Indian GAAP), so as to comply with the Accounting Standards notified under the Companies (Accounting Standard) Rules, 2006.

#### **14.3.8 Manpower Analysis**

The Company had 6 Employees as at 31<sup>st</sup> March 2018.

#### **14.3.9 MOU Targets and Achievements**

Not Applicable, since the Company is not a Central Public Sector Enterprise (CPSE).

#### **14.3.10 Internal Audit**

The Company has devised an effective internal control environment that provides assurance on the efficiency of operations and security of assets. The Internal Auditors of the Company continuously monitor the adequacy and effectiveness of the internal control environment across the Company and the status of compliance with operating systems, internal policies and regulatory requirements. The Statutory Auditors of the Company have also tested and verified the Internal Finance Control in the Company.

The Board of Directors of the Company have constituted an Audit Committee, which reviewed, *inter alia*, Compliance Manual, Risk Management Policy, Business Continuity Plan, the adequacy and effectiveness of the internal control environment and monitored implementation of internal audit recommendation.

#### **14.3.11 Act, Rules, Documents**

- i) Companies Act 2013
- ii) PFRDA (Pension Fund) Regulations, 2015
- iii) Pension Fund Regulatory and Development Authority (Pension Fund) Regulations, 2015
- iv) Pension Fund Regulatory and Development Authority (Pension Fund) (First Amendment) Regulations, 2016
- v) Pension Fund Regulatory and Development Authority (Exits and Withdrawals under the NPS)(Fourth Amendment) Regulations, 2018

#### **14.3.12 Operational Results**

The Revenue from Operations were as follows:

(Rs.in crore)

Particulars	2017-18	2016-17
Sale of Products	--	--
Sale of Services (Management Fees)	6.24	4.52
Sale of Services (Advisory Fees)	--	--
Other Operating Revenues	--	--
Total Revenue from Operations	6.24	4.52

### 14.3.13 Financial Working Results

(Rs.in crore)

Particulars	2017-18	2016-17
Revenue from Operations	6.24	4.52
Other Income	2.21	0.92
Total Income	8.45	5.44
Total Expenses	5.61	4.59
Profit Before Exceptional items	2.84	0.85
Exceptional items	--	--
Profit Before Tax	2.84	0.85
Tax	0.58	0.26
Profit After Tax	2.26	0.59

### 14.3.14 Disinvestment (Upto 2017-18)

Not Applicable

### 14.3.15 Environment Management

Not Applicable

### 14.3.16 Audit Checks

- (i) Whether the Management Fee was received and has been accounted for properly on accrual basis as per terms of the Investment Management Agreement with the NPS Trust
- (ii) Whether the Company has an effective Risk Management Policy, whether the Board of Directors periodically reviews the said Policy, procedures and processes, which include the delegation of powers for investment and financial responsibilities, investment prudential norms, guidelines and limits.
- (iii) Whether the Board reviews the Performance of all schemes on Quarterly basis
- (iv) Whether Scheme Expenses are calculated and booked as per rules and regulations.
- (v) Whether there are adequate internal controls in place.
- (vi) The Company was incorporated with the main objective of wholesale asset management of pension funds under NPS. The Company is one of three Pension Fund Managers for pension schemes of Central Government (SM002001) and State Government (SM002002). As per procedure of allocation of pension funds amongst three Pension Fund Managers, the incremental funds are allocated based on the performance of previous years i.e. NAV of the pension funds managed by the Pension Fund Managers. Clause No. 12(1)(a) - of the Pension Fund Regulatory and Development Authority (Custodian of Securities) Regulations 2014 states that before commencement of business, the Custodian shall execute a Tripartite Agreement with the Pension Fund and National Pension System Trust. (b) Any other Agreement(s) which are required for the efficient and orderly conduct of activities as

custodian of pension schemes regulated by the Authority, as may be specified from time to time. In this regard a tripartite agreement between the New Pension System Trust, UTI Retirement Solutions Limited and Stock Holding Corporation of India Ltd., was entered into and executed on 22<sup>nd</sup> May 2008 to provide Custodial services with validity of 10 years i.e. till 31<sup>st</sup> March, 2018. This Tripartite Agreement expired on 31<sup>st</sup> March 2018 has been renewed only in December 2018 after expiry of the validity of agreement and the service charges continued to be paid at the old rates. Whether the Company has put in place a mechanism to ensure the renewal of custodial services agreement in time

- (vii) PFRDA appointed Pension Fund Managers for management of pension funds of subscriber as per terms and condition set out in Investment Management Agreement. The Company receives funds from NPS Trust which is invested in various securities as per guidelines of PFRDA from time to time, which *inter-alia* prescribe a minimum rating for debt. As per the PFRDA (Preparation of Financial Statements and Auditor's Report of schemes under National Pension System) Guidelines - 2012, the investments are required to be shown at marked to market value on balance sheet date. Based on the Net Asset Value of pension schemes, the Company receives the management fees. To examine the Action taken to improve the quality of investments made by the Fund
- (viii) To examine Scheme expenses (PFRDA Annual Fees, Brokerage, Audit Fees, Valuation Fees-NAV, Starbus Software AMC charges etc

## CHAPTER XV

### FINANCE- NBFC Loan Company

#### 15.1 STCI FINANCE LIMITED

##### 15.1.1 Introduction

STCI Finance Ltd (formerly known as Securities Trading Corporation of India Ltd is a Non Banking Finance Company (NBFC) incorporated on 10.05.1994. The Company's Registered Office is at Mumbai and the Company has one Marketing Office at Delhi. The Company is a listed company within the meaning of Section 2 (52) of the Companies Act 2013, as the Non Convertible Debentures of the Company, issued on private placement basis, are listed on the wholesale debt market segment of the National Stock Exchange (NSE). The Company is a Systematically Important Non Deposit taking NBFC, registered with Reserve Bank of India. Presently, STCI Finance is classified as a loan NBFC.

The Company has two wholly owned subsidiaries u/s 2 (87) of the Companies Act, 2013, viz., STCI Primary Dealers Ltd and STCI Commodities Ltd.

##### 15.1.2 Objectives

As per Extract of Annual Return (Form No MGT-9), pursuant to Section 92 (3) of the Companies Act, 2013, and Rule 12 (1) of the Companies (Management and Administration) Rules, 2014, the Principal Business Activity of the Company is Lending Activity, constituting 95.27 *per cent* of the total turnover of the Company as on 31.03.2018.

##### 15.1.3 Activities

The Company is engaged in the business of non banking financial institution and has obtained a Certificate of Registration (CoR) dated 16 December 1997 under section 45IA of the Reserve Bank of India Act, 1934, from RBI's Department of Non Banking Supervision, Mumbai Regional Office. The Company is entitled to continue to hold such CoR in terms of its asset/income pattern as on 31 March 2018.

As laid down in Master Direction- Non Banking Financial Company- Systematically Important Non Deposit taking Company and Deposit taking Company (Reserve Bank) Directions 2016, the non banking financial company is meeting the required net owned fund requirement.

STCI Finance Ltd (formerly Securities Trading Corporation of India Limited), is a Systemically Important Non-Deposit taking NBFC registered with Reserve Bank of India (RBI). Presently STCI Finance Ltd is classified as a loan NBFC.

In May 1994, STCI Finance Limited was promoted by RBI with the main objective of fostering an active secondary market in Government of India Securities and Public Sector bonds. RBI owned a majority stake of 50.18 *per cent* in the paid up share capital

of the Company. In 1996, the Company was accredited as the first Primary Dealer in the India. As one of the leading Primary Dealers in the country, the Company was a market maker in government securities, corporate bonds and money market instruments. Its other lines of activities included trading in interest rate swaps and trading in equity - cash & derivatives segment. The Company enjoyed a successful track record of achieving profits during consecutive years spanning nearly a decade. RBI divested its entire shareholding in STCI in two stages- first in 1997 to bring it down from 50.18 *per cent* to 14.41 *percent* and the balance in 2002 to the existing shareholders. Bank of India became the largest shareholder in the Company with 29.96 *per cent* stake.

In order to diversify into new activities, the Company hived off its Primary Dealership business to its separate 100 *per cent* subsidiary, STCI Primary Dealer Limited (STCI-PD) in June 2007. Since year 2007, the Company has been undertaking lending and investment activities with its main focus on lending/ financing activities. With growth in the size of the Look Book, the lending activity became the core business of the Company and STCI Finance Limited was classified as a Loan NBFC. With a view to reflecting the lending/ financing business of the Company, the name of the Company was changed from Securities Trading Corporation of India to 'STCI Finance Limited' with effect from October 24, 2011.

STCI Finance Limited is a diversified mid-market B2B NBFC offering its product and services across multiple locations in the areas of Capital Markets, Real Estate, Corporate Finance and Structured Finance

The Company's Management has identified Lending Business and Treasury Operations as two reportable segment based on risk, return and the regulatory authorities for reporting.

The following are the various Products of the Company :

### **Capital Market Products**

Loan against Shares/Mutual Funds/Bonds (Securities)

STCI offers loans against pledge of acceptable Listed Shares, Mutual Fund units from Open Ended Diversified Equity Funds, Open Ended Gilt Funds and Bonds for various purposes such as investments, working capital needs, CapEx, acquisition of shares by promoters or other general purposes

Loan for subscription of IPO/FPO/ Rights Issue

STCI offers loans to individuals/Corporates for subscribing to IPO/FPO/Rights Issue against the pledge of the underlying shares.

Promoter Funding

STCI offers tailor-made loans to the Promoters of listed companies for various purposes such as creeping acquisitions, investments in existing or new ventures, acquisition of assets and other general purpose. The above loans can be advanced

against pledge of acceptable listed shares, mortgage of immovable property or other acceptable collaterals.

#### ESOP (Employee Stock Option Plan) Finance

STCI offers loans to individuals holding ESOPs from their employers and wanting to exercise the option against the security of underlying shares / other listed shares.

#### Margin Funding

STCI offers loans to individual clients of Equity Brokers for financing their margin requirements. STCI also offers loans to Equity Brokers for margin funding of their clients. Underlying security will be acceptable listed shares.

### **Real Estate Products**

#### Project Finance (Real Estate)

STCI offers Project Finance to real estate developers under residential and commercial segments based on the security of project assets and project cash flows. Major approvals and mandatory clearances from local bodies and registration of the project in compliance with Real Estate Regulatory Authority (RERA) Act are pre-requisites. STCI also considers refinancing of existing Project loans for any ongoing project/s in the real estate sector.

#### Loan against Property (LAP – Real Estate)

STCI offers Loan against Property to developers having cash flows from multiple projects, based on quality of mortgage property, cash flow and other balance sheet parameters of the borrowing entity.

STCI also considers refinancing of existing Loan against Property.

### **Manufacturing and Servicing Products**

#### Manufacturing

STCI offers loans to corporates in the Manufacturing Sector for expansion, general capex, replacement of machinery, reimbursement of capex, long term working capital needs, refinance of existing loan or for general corporate purposes

#### Engineering, Procurement and Construction Contracts

STCI offers loans to corporates in EPC Sector for long term working capital and for any other general corporate purposes incidental to Engineering, Procurement and Construction Contracts.

#### Healthcare

STCI offers loans for expansion, renovation, modernization or acquisition of hospitals or nursing homes and for any other special purposes incidental thereto.

#### Education

STCI offers loans for expansion, renovation, modernization or acquisition of Educational Institutions and for any other special purpose incidental thereto.

## Non-Banking Finance Companies or Housing Finance Companies

STCI offers loans to established NBFCs engaged in small ticket size business to consumer (B2C) lending, such as Asset Finance Companies, NBFCs engaged in lending to MSMEs, etc. Similarly, STCI offers loans to established mid-sized Housing Finance Companies registered with the NHB

### Warehousing

STCI offers loans for expansion, modernization or acquisition of warehouses or long term working capital and for any other general corporate purposes incidental thereto.

### Other Products

#### Structured Finance

STCI offers tailor made Structured Finance products to suit special situation funding needs of the borrower such as delisting, buyback, promoter holding consolidation, acquisition or any other special situational needs or for general corporate purposes, etc.

#### Equipment Finance

STCI offers loans for financing acquisition of plant & machinery, construction equipment, mining equipment, healthcare equipment, etc. to businesses in different industries

#### Discounting of Lease Rentals/Receivables Finance

STCI offers short to long term loans to asset owners for working capital or general corporate purposes by way of securitization of receivables, lease rentals, etc

#### Take – out Finance

STCI offers take-out finance in tie up with Banks/FIs for projects that have achieved a pre-determined implementation schedule.

#### Loan against Property and Securities (LAPS)

STCI offers term loans to businesses for their various business needs against the primary security by way of mortgage of immovable property and collateral security by way of pledge of pre-approved shares or units of Mutual Funds, Bonds, etc.

#### Loan against Bank Guarantee

STCI offers loans to businesses for funding cash flow mismatches or for general business purposes against the financial guarantee of Scheduled Commercial Banks.

### 15.1.4 Organizational Set up

The Board of Directors of the Company is responsible for the overall management, supervision and control over the affairs of the Company, under the provisions of the Companies Act 2013. The Board of Directors of the Company comprises of professionals with wide experience and skills in the field of Banking and Finance. As on July 2018, the Board of Directors of the Company comprised of eight Directors, consisting of six Non Executive Directors, out of which four were Independent

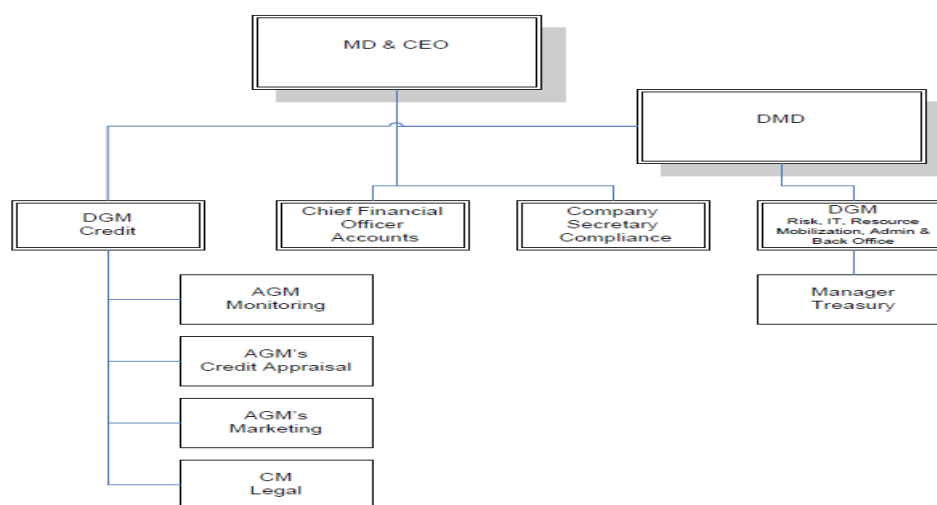


Directors and two Executive Directors which also included one Managing Director & Chief Executive Officer.

The Key Managerial Personnel of the Company are –

- i) Managing Director & Chief Executive Officer
- ii) Deputy Managing Director
- iii) Chief Financial Officer
- iv) Company Secretary

The organogram of the Company is attached below.



The Company has constituted the following five Board level Committees

- i) Audit Committee
- ii) Nomination, Remuneration and HRD Committee
- iii) Corporate Social Responsibility (CSR) Committee
- iv) Credit and Investment Committee
- v) Risk Management Committee

The Board of Directors of the Company have also constituted the following Committees of Senior Executives to manage its business and related risks

- i) ALCO (Asset Liability Collateral Obligations) and Risk Management Committee
- ii) Credit Committee of Executives
- iii) Investment Committee
- iv) CSR Committee of Executives
- v) Grievance Redressal Committee

### 15.1.5 Capital Structure

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 5 crore equity shares of Rs 100 each aggregating to Rs 500 crore. The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 3,80,00,000 equity shares of Rs 100 each aggregating to 380 crore. As on 31 March 2018, 1,13,83,781 number of Equity Shares of Rs 100 each, were held by Bank of India, the largest shareholder of the Company, constituting 29.96 *per cent* Equity Holding in the Company. The following is the shareholding pattern of the Company as on 31.03.2018

Name of the Shareholder	No. of Equity Shares	% of Equity Holding
Bank of India	1,13,83,781	29.96 %
State Bank of India	39,21,142	10.32 %
IDFC Bank Ltd	35,30,136	9.29 %
IDBI Bank Ltd	25,07,610	6.60 %
LIC of India	21,52,347,	5.66 %
Punjab National Bank	18,77,564	4.94 %
Canara Bank	14,26,298	3.75 %
ICICI Bank	14,00,528	3.69 %
Bank of Baroda	12,53,544	3.30 %
Central Bank of India	11,50,100	3.03 %
Indian Bank	11,02,378	2.90 %
Allahabad Bank	6,22,134	1.64 %
Syndicate Bank	5,82,160	1.53 %
Union Bank of India	5,81,248	1.53 %
Administrator of the Specified Undertaking of the Unit Trust of India- US 64 Scheme	4,94,043	1.30 %
Oriental Bank of Commerce	4,74,277	1.25 %
UCO Bank	4,64,892	1.22 %
General Insurance Corporation of India	4,32,875	1.14 %
United Bank of India	3,78,256	0.99 %
New India Assurance Co. Ltd	3,68,175	0.97 %
IFCI Ltd	3,37,400	0.89 %
Andhra Bank	3,13,196	0.82 %
Bank of Maharashtra	2,65,032	0.70 %
Indian Overseas Bank	2,54,078	0.67 %
Punjab and Sind Bank	2,25,500	0.59 %
Corporation Bank	2,09,461	0.55 %
Oriental Insurance Company Ltd	1,37,290	0.36 %
SIDBI Venture Capital Ltd	82,045	0.22 %
National Insurance Co. Ltd	72,510	0.19 %
Total	3,80,00,000	100 %

**Category –wise Shareholding as on 31.03.2018 is as follows:**

Category of the Shareholder	No. of Equity Shares	% of Equity Holding
Banks/Financial Institutions	3,42,60,715	90.16 %
Insurance Companies	31,63,197	8.32 %
Other Institutional Holding	5,76,088	1.52 %
Total	3,80,00,000	

### 15.1.6 Budget and Planning

(Rs in crore )

Years	2015-16		2016-17		2017-18	
Particulars	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	0.90	0.38	2.88	0.34	--	0.46
Revenue Expenditure (excl Finance cost and Prov. For loans)	22.08	18.00	22.72	18.53	30	19.65
Revenue/Turnover		450.40		414.61		347.06
Operational Profit for the year Before Tax	221	196.58	200	191.57	188.5	161.12
Profit After Tax		80.90		139.91		72.28

### 15.1.7 Accounting System

The Company has a Centralized system of Accounting. The Company's financial statements have been prepared under historical cost convention on accrual basis to comply in all material aspects with applicable accounting principles in India, the Accounting Standards (AS) specified under section 133 of the Companies Act 2013 read with Rule 7 of the Companies (Accounts) Rules, 2014.

### 15.1.8 Manpower Analysis

As on 31.03.2018, the Company had 25 Managerial and 19 Non Managerial (below Manager Grade) employees.

### 15.1.9 MOU Targets and Achievements

Not Applicable since the Company is not a Central Public Sector Enterprise. (CPSE).

### 15.1.10 Computerization

The Company had the following ERP/IT Systems in use

- i) Fixed Income Securities System (FISS)
- ii) Tally

FISS IT System was audited in 2015-16 and 2017-18.

### 15.1.11 Internal Audit

The Company's Internal Audit is conducted by an External Firm of Chartered Accountants on quarterly basis for the period 2015-16 to 2017-18. The scope of Internal Audit included review of adequacy and efficacy of the internal control systems and procedures and deviations, if any, from generally accepted best practices, review of the Company's compliance with applicable laws and regulations including the guidelines issued by the Reserve Bank of India (RBI) and other statutory bodies. The Audit Committee as well as the Board of Directors interacts with the Internal and Concurrent Auditors on a regular basis for ensuring adequate internal controls and checks.

### 15.1.12 Act, Rules, Documents

- i) Companies Act 2013 and the applicable Rules
- ii) Securities Contracts (Regulation) Act, 1956 and the applicable Rules
- iii) Non Banking Financial (Non Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions 2007

- iv) RBI Regulations, Guidelines, Operational Guidelines, Notifications and Circulars as may be applicable to the extent of Capital Adequacy and Risk Management Guidelines for Standalone Primary Dealers
- v) Foreign Exchange Management Act 1999 and the Rules and Regulations made thereunder to the extent of Foreign Direct Investment, Overseas Direct Investment and External Commercial Borrowings
- vi) Depositories Act 1996 and the applicable Rules
- vii) SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011
- viii) SEBI (Prohibition of Insider Trading) Regulations, 2015
- ix) SEBI (Registrars to an Issue and Share Transfer Agents) Regulations, 2008
- x) SEBI (Issue and Listing of Debt Securities) Regulations, 2008
- xi) Reserve Bank of India (RBI) Act 1934 and the Regulations/Guidelines issued by RBI from time to time as applicable to Non Deposit accepting NBFCs
- xii) Non Banking Financial Companies Auditors Report (Reserve Bank) Directions, 2016 (Master Direction DNDS.PPD.03/66.15.001/2016-17 dated 29 September 2016
- xiii) Income Tax Act 1961 and the applicable Rules
- xiv) Central GST Act 2017 and the applicable Rules
- xv) Prevention of Money Laundering Act 2002 and the applicable Rules
- xvi) Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002

### 15.1.13 Operational Results

The Revenue from Operations were as follows:

(Rs. in crore)

Particulars	2017-18		2016-17	
<b>Interest Income</b>				
<b>Interest on Loans</b>				
Loan against Shares	186.52		220.69	
Corporate and Other Loans	146.90		162.41	
<b>Interest/Discount on Investments</b>				
Government Securities	8.84		11.70	
Corporate Bonds	0.00		0.11	
Other Money Market Instruments and CBLO	0.13		3.40	
<b>Others</b>	1.46	343.88	2.13	400.48
<b>Other Financial Services</b>				
Upfront/Processing and Management Fees	7.17		7.52	
Other Fee based income	2.05	9.22	1.18	8.70
<b>(c) Profit/Loss on Sale of Securities</b>				

Government Securities (including SDL)	(12.35)		0.68	
Equity Shares	3.02		2.29	
Mutual Fund Units	3.43		2.75	
Derivatives	(0.13)	(6.03)	(0.32)	5.41
<b>Total Revenue from Operations</b>		<b>347.06</b>		<b>414.61</b>

#### 15.1.14 Financial Working Results

(Rs. in crore )

Particulars	2017-18	2016-17
Revenue from Operations	347.06	414.61
Other Income	12.60	83.95
<b>Total Income</b>	<b>359.66</b>	<b>498.56</b>
Total Expenses	253.80	326.36
Profit Before Exceptional items	105.86	172.20
Exceptional items	--	--
<b>Profit Before Tax</b>	<b>105.86</b>	<b>172.20</b>
Tax	33.57	32.29
<b>Profit After Tax</b>	<b>72.28</b>	<b>139.91</b>

#### 15.1.15 Disinvestment (Upto 2017-18)

Not Applicable

#### 15.1.16 Environment Management

Not Applicable

#### 15.1.17 Audit Checks

#### Revenue Recognition and Related Disclosures

##### a) To examine whether –

##### i) In case of Treasury Bills, Commercial Papers, Certificate of Deposits and Zero Coupon Bonds

The difference between the acquisition cost and the redemption value is apportioned on time basis and recognised as income. The same is included in the carrying amount of these securities and the aggregate amount is regarded as cost for the purpose of valuation.

##### ii) In case of Government Securities and Corporate Bonds

Income from Fixed Income securities is taken into account on accrual basis, provided that interest rate on these instruments is pre-determined and interest is serviced regularly and is not in arrears. The amounts paid and received towards accrued interest on the purchases and sales of Government securities and Corporate Bonds are netted off at the year-end and are recognised as income under “Interest on Government Securities” and “Interest on Corporate Bonds” respectively. Accordingly, in respect of the transactions in government securities and corporate bonds dealt with on outright basis, acquisition cost and sale proceeds are the contracted purchase price and sale price respectively.

**iii) In case of Collateralized Borrowing and Lending Obligation (CBLO) Transactions**

Transactions for borrowing and lending under CBLO are recorded at maturity value. The difference paid or received on redemption is treated as discount paid on CBLO in case of borrowing and discount earned on CBLO in case of lending. The difference between the discounted value on borrowing date or lending date as the case may be, and the redemption value of the instrument, outstanding on the Balance Sheet date is apportioned on the time basis and recognized as expense or income respectively. The unamortised discount on CBLO borrowing and lending is disclosed under other current assets and other current liabilities respectively.

**iv) In case of Pass Through Certificates (PTCs)**

The difference between the acquisition cost (as reduced by the proportionate amount of inflows) and the redemption value is apportioned on time basis (using the IRR at the time of acquisition) and recognised as accrued income. This accrued income is added to the acquisition cost (as reduced by the proportionate amount of inflows) of the respective Pass Through Certificates (PTCs) and the sum is regarded as cost (book value) for the purpose of valuation of stock-in-trade. Any income received on prepayments is added to the income.

**(v) In case of Equity Futures and Options**

(a) The initial margin and the additional margin paid for entering into equity futures and options are disclosed under the head Short Loans and Advances in the Balance Sheet or under the head Cash and Bank Balances, if given in form of fixed deposits.

(b) "Equity Option Premium Account" represents the premium paid or received for buying or selling the options, respectively. The net premium paid or received for buying or selling the option, as the case may be, is recognised as profit or loss for all settled/expired contracts. Similarly, on the expiry of the contracts and on exercising the options, the difference between the final settlement price and the strike price is recognised as profit or loss. Gains or losses on stock / index futures and option contracts are recognized on squaring up of positions or on expiry of contracts.

(c) The open positions are marked to market on the balance sheet date and net losses, if any, are provided for while net gains, if any, are not recognized.

(d) The daily mark-to-market margin paid to/ received in respect of equity futures trades is debited or credited to the daily mark-to-market equity futures account and the same is disclosed under trade receivable or trade payable, as the case may be.

(e) “Income on Equity Futures and Options” represents the net profit or loss on settled/expired positions in equity index and stock futures and options after adjusting brokerage and other transaction costs.

**(vi) In case of Commodity Futures**

(a) The initial margin and the additional margin paid on open positions of commodity futures are disclosed under the head Loans and Advances in the Balance Sheet.

(b) The daily mark-to-market margin paid to/ received from in respect of commodity futures trades is debited or credited to the daily mark-to-market margin commodity futures account and the same is disclosed under the head trade receivable or trade payable in the Balance Sheet, as the case may be. The balance in this account represents net unrealised gains or losses on open positions.

(c) The open positions are marked to market on the balance sheet date and net losses, if any, are provided for while net gains, if any, are not recognized.

(d) “Income on Commodity Futures” represents the net profit or loss on settled/expired positions in commodity futures after adjusting brokerage and other transaction costs.

**(vii) Whether the brokerage, Securities Transaction Tax (STT) and other cost incurred in connection with the acquisition of securities are added to the cost of acquisition.** The amount shown under sale of securities is net of brokerage and STT.

**(viii) Whether the Dividend income** is recognised when the right to receive the same is established

**(ix) Whether the Profit/Loss from trading in equities** is recognised on the basis of weighted average cost on trade dates. Profit/Loss from trading in government securities, corporate bonds, Mutual Fund units and other securities are recognised on the basis of weighted average cost on settlement dates.

**(x) Whether the Interest income from loan transactions** is recognised on accrual basis by applying the interest rate implicit in such contracts except in the case of income on Non Performing Assets (NPAs) which is recognised on realisation, in terms of RBI Guidelines. Processing fees on loans is recognised as income on accrual basis. Fees and additional interest income on delayed payments are recognized on accrual basis except in case where the same has been waived off by the competent authorities.

**(xi) Whether, in case of securities transferred from Stock-in-Trade to Investment Account,** the same is reckoned as sale at market price. Resultant gains or losses are recognised in the profit and loss account on the date of transfer.

**(xii) Whether Repo/Reverse Repo transactions for corporate bonds** are treated as borrowing and lending transactions. The difference between the 1st leg and 2nd leg of repo and reverse repo transaction is accounted as interest expense/income on corporate bonds repo, as the case may be, over the period of contract.

**(xiii) Whether Interest Rate Swaps Gains or losses on Interest Rate Swaps (IRS)** are accounted for on settlement dates as per the terms of the contract. The net interest income/expense in respect of the contracts outstanding as at the year end is accounted on accrual basis in respect of contracts entered into for hedging purposes.

**(xiv) Whether Interest income on tax refunds** is recognised on receipt of assessment order.

- b) To examine whether Advances are classified as per Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms into “Performing” (Standard Assets - SA) and “Non-Performing Advances” (NPAs) and further into sub-standard, doubtful and loss assets based on the period for which the repayment instalment or interest has remained in arrears. Provision is made in respect of NPA and SA, subject to the minimum provision required as per NBFC Prudential Norms, or where additional specific risks are identified by the management, based on such identification.
- c) To examine whether Investments are made by the Company in compliance with the Non Banking Financial Companies Prudential norms Direction issued by RBI
- d) To examine whether Provision for Standard Assets is maintained @ 0.4 per cent of the outstanding Standard Assets
- e) To examine Restructured Accounts, Down-gradation of Restructured Accounts, Write-Offs of Restructured Accounts etc
- f) To examine whether all the required Disclosures in terms of the provisions of Non Banking Financial Companies Prudential Norms have been made, viz., Capital to Risk Weighted Asset ratio (CRAR), Investments, Derivatives – Forward Rate Agreements/Interest Rate Swap, Exchange Traded Interest Rate Derivatives, Securitization, Asset Liability Management Maturity Pattern, Exposure to Real Estate Sector, Investments in Mortgage Based Securities and other Securitized expenses, Fund based and non Fund based exposures on National Housing Bank and Housing Finance Companies, Credit Rating of the Company for Short Term, Long Term Bank Lines, Long Term Debt (NCD) etc
- g) To examine Total Advances/Exposure to twenty largest borrowers
- h) To examine total Exposure to top four NPA Accounts,



- i) To examine sector wise NPAs including inter alia Agriculture & Allied Services, MSME, Corporate Borrowers, Services, unsecured personal loans, auto loans, other personal loans, individual borrowers etc
- j) To examine Company's Exposure to Capital Markets consisting of following
  - i) Direct investment in equity shares, convertible bonds, convertible debentures and units of equity oriented Mutual Funds, the corpus of which is not exclusively invested in corporate debt.
  - ii) Advances against shares/bonds/debentures/or other securities or on clean basis to individuals for investment in shares (including IPOs/ESOPs), convertible bonds, convertible debentures and units of equity oriented Mutual Fund.
  - iii) Advances for any other purpose where shares or convertible bonds or convertible debentures or units of equity oriented Mutual Funds are taken as primary security.
  - iv) Advances for any other purposes to the extent secured by collateral security of shares or convertible bonds or convertible debentures or units of equity oriented Mutual Funds, where the primary security other than shares or convertible bonds or convertible debentures or units of equity oriented Mutual Funds does not fully cover the advances.
  - v) Secured and unsecured advances to stock brokers and guarantees issued on behalf of stock brokers and market makers.
  - vi) Loans sanctioned to corporate against the security of shares/bonds/debentures or other securities or on clean basis for meeting promoter's contribution to the equity of new companies in anticipation of raising resources.
  - vii) Bridge loans to companies against expected equity flows/issues.
  - viii) All exposures to venture capital funds (both registered and unregistered).

## CHAPTER XVI

### FINANCE- ELECTRONIC PAYMENT SERVICES COMPANY

#### 16.1 NATIONAL PAYMENTS CORPORATION OF INDIA LIMITED

##### 16.1.1 Introduction

National Payments Corporation of India (NPCI) is a Section 8 Company under the Companies Act 2013. It was incorporated as a Public Limited Company under Section 25 of the erstwhile Companies Act 1956, on 19.12.2008, with the object to set up and implement the Retail Payment System in the country.

The Nature of Business of the Company is Payments and Settlements Technology Provider. The Registered Office of the Company is at Mumbai. The Company also has Offices at Chennai, Hyderabad, Mumbai (two Offices), Bangalore and Delhi. The Company is licensed by the Reserve Bank of India (RBI) to operate various retail payment systems in the country under the Payments and Settlement Systems Act 2007.

The Company has been promoted by ten Banks comprising six Public Sector Banks, two Private Banks and two Foreign Banks. After the **broad basing exercise** completed in Financial Year 2015-16, the total number of shareholders has gone to 56 Banks comprising of 19 Public Sector Banks, 17 Private Banks, 3 Foreign Banks, 10 Co-operative Banks and 7 Regional Rural Banks.

##### 16.1.2 Objectives

The main objective of the Company is to consolidate and integrate multiple Retail Payment Systems into Nation wide uniform and standard business process and also to facilitate an affordable payment mechanism to benefit the common man across the country and promote financial inclusion.

##### 16.1.3 Activities

**The following is the Product Portfolio of the Company :**

- 1) **National Financial Switch (NFS)** is the largest network of shared Automated Teller Machines (ATMs) in India. NFS manages about 95 *per cent* of interbank ATM transactions in the country. As on 31 March 2018, there were 1061 members that include White Label ATM Operators using the NFS Network connected to more than 2.39 lakh ATMs.
- 2) **Cheque Truncation System (CTS)** is the process of stopping the physical movement of cheques. As per the amended Negotiable Instruments Act, 1881, in Cheque Truncation, the movement of physical instrument is stopped and replaced by electronic images and the associated Magnetic Ink Character Recognition (MICR) line of the Cheque.
- 3) **National Archival Services** It is a centralized system used for storage of cheque images and data which are processed through CTS. It will retain images and data for a period of 10 years, as per Regulatory mandate.

**4) National Automated Clearing House (NACH)** It is a web based solution that covers a large number of core banking enabled bank branches spread across the country, irrespective of their location. The system can be used for processing bulk transactions for distribution of subsidy, dividend, interest, salary, pension etc and for bulk transactions for collection of periodic payments like recovery of loan installments, Systematic Investment Plan (SIP), Insurance Premium and Utility Payments like Telephone, electricity, water charges etc

**5) Unified Payments Interface (UPI)** It is a system that powers multiple bank accounts into single mobile application (of any participating bank), merging several banking features, seamless fund routing and merchant payments under one head. The salient features of the UPI are

- Immediate Money Transfer through Mobile Device
- Single mobile application for accessing different bank accounts
- Single click two factor authentication.

UPI 2.0 was launched for public on 25.08.2016, which has the inclusion of 'One time mandate with **block**' functionality. The other features under version 2.0 are inclusion of Overdraft as Underlying Account, Collect request for attachment, Foreign Inward Remittance and Signed Intent and QR to enhance security aspect.

**6) Bharat Interface for Money (BHIM)** BHIM is an app that lets anyone make simple, easy and quick payment transactions using Unified Payments Interface (UPI). Users can make instant bank to bank payments, pay and collect money using Mobile Number or Virtual Payment Address.

The Company's initiatives in the Retail Payment System are in the form of providing National Financial Switch (NFS), Cheque Truncation System (CTS), Immediate Payment Service (IMPS), Card Scheme (RuPay), National Automated Clearing House (NACH), Aadhar Enabled Payment System (AEPS), Unified Payments Interface (UPI), National Electronic Toll Collection (NeTC), Bharat Interface for Money (BHIM) etc. During the year 2017-18, the Company has taken further steps to operationalize the mandate from Reserve Bank of India (RBI) for Bharat Bill Payment Services (BBPS). It is also in the process of launching of National Common Mobility Card (NCMC). The above initiatives will contribute towards achieving cashless society. The Company through its product and services also continuously participates in the Financial Inclusion programme and Direct Benefit Transfer (DBT) initiatives. The Company has arrangement with International Card schemes such as Discover Financial Services, JCBI and China Union Pay International to provide the Global acceptance.

Apart from retail payment activities which comprise its core activities, the Company has undertaken a lot of other initiatives too. It has set up innovation council comprising of industry leaders from payment industry for activities related to innovation in payment systems.

The Company has also conducted more than 100 workshops at various locations and imparted trainings by connecting with large footprint institutions to undertake cascade style trainings. Apart from the above, the Company has created the Financial Literacy and Advisory Services (FLAS) group within the Company to undertake the mission for providing digital financial literacy.

The Company has conducted training outreach campaigns with the Northern eastern State Governments and other State Governments to promote digital financial literacy. FLAS has also launched the financial literacy campaign for visually challenged people, NDLM (National Digital Literacy Mission) campaign, RBI Financial Literacy Camps etc.

Also, the Government of India, as a part of Digital Payment awareness programme, has provided incentive to end users for the BHIM app, which is run by NPCI (the Company).

Bharat Interface for Money (BHIM) was launched as a starter UPI App that lets the customers of Bank make simple, easy and quick payment transactions using Unified Payments Interface (UPI). BHIM has been launched by NPCI as a Bank neutral PSP App on UPI Platform and is hosted and managed by NPCI itself. While UPI was launched for Public on 25 August 2016, the Common UPI App 'BHIM' went live on 30 December 2016.

BHIM enables direct bank to bank payments instantly and collect money using just Mobile number, Aadhar number or Payment Address. BHIM is one of the stepping stone to increase the digital payment in India and its downloads have been among the highest with over 20 million downloads already recorded.

As a part of Pricing structure approved by the IMPS/UPI Steering Committee, a fee of 50 paise per transaction is applicable in case of transactions done in UPI, where the Remitter Bank pays the Remitter PSP a fee of 50 Paise (per P2P transaction). Essentially, BHIM App also acts as a Remitting PSP where the Customer links his/her Account number for completing transactions.

With regard to BHIM App enablement, NPCI has entered into Service Level Agreement (SLA) with member banks, wherein the charges of 50 paise per financial transaction were initially proposed to be waived till 31 March 2017, while NPCI reserved the right to recover the charges post this initial period. The Board of the Company, at its Meeting held on 8 February 2018, approved for extending the waiver of the PSP Fee per financial transaction chargeable to the Remitting Bank for BHIM App until 31 December 2018.

NPCI has been mandated by RBI to migrate the ECS (Electronic Clearing System) into NACH (National Automated Clearing House). The Company has already migrated ECS credit volume completely to NACH and migration of ECS Debit is at the final stage. NACH system caters to both credit push and debit pull transaction processing for corporates, Government departments etc. The system is used for processing credit transactions like interest, salary, pension and other credits and also for Direct Benefit

Transfers done by various Departments. It is also used for collecting recurring payments like monthly installments of loans, utility bills and Systematic Investment Plan (SIP) related installments.

#### **16.1.4 Organizational Set up**

The Board of Directors of the Company is responsible for the overall management, superintendence and control over the affairs of the Company. The Key Management Personnel (KMP) of the Company are Managing Director & Chief Executive Officer (CEO), Chief Financial Officer and Company Secretary.

The Board of Directors of the Company as on 31.03.2018 consists of *inter alia*, the Chairman, Managing Director cum chief Executive officer (CEO), four Independent Directors, and Nominee Directors from Reserve Bank of India, State Bank of India, Bank of Baroda, Union Bank of India, Punjab National Bank, HDFC Bank, ICICI Bank, Citibank NA, Axis Bank, Saraswat Co-operative Bank, Kerala Gramin Bank, and Indian Bank. The total Board strength as on February 2018 was 17 Directors.

The following is the Organization structure of the Company, i.e., Officials under Managing Director & CEO

- i) Chief Technology Officer
- ii) Senior Vice President & Chief Financial Officer
- iii) Senior Vice President (SVP) –NACH & CTS Operations
- iv) SVP- Operations & Analytics
- v) SVP- Branding and Marketing
- vi) SVP- Development Centre
- vii) SVP-IT Infrastructure
- viii) SVP- Product Development
- ix) SVP- Risk Management
- x) SVP- BBPS (Bharat Bill payment System)
- xi) Vice President (VP) – Head- Human Resources
- xii) VP- Product Development
- xiii) VP- Cloud Computing
- xiv) VP- Certification
- xv) VP- Switching Technology (Operations)
- xvi) VP- IT Procurement
- xvii) VP- Application Development
- xviii) VP- EMV/Tap & Go Technology
- xix) VP-UPI (Unified Payment Interface)
- xx) VP- Data Centre and Office infra
- xxi) VP- Rupay & New Business
- xxii) VP- Business Development

#### **16.1.5 Capital Structure**

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 3 crore equity shares of Rs 100 each aggregating to Rs 300 crore. The Company's Issued,

Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 1,33,86,700 equity shares of Rs 100 each aggregating to Rs 133,86,70,000. (Rs 133.86 crore). As on 31 March 2018, the details of shareholders holding more than 5 per cent Equity Holding in the Company are as follows:

Name of the Shareholder	No. of Equity Shares held as on 31.03.2018	% Equity Holding as on 31.03.2018
State Bank of India	10,00,000	7.47 %
Union Bank of India	10,00,000	7.47 %
Bank of India	10,00,000	7.47 %
Bank of Baroda	10,00,000	7.47 %
Punjab National Bank	10,00,000	7.47 %
Canara Bank	10,00,000	7.47 %
ICICI Bank Ltd	10,00,000	7.47 %
HDFC Bank Ltd	10,00,000	7.47 %
HSBC Ltd	10,00,000	7.47 %
Citibank NA	10,00,000	7.47%

### 16.1.6 Budget and Planning

(Rs in crore)

Years	2015-16		2016-17		2017-18	
	Budget	Actual	Budget	Actual	Budget	Actual
Capital Expenditure	125.38	79.79	233.44	95.45	178.59	122.85
Revenue Expenditure	202.81	178.13	258.45	248.76	378.80	308.92
Revenue/Turnover	366.46	360.79	407.17	450.21	601.49	608.07
Profit/Surplus for the year Before Tax	155.60	182.86	98.97	252.27	336.84	351.85

### 16.1.7 Accounting System

The Company has Centralized system of Accounting. The Company prepares the financial statements in accordance with the Indian Accounting Standards (Ind-AS) notified under Section 133 of the Companies Act 2013. The Financial Statements have been prepared under historical cost convention, except certain financial assets and liabilities, which have been measured at fair value. The Company follows the accrual basis of accounting. The Company adopted all the Ind-AS Standards effective from 1 April 2016.

### 16.1.8 Manpower Analysis

As on 31.03.2018, the Company had 1015 Managerial and 5 Non Managerial employees. The said 1020 officials included the MD & CEO who was assisted CTO (1), SVP (10), VP & Head (1), VP (16), AVP (69), Senior Manager (93) and Manager/others (829).

### 16.1.9 MOU Targets and Achievements

Not Applicable since the Company is not a Central Public Sector Enterprise (CPSE).

### 16.1.10 Computerization

The Company has Tally Accounting system for maintenance of Accounts.

NPCI is having around 50 applications which includes online, offline, back office settlement systems and other support applications like monitoring, security and Email etc., The online applications are NFS, RuPay, AePS & BABS, IMPS, UPI, BHIM, BBPS, ECom, FRM etc. Due to increase in transactional volumes (> 500*per cent*) over the last 3 years (2015-16 to 2017-18) across applications, NPCI has initiated major migration project in 2017-18 of moving from legacy platform to X-86 commodity platform.

Online switching applications like RuPay, AePS and IMPS have already been migrated to new switching application. Currently the NFS online switch migration is in progress. The new switching solution is Active / Active architecture based with ability to grow horizontally and vertically in order to handle the increasing business volumes as and when needed. Also, AePS back office system has been migrated to new back office application. New Back office systems corresponding to RuPay, IMPS and NFS are currently being developed and tested. Migration is likely to be completed by March 2019. New back office system supports near real time settlement of transactions and has the capability to scale for increasing business volumes.

NPCINET was established and commissioned as a highly robust network, with state-of-the-art network architecture covering all the Member Banks across the country. In order to ensure high availability and uptime both for the NPCI DC locations and the Member Banks, NPCI has in place very effective 24 \* 7 monitoring, robust capacity planning and periodical technology re-fresh mechanism in place.

During the year 2017-2018, NPCI has upgraded the network processing capacity to 3x levels at the Data Centers, completed the bandwidth capacity enhancement and technology re-fresh of all the network equipment's at Member Bank ends with the latest models to cater the growing business volumes, this will also mitigate/reduce the incident downtime in the future.

#### **16.1.11 Internal Audit**

The Internal Audit of the Company is conducted by an Outside Professional Agency. The Periodicity of Internal Audit is as follows:

- i) Monthly Audit Concurrent/Transaction Audit
- ii) Yearly Audit Admin, HR, Finance, IT, Procurement, Compliance Departments, BD/Marketing Departments (As per Annual Audit Plan)

The Manual of Internal Audit containing the Audit Policy is available with the Company.

#### **16.1.12 Act, Rules, Documents**

- i) Companies Act 2013 and the applicable Rules
- ii) Income Tax Act 1961 and the applicable Rules
- iii) Central GST Act 2017 and the applicable Rules
- iv) Payment and Settlement Act 2007

- v) Guidelines, Regulations, Circulars, Notifications, and approvals issued by the Reserve Bank of India (RBI) under the Payment and Settlement Act 2007 and Regulations, 2008.
- vi) Payment and Settlement System Regulations, 2008
- vii) RBI Master Directions- Access criteria for payment systems- 2011
- viii) Information Technology Act 2000 and the Rules thereunder

### 16.1.13 Operational Results

The Revenue from Operations were as follows:

(Rs.in crore)

Particulars	2017-18	2016-17
Income from Payment Services	591.91	440.29
Certification Income	16.23	6.10
Network Income	27.42	22.55
Other Operating Income (includes Compliance Fees, Membership Fees, Income from International alliances, Hologram charges, card fees etc)	41.87	34.98
<b>Total Revenue from Operations</b>	<b>677.44</b>	<b>503.94</b>

**Operating Expenses of the Company were as follows:**

(Rs.in crore)

Particulars	2017-18	2016-17
Annual Maintenance charges-IT equipment	30.76	20.70
Network expenses	20.12	11.96
Testing and certification charges	9.08	18.00
Data centre rentals	5.85	5.59
Power and fuel	4.27	3.57
Trademark registration charges	0.08	0.04
Total	70.18	59.87

### 16.1.14 Financial Working Results

(Rs. in crore)

Particulars	2017-18	2016-17
Revenue from Operations	677.44	503.94
Other Income	51.21	44.78
<b>Total Income</b>	<b>728.65</b>	<b>548.72</b>
Total Expenses	376.80	296.45
Profit/Surplus Before Exceptional items	351.85	252.27
Exceptional items	--	--
<b>Profit/Surplus Before Tax</b>	<b>351.85</b>	<b>252.27</b>
Tax	123.57	88.81
<b>Profit/Surplus After Tax</b>	<b>228.27</b>	<b>163.45</b>
<b>Other Comprehensive Income</b>	<b>(0.02)</b>	<b>(0.18)</b>
<b>Total Comprehensive Income for the year</b>	<b>228.25</b>	<b>163.27</b>

### 16.1.15 Disinvestment (Upto 2017-18)

Not Applicable



### **16.1.16 Environment Management**

Not Applicable

### **16.1.17 Audit Checks**

- i) The Company derives Revenue primarily from operating Retail Payment Systems in India. The Company operates various retail payment systems for member banks through its services like NFS, CTS, IMPS, RuPay Card, NACH, AEPS, UPI, NeTC, BBPS etc. To examine whether Revenue from such products and services is properly accounted for all transactions routed during the audit/reporting period
- ii) The Company has entered into stage-wise (fixed price) contract with foreign vendors to establish the use of infrastructure for retail payment platforms. To examine whether the Revenue from such services, in India, out of India has been recognized as per terms under percentage completion method.
- iii) To examine whether the Committee of Independent Directors decided, from time to time, on the fee structure including waiver if any.
- iv) To examine whether Liquidated Damages are collected from suppliers as a Penalty for non delivery, as per contracted terms
- v) For better cash management, the Company has arrangement with certain Banks, where the funds exceeding the specified limit are automatically transferred to flexi deposit account as short term deposit. To examine the same in Audit
- vi) As the Company ventures towards a more cashless society, services like UPI, NeTC, AePS, BBPS etc would be major revenue generators for The Company. To examine whether the Company has made innovation and Research & Development for new products, so as to maintain its competitiveness.
- vii) To examine whether the Company has made Value Addition on the existing products so as to maintain its leadership in the market
- viii) To examine compliance with the Settlement Guarantee Mechanism Guidelines (SGM), as consented by RBI on 11.04.2012. In line with the said guidelines, the Company collects from banks availing NFS ATM Switching, IMPS services as deposits towards SGM. To examine whether the SGM Contribution is placed as earmarked fixed deposits and whether the surplus income earned on these earmarked Investments is transferred to SGM Contribution as per guidelines.
- ix) To check whether the Company is promoting activities of bankers clearing house, owning, establishing operations, etc, through electronic and paper based clearing system.
- x) To verify how far the Company has been able to develop secure, dedicated and robust communication backbone for banking and financial sector.
- xi) To check the validity of new assets that are acquired by the Company.

- xii) To verify the fee charged by the Company for various services provided by it
- xiii) To verify the tax paid by the Company.
- xiv) To check whether the Company is working as per the activities prescribed in the Memorandum and Articles of Association.
- xv) To verify Board Minutes and Agenda minutes of various Committees constituted in the Company
- xvi) To check the purchases made and contracts entered by the Company, in compliance with the General Financial Rules (GFR) of the Government of India and the Company's Purchase Procedures.
- xvii) The Company provides various services to various banks for which The Company receives fees in the form of Issuer Identification Number (IIN), Network Recovery, Certification, CTS sample Testing, NETC subscription fees etc. The Company generates revenue through these means. To examine in Audit whether the Company has been able to effectively make recovery from its debtors for services provided/rendered.
- xviii) NPCI provides associated services like Certification, Network Maintenance & Issuer Identification Number (IIN) to the Member Banks as part of payment system provider. To examine whether the services provided by the Company on need basis are charged as per tariff rates approved by Board.
- xix) The Company is an umbrella organisation for retail payment systems in India. It was set up in 2009 with the support and guidance of Reserve Bank of India (RBI) and Indian Banks' Association (IBA) to provide swift, convenient and anytime-anywhere payment services. The Company's vision is to be the best payments network globally. To examine incidents of down time errors or technical glitches at various locations of the Company across India due to which the transactions were affected .
- xx) To examine number of incidents where the time taken to resolve the issue varied between one day to 21 days which is too long a period for the given Company, considering its strategic operational importance in the financial sector, and despite the presence of a Chief Security Information Officer (CSISO) (appointed by the Company in the year 2017-18 .
- xxi) Whether the Company has a robust system in place to curb the technical errors or run-time/down-time errors.
- xxii) To examine the reason for system downtime as attributed to Migration/transformation and changes involving user banks

## CHAPTER XVII

### FINANCE- Section 8 Company (CSR)

#### 17.1 SBI FOUNDATION

##### 17.1.1 Introduction

SBI Foundation, a wholly owned Subsidiary of State bank of India (SBI), is a Not for Profit Company, within the meaning of Section 8 of the Companies Act 2013. The Company was incorporated on 26 June 2015. The main objective of the Company is to bring all the Corporate Social Responsibility (CSR) activities of State Bank Group (SBG) under one umbrella and contributing to the efforts made by the SBG in supporting and uplifting the under privileged sections of society. The Company's Head Office is at Mumbai.

##### 17.1.2 Objectives

SBI Foundation is an attempt to initiate, execute, implement activities directed towards enhancing the quality of life of poor and needy sections of society without reference to race, religion, creed, caste or sex and to seek ways and means of reducing and ultimately eradicating malnutrition, extreme poverty and improving their health and physical and mental condition and well-being and pursue all such aspects thereof that would help in achieving the said objective in a sustainable and scalable way.

SBI Foundation envisions to network with NGOs to promote, undertake activities that would support, encourage and promote education among the masses including the underprivileged and provide them with quality learning and remove illiteracy, by the way of developing, acquiring, maintaining, or supporting school, colleges, study centre, to improve the system of education in the country, imparting traditional or new learning skills in formal and non-formal institution.

The SBI Foundation (Company) has been established to undertake projects that are long-term, impact-oriented, and focuses on uplifting the lives of marginalized communities in the country. The focus areas of the Company are education, healthcare and sanitation, rural development, women empowerment and care for elderly citizens and environment and sustainability. The Company works in collaboration with reputed NGO partners to provide equitable development opportunities to people living in the poorest areas of the country. The Company is supposed to identify, conduct due diligence and select implementing agencies and partners for project implementation. Thus, involvement in the CSR activities is the core activity of the Company.

##### 17.1.3 Activities

The Company channels the donations received from State Bank of India (SBI) and its subsidiaries into various charitable activities as mandated by Constitution (of SBI). The Company (State Bank Foundation), a Section 8 Company, has been set up for carrying out the Corporate Social Responsibility (CSR) activities of the State Bank Group. SBI

Foundation, being the Non Profit Organization, has not paid any Royalty to SBI since inception

SBI Foundation is in its initial year of operations. Every year, the Company receives grants from SBI and Group Subsidiaries based on their Profits. Funds received from various SBI Subsidiaries are not in one chunk, it comes to SBI Foundation in tranches. Amount is not spent immediately as the whole process of scouting Projects to final approval of the Projects by the relevant Committee of SBI Foundation takes 3 to 6 months.

SBI Foundation scouts for Projects around the year. On receiving feasible Projects, discussions are held with NGOs to submit a concrete project plan and the budget. The Projects are then presented to the appropriate Authority (Committee) for seeking their approval. If the Projects get sanctioned, the Company (SBI Foundation) issues a grant letter to the NGO and starts the Project. In case the Projects did not receive the Approval from the Committee, the Foundation has to find another project and present to the Committee.

The SBI Group Subsidiaries have the option to contribute their entire CSR Budget to SBI Foundation. Subsidiaries with small budget are contributing the entire CSR Budget to SBI Foundation. Other Subsidiaries have their ongoing Projects/Commitments for which they keep a percentage of funds and contribute the remaining to SBI Foundation.

The unspent amount is carried forward to the next Financial year and is utilized for the Projects to which it is earmarked to. For accounting purpose, the excess of income (surplus) over expenditure is considered as Profit.

#### **17.1.4 Organizational Set up**

The Company has a Board of Directors consisting of Chairman, five Directors, three Independent Directors and Managing Director. The Company also has a Chief Financial Officer (CFO). The Company has also constituted an Audit Committee as per decision taken in the Board Meeting (December 2017), consisting of four Directors, of whom two are Independent Directors.

#### **17.1.5 Capital Structure**

The Authorized Equity Share Capital of the Company as on 31.03.2018 is 40 lakh equity shares of Rs 10 each aggregating to Rs 4 crore. The Company's Issued, Subscribed and Paid Up Equity Share Capital as on 31 March 2018 was 40 lakh equity shares of Rs 10 each aggregating to Rs 4 crore.

As on 31 March 2018, the Holding Company State Bank of India held 39,88,800 number of Equity Shares of Rs 10 each aggregating to Rs 3,98,88,000 constituting 99.72 *per cent* Equity Holding in the Company.

#### **17.1.6 Budget and Planning**

(Rs in crore)

Years	2015-16	2016-17	2017-18
Particulars	Actual	Actual	Actual
Grant/Donation received	0	22.48	25.71
Income from Operation	0	0.92	0.64
Total Income	0	23.40	26.35
Expenditure			
Grant/Donation spent towards Projects	0.05	9.88	27.18
Other Expenses (Admin, Depr)	0.05	0.40	0.79
Total Expenses	0.10	10.29	27.97
Surplus (+)/(Deficit (-))	(0.09)	13.11	(1.62)

The Board of Directors of the Company, at its Meeting held on 15 March 2018, approved the Annual Budget of Rs 52.40 crore for FY 2018-19 as follows:

(Rs in crore)

Sl No	Particulars	Amount
1	Estimated Budget for ongoing Projects/Programme	21.07
2	Estimated Budget for the Flagship Project	26.50
3	Estimated Budget for Renewal of existing Project	3.83
4	Estimated Administrative Expenses	1.00
	<b>Total</b>	<b>52.40</b>

#### 17.1.7 Accounting System

The Company has a Centralized system of Accounting. The financial statements of the Company are prepared in accordance with the generally accepted accounting principles in India (Indian GAAP). The Company prepares the financial statements to comply in all material respects with the Accounting Standards notified under the relevant provisions of the Companies Act 2013. (Section 133 of the Companies Act, 2013 read with Rule 7 of the Companies (Accounts) Rules, 2014. The Company follows the Mercantile system of Accounting on accrual basis. As per the Company's Significant Accounting Policy, Contributions received are recognized as Income in the year of Receipt.

#### 17.1.8 Manpower Analysis

As on 31 March 2018, the Company had 16 Managerial and 2 Non Managerial Employees. SBI Foundation had recruited seven Advisor/Program Managers/Associates from mid of 2016-17. Further, four more employees were recruited in 2017-18.

#### 17.1.9 MOU Targets and Achievements

Not Applicable, since the Company is not a Central Public Sector Enterprise (CPSE).

#### 17.1.10 Computerization

There is no ERP/IT system in the Company.

### 17.1.11 Internal Audit

The Company has a duly constituted Audit Committee under the provisions of the Companies Act 2013. The Statutory Auditors of the Company have reported ( the Year Ending (Y/E) 31 March 2018), that the Company has adequate Internal Financial Control considering the nature of activities of the Company. The Company does not have any Manual of Internal Audit. However, the Company has not given any specific information as to whether the Internal Audit is conducted in-house through the Company's own resources or has been entrusted to an independent outside firm of Chartered Accountants.

### 17.1.12 Act, Rules, Documents

- i) Companies Act 2013 and the Rules there under
- ii) Corporate Social Responsibility -CSR Rules 2014 (Companies Act 2013)
- iii) Income Tax Act 1961 and the Rules there under

### 17.1.13 Operational Results

The following are the details of CSR Projects and Program Status Reports as per Minutes of the Company's Board Meeting held on 15 March 2018

Programs/Projects	No. of Projects	No. of Projects completed	No of Projects completed & renewed for 2017-18	No of Projects Completed and to be renewed for 2018-19	Total Sanctioned Fund (Rs in crore)	So far Disbursed Fund (till March 2018) (Rs in crore)	Projects ongoing
Partnership Projects in 2016-17	24	14	1	3	23.38	19.95	6
Partnership Projects in 2017-18	15	0	0	2	20.83	6.63	13
SBI GRAM SEVA	10	0	0	0	24.03	4.99	10
Centre for Excellence	02	0	0	0	1.32	0.40	2
SBI Youth for India	01	0	0	0	3.40	2.03	1
<b>Total</b>	<b>52</b>	<b>14</b>	<b>1</b>	<b>5</b>	<b>72.91</b>	<b>34.00</b>	<b>32</b>

The Revenue from Operations were as follows:

(Rs.in crore)

Particulars	2017-18	2016-17
Donation/Grant received	25.71	22.48,
<b>Total Revenue from Operations</b>	<b>25.71</b>	<b>22.48</b>

The following are the expenditure details of Donations/Grants towards Projects

(Rs. in crore)

Particulars	2017-18	2016-17
Towards Health	7.64	6.74
Towards Education	6.06	2.13
Towards Rural Development	7.72	0.41
Towards Swachh Bharat	3.12	0.41
Towards Environment	1.71	0.12
Other Sectors	0.90	0.04
<b>Total</b>	<b>27.18</b>	<b>9.88</b>

#### 17.1.14 Financial Working Results

(Rs. in crore)

Particulars	2017-18	2016-17
Revenue from Operations	25.71	22.48
Other Income	0.64	0.92
<b>Total Income</b>	<b>26.35</b>	<b>23.40</b>
Total Expenses	27.97	10.29
Surplus/(Deficit) for the period from Continuing Operations	(1.62)	13.11
Exceptional items	--	--
<b>Profit (Loss) Before Tax</b>	<b>(1.62)</b>	<b>13.11</b>
Tax	--	--
<b>Profit (Loss) After Tax</b>	<b>(1.62)</b>	<b>13.11</b>

#### 17.1.15 Disinvestment (Upto 2017-18)

Not Applicable

#### 17.1.16 Environment Management

Not Applicable

#### 17.1.17 Audit Checks

##### 1. Points to be seen in each selected project

- a. Proposal / Request received is in prescribed format and that format is fully filled in and signed.
- b. Papers / notings regarding scrutiny of the proposal is available in the file
- c. Sanctioned by the authorised person / committee.
- d. Papers / notings regarding monitoring the progress of the project is available in the file.
- e. Properly signed Grant Utilisation certificate, is available in the file before release of each instalment.
- f. The total of the granted fund is not beyond the sanction.
- g. Audited report regarding the project expenditure is available (It may be annual report of the NGO which includes the name of project and expenditure thereon)
- h. Is there delay in taking decision and communicating the decision by the Company.
- i. Because of the delay by the Company, was there increase in the cost of the project Or the purpose of the project was defeated.

2. Points to be seen in rejected project
  - a. Reason of the rejection of a proposal is on record and as per the laid down parameters.
  - b. SBI Foundation's decision is communicated to the proposing company without delay.
3. What are the efforts made by the Company to get more and more fund from SBG for CSR activities.
4. Whether the Board approved the targets for the Company and its achievement may be reviewed.
5. Whether the Board approved Investment Policy is in place and surplus funds are invested as per the approved Investment Policy
6. Whether the Board approved HR policy covering recruitment, promotion, increments etc is in place and it has been followed.
7. Provision / Transfer of vehicles to Officials on deputation from State Bank of India may be reviewed.
8. Review legal cases, complaints against the Company.
9. Whether the Contributions received by the Company are recognized as Income in the year of Receipt.



### Audit Design Matrix and Check List for Audit of Contracts

Head Quarters Office , vide letter no. 143/CA-IV/02-2015/Contract Audit dated 25.07.2016, has approved the Audit Design Matrix and Check List on Audit of Contracts. The same is as follows:

#### Audit Design Matrix for Audit of Contracts (ADMAC)<sup>8</sup>

##### A) Award of Contracts:

**Main Audit objective: Whether contracts were awarded at the most competitive prices, following transparent process, providing equitable opportunity to all prospective parties**

Audit sub-objective		Question	Evidence	Data collection and audit analysis method
Sl. No.	Sub-objective			
1	Whether organisation has procurement manuals for guidance and consistency in actions of those involved in award of contracts.	Whether a codified Purchase Manual containing the detailed purchase procedures, guidelines and also proper delegation of powers, existed in the organization to facilitate systematic and uniform approach in the decision-making?	Existence of a codified Purchase Manual and Delegation of Power	Enquire from the Management
		Whether tender committee was constituted based on the estimated value as per requirement of Purchase manual?	Constitution of tender committee not based on estimated value as per Purchase Manual. Office order/memo for constitution of tender committee	Review of purchase files

<sup>8</sup>Based on checklist on audit of contracts circulated by Headquarters office to all field offices vide their letter no 138- CA-IV/02-2015/Contract Mgmt. dated 12.06.2015

Audit sub-objective		Question	Evidence	Data collection and audit analysis method
Sl. No.	Sub-objective			
		Whether a separate file is opened for a new contract/tender and the relevant documents are maintained with proper indexing and numbering?	Procurement documents staggered in different files and remaining unnumbered	
		Whether requisitioning of the stores/spares was done with the prior approval of Competent Authority after taking into account the available stock, quantities already ordered, past consumption pattern, average life of the spares?	Initiation of PR without approval of competent authority and/or without considering all relevant factors.	Review of Purchase Requisitions
		Whether requirements were clubbed so as to get the most competitive and best prices?	Frequent PRs being raised for the same item	
		Whether requirements split to avoid approval from higher authorities?		
		In case of purchase of capital equipment, whether procurement was justified and supported by calculations of Return on Investment and rate of return?	Justification for investment proposal (Examination of NPV, IRR, payback period, etc.)	Review of procurement decision approval file.
		Whether estimated cost was worked out in a realistic and objective manner. The same should be worked out on the basis of prevailing market rates, last purchase prices, economic indices for	Estimated cost being worked out by ignoring one or more of the relevant factors.	Estimate file

Audit sub-objective		Question	Evidence	Data collection and audit analysis method
Sl. No.	Sub-objective			
		material, labour and other inputs?		
		Whether data bank of above elements was maintained and the same updated at regular intervals?	Non-existence of data bank	Review of data bank
		In the case of single tender whether justification for purchase from a single vendor was placed on record along with approval of Competent Authority and comments of associated finance?	Decision to go for single tender not supported by proper justification and not vetted by finance.	Purchase file
		Whether works awarded at prices higher than estimated costs were used as benchmarks for preparing estimates for subsequent works?	Rates of previous orders awarded under special/emergent situation being used for preparation of cost estimate.	Review of circumstances in which orders being used for preparing cost estimate of subsequent works, were awarded.
		Whether the Vendors/ Contractors list is maintained and the same is being updated periodically?	Vendors list not being updated periodically.	Review of vendors list.
		In case of any work/contract to be executed on the basis of any aid/soft loan or concessional loan received from World Bank/ Asian Development Bank or any other international financial institution, whether the loan	Conditions associated with soft loan not considered in the bidding documents	Review of bidding documents w.r.t. loan agreements.

Audit sub-objective		Question	Evidence	Data collection and audit analysis method
Sl. No.	Sub-objective			
		conditions were taken care of while framing the bid documents.		
		Whether appointment of consultant was justified, and appointed based on tender system?	Appointment of consultant not justified	Review of files relating appointment of consultant.
		Whether detailed project report/ feasibility report was prepared for the project work <b>based on the latest field information and the prevailing conditions.</b>	Non preparation of DPR/Feasibility report for the project.	Enquiry from the management
		<b>Whether the company has a clear policy on the issue of material indent which pronounces the issue of indent at right time and quantities?</b>	<b>Absence of policy for issue of indents</b>	
		<b>Whether all e-mail correspondences are printed out with detailed trailing e-mail?</b>	<b>Non-keeping of print-outs of e-mail correspondences</b>	
		Whether the terms and conditions of contracts were in conformity with the relevant laws, rules and approved policy of the Company/ GOI directives/ CVC guidelines?	Non-conformity of the terms and conditions of contract with relevant laws/Govt. policies & directives/CVC guidelines.	Review of contract agreements.
		Whether the Company has a laid down policy for resolution of contractual disputes through outside	Non-existence of policy and mechanism for resolution of contractual disputes.	Enquiry from the management

Audit sub-objective		Question	Evidence	Data collection and audit analysis method
Sl. No.	Sub-objective			
		Expert Committee / Arbitration?		
2.	Whether Notice for Invitation of Tender (NIT) was given adequate publicity	Whether wide publicity is given to the NIT in the required number of local dailies and <b>national dailies newspapers along with hosting of such NIT in company's own websites.</b>	NIT not publicised widely	Review of purchase file.
		Whether tender notices sent to all the registered/past/likely suppliers/vendors?	Tender notice not sent to any of the registered/past/likely supplier	
		Whether open/global tender enquiries were published in Indian Trade Journal (GoI Publication)?	Global tender enquiry not published in ITJ.	
		In case of imported material, whether Indian Missions /Embassies of major trading countries were informed to give publicity in those countries?	Indian Missions/Embassies of major trading countries not informed about tender enquiry	
		Whether prescribed minimum time was allowed to prospective bidders to submit their bids?	Prospective bidders required to submit bid in less than prescribed minimum time.	
		In case of open advertised tender inquiries, whether, four to six weeks and in case of limited tender inquiries, 21 to 30 days were given for tender submission <b>as per CVC guidelines. In case company went for shorter</b>		Review of purchase file.

Audit sub-objective		Question	Evidence	Data collection and audit analysis method
Sl. No.	Sub-objective			
		<b>time frame whether the reasons for the same were recorded?</b>		
		In respect of limited tender enquiry, whether enquiries were issued for the number of vendors as specified in purchase manual and <b>whether the vendors met all the pre-qualification criteria?</b>	Limited tender enquiry issued to less than prescribed number of vendors. Vendor(s) not meeting pre-qualification criteria	
		In case of single tender enquiry whether detailed justification, approval of competent authority and finance concurrence was obtained?	Decision to go for single tender not supported by proper justification and not vetted by finance.	Purchase File
		Whether minimum criteria for evaluation/selection was established and included in NIT?	Pre-qualification and evaluation criteria not included in NIT.	
3.	Whether the Bidding Documents included all information in clear terms that might be required for preparation of a valid bid by the bidders and for equitable evaluation of bids by the Tender	Whether the Bid Evaluation Criteria (BEC) and Bid Rejection Criteria (BRC) including bidders' qualification requirements were prepared as per the approved policy of the Company?	Non-conformity of BEC, BRC and Qualification Requirements with approved policy of company.	Review of bidding documents.
		Whether the scope of work was defined in exhaustive and unambiguous terms and Bill of Quantities included all items of work required to be carried out to complete the subject work as per	Ambiguity in scope of work and BOQ included in bidding documents.	

Audit sub-objective		Question	Evidence	Data collection and audit analysis method
Sl. No.	Sub-objective			
	Evaluation Committee.	technical specifications, tendered design & drawings and construction method envisaged to be followed?		
		Whether important clauses relating to Earnest money, Delivery Schedule, Payment terms, Performance/Warranty, Bank Guarantee, Pre-dispatch inspection, Arbitration, Liquidated Damages/Penalty for the delayed supplies and Risk purchase etc. are incorporated in the bid documents?	Non-inclusion of important provisions relating to EMD, delivery schedule, inspection, LD, arbitration, etc. in bidding documents	
		Whether the price to be quoted is firm price basis or with price escalation subject to a ceiling on maximum amount of escalation?	Basis of price to be quoted not included in NIT	
		Whether time/date for receipt and opening of tenders was incorporated in the bidding documents?	Time/date for receipt and opening of tenders not indicated in bidding documents.	
		Whether Evaluation/Loading criteria on account of acceptable range of deviations in the commercial terms and conditions viz. Payment Terms, Delivery period, Performance Bank Guarantee etc. was incorporated in	Evaluation and loading criteria included in bidding documents being vague.	

Audit sub-objective		Question	Evidence	Data collection and audit analysis method
Sl. No.	Sub-objective			
		unambiguous terms in the bidding documents?		
		Whether technical specifications and technical evaluation criteria (Qualifying Requirement), were specified in unequivocal terms in the bidding-documents?	Technical specifications included in bidding documents not in unequivocal terms.	
		Whether the financial criteria (e.g. net worth and the average annual turnover) was prescribed in the Notice Inviting Tender?	Non-inclusion of financial criteria in NIT.	
		Whether Qualifying Requirement was relaxed, without proper justification on records, to facilitate entry of a new party?	Relaxation in PQ criteria with reference to those adopted earlier without recorded justification.	
4.	Whether tenders were received up to fixed date and time and whether as per CVC guidelines bids were opened on the same day by following transparent process and providing equitable opportunity to all bidders.	Whether there was arrangement of tender box for receipt of tenders at scheduled date and time fixed for tender opening, instead of receiving tenders by the receptionist or the concerned Purchase Officer?	Tender box not being used for receipt of tenders.	Review of purchase files
		In cases where extension in the tender opening was allowed due to change in the specifications, whether sufficient time to submit the bids as per the revised specifications was allowed	Change in bid opening time necessitated by change in specification not intimated to all bidders who purchased bidding documents.	



Audit sub-objective		Question	Evidence	Data collection and audit analysis method
Sl. No.	Sub-objective			
		and whether intimation of tender opening extension was sent to all the bidders who had purchased the bidding' documents?		
		Whether a change in bidding documents accepted based on challenge by a tenderer was communicated to all other tenderers?	Change in bidding documents as a result of challenge by a bidder not communicated to all prospective bidders.	
		Whether tenders were opened in the presence of representatives of bidders and in token of their presence during tender opening whether their signatures were obtained?	Any bidder or his representative denied presence during tender opening.	
		In cases where rates were not quoted in both words and figures, whether this fact was recorded by Tender Opening Committee?	Not recording of facts regarding non-quotation by any bidders of rates in both words and figures.	
		In cases of cuttings/over writings, whether the numbers of cuttings & over-writings on each page of the price bid were mentioned by Tender Opening Committee; and whether each cutting / over writing was encircled and attested?	Cuttings/over writings of each page not marked and attested by all members of tender opening committee.	
		Whether the tender opening committee prepared 'on the spot statement' giving	Non-preparation of record notes of tender opening.	

Audit sub-objective		Question	Evidence	Data collection and audit analysis method
Sl. No.	Sub-objective			
		details of the quotations received and other particulars like the prices, discount, taxes, duties and EMD etc. as read out during the opening of the tenders?		
		<b>In case of Single Stage Single Envelope bidding system whether the weightage given to technical and financial aspects of the tender is appropriate"?</b>	Inappropriate weightage given to technical and financial aspects	
		In case of 'Two bid' system, whether after opening technical bids, the envelopes containing price bids (which are to be opened subsequently) were signed by all members of Tender Opening Committee and whether all envelopes were kept in a bigger envelope duly signed by representatives of bidders?	Envelopes containing price bids not kept in a bigger envelope duly signed by all members of tender opening committee and representatives of bidders.	
		Whether the bids not accompanied by bid guarantee/valid NSIC certificate in lieu of bank guarantee in the prescribed form and for the required amount were rejected?	Acceptance of bid guarantee not in prescribed format and for less than prescribed amount.	
		Whether it was ensured that the bidder was not banned/black listed/suspended in earlier	Consideration of tenders submitted by parties banned/black listed/suspended by	

Audit sub-objective		Question	Evidence	Data collection and audit analysis method
Sl. No.	Sub-objective			
		contracts by the Company or any other PSE?	company or any other PSE in earlier contracts.	
		Whether the original price bid along with the price implication bid of only those who are technically qualified were opened?	Opening of price bid of technically un-responsive bidders.	
5.	<b>Whether tendering process (i.e. through open tender, limited tender or rate contracts) to be followed was decided after considering all relevant factors</b>	<p><b>If parties in other countries could be expected to supply goods/services desired to be procured and the estimated value of goods/services to be supplied was large enough to push foreign parties to participate in the tender, whether Global tender was issued.</b></p> <p><b>In cases where invitation of tenders on Global basis was a pre-condition for availing Deemed Export Benefits, whether Global tenders were issued to avail such benefits.</b></p> <p><b>Whether invitation of tenders on limited basis was a normal practice or adopted on exception basis?</b></p>	<p>Non-issue of global tender where justified</p> <p>Practice of inviting of tenders on limited basis</p>	Review of files relating to award of work

Audit sub-objective		Question	Evidence	Data collection and audit analysis method
Sl. No.	Sub-objective			
		<b>Whether reasons for inviting tenders on limited basis instead of open basis as recorded in the case file were justified?</b>	Reasons recorded or inviting tender on limited basis	
		<b>Whether the Company maintained a duly approved list of vendors from whom tenders could be invited on limited basis for procurement of various items? Whether list of empanelled vendors is being updated every year as per CVC guidelines?</b>	Maintenance of list of vendors from whom tenders could be invited on limited basis	Review of files relating to award of work
		<b>Whether tender inquiry was sent to all parties on approved list?</b>	Dispatch of tender inquiry to all parties.	
		<b>Whether rates of various items with specifications not suited to a particular party were decided after inviting open tender?</b>	Decision about rate of certain items after invitation of tenders.	
		<b>Whether rate contracts were revised after inviting tenders at regular interval?</b>		
		<b>Whether rate contract provides for price variation? Also whether the award of contracts provides for clause for risk and cost basis on default?</b>	Existence of clause regarding price variation risk purchase in contract.	

Audit sub-objective		Question	Evidence	Data collection and audit analysis method
Sl. No.	Sub-objective			
		Whether there were cases involving extension of the stipulated delivery schedule when payment of higher prices had been agreed to initially on grounds of urgency of requirements and early delivery?	Time extension granted in cases where higher price was justified on the ground of urgency.	
6.	Whether bids were evaluated in most transparent manner with fairness to all bidders	In case of a new bidder, whether the reliability of experience certificates submitted with bid were got verified from the organization issuing such experience certificates?	Non-verification of experience certificates of a new bidder from the issuing organisation.	Review of purchase file.
		Whether comparative statement of rates of bidders was correctly prepared as per the price bids containing break up of all taxes and duties?	Comparative statement of rates not prepared correctly.	
		Whether procurement case file was retained by any officer for unduly long period during the procurement process without justified grounds put on record.	Retention of purchase case file by any officer for unjustifiably long period during procurement process.	
		Whether post tender negotiations were carried out with bidders other than the L1 bidder without recording exceptional circumstances necessitating such negotiations	Post-tender negotiation with other L1 bidder	

Audit sub-objective		Question	Evidence	Data collection and audit analysis method
Sl. No.	Sub-objective			
		Whether capacity & capability of L1 party was established with reference to documents submitted by the party relating to past experience and financial performance.	Non-establishment of capacity and capability of L1 party	
		If the offer of the L1 bidder was not accepted, whether the reasons given were satisfactory?	Unjustifiable reasons for rejecting the offer of L1 bidder.	
		In case of two envelope bidding process, whether capacity & capability of all technically responsive bidders was deliberated and established before opening price bids.	Opening price bid of any bidder who was not found technically responsive.	
		Whether reasonableness of rates with reference to estimated rates and latest market conditions was established by the Tender Evaluation Committee.	Non-establishment of reasonableness of rate accepted with latest market conditions.	
		Whether any changes in technical specification and change in eligibility criteria took place during evaluation?	Change in technical specification and/or eligibility criteria during evaluation.	
7..	Whether specific checks according to type of contracts were applied	Whether tenders were invited on fixed cost basis or variable cost basis? (Tenders invited on one basis should explicitly exclude consideration of	Tenders both with fixed and variable price basis were considered.	Review of purchase file

Audit sub-objective		Question	Evidence	Data collection and audit analysis method
Sl. No.	Sub-objective			
		tenders submitted on other basis)		
		In case tenders were not invited on fixed cost basis, whether reasons for not inviting tender on that basis were recorded?	Reasons for calling tenders other than on fixed cost basis not recorded.	
		Whether tenders for works with scheduled completion period of more than 12 months were invited with escalation clause?	Tenders with completion period of 12 months or more not invited with escalation clause.	Review of bidding document
		Whether escalation formula was pre-defined and included in bidding documents?	Non-inclusion of escalation formula in bidding documents.	
		Whether proportion of various input elements used in escalation formula were representative of their actual share in cost of subject work?	Weightage of various elements in escalation formula not representative of their share in total cost.	
		Whether sources of various economic indices to be used for payment of escalation were included in bidding documents?	Non-inclusion of economic indices for working out escalation amount in the bidding documents.	
		Whether there was provision to freeze the escalation rate in case of and for period of extension attributed to contractor?	Non-inclusion of provision regarding freezing of price increase for periods of delay attributable to contractor.	

Audit sub-objective		Question	Evidence	Data collection and audit analysis method
Sl. No.	Sub-objective			
8.	Whether E-Procurement system was designed to ensure security of data provided audit trail facilities.	Whether E-procurement System was designed as per defined workflow.	Lack of security features and sufficient of audit trail in the system	Review of e-procurement system
		Whether E-procurement system employed security technologies and security best practices to avoid data loss, leakage or manipulation.		
		Whether E-Tendering System has templates to offer flexibility in bidding methodologies.		
		Whether the system met the requirements of guidelines issued from time to time by Central Vigilance Commission.		
	Whether E-Procurement application has audit trail facilities?			
9.	Whether Reverse Auction was carried out as per guidelines laid down in this regard	Whether Company has laid down guidelines to be followed by each unit/division/region for conducting reverse auction for purchase of material/services and whether on the basis of approved guidelines, the unit/division/region has issued procedure to be followed during reverse auction?	Existence of guidelines regarding Reverse Auction	Review of file relating to award of work



Audit sub-objective		Question	Evidence	Data collection and audit analysis method
Sl. No.	Sub-objective			
		Whether the starting price and bid decrement value for the auction were decided on the basis of recommendations of a duly constituted purchase committee?	Fixing of starting price and decrement value in an arbitrary manner.	
		While fixing starting price, whether factors like last purchase price, estimated price, cost of near equivalent item (in case of first time procurement) were considered?	Non-consideration of last purchase price, estimated price, etc. while fixing starting price.	
		Whether all vendors were informed in writing about the scheduled date & time and the service provider appointed by the Company to provide all necessary training and assistance before commencement of on line bidding on internet?	Vendors not informed about scheduled date & time of reverse auction and no provision of training and assistance to vendors before online bidding.	
		Whether the vendors had duly intimated through fax, e-mail, speed post etc., the compliance form in the prescribed format (provided by service provider) before start of Reverse Auction; and whether this was considered as an eligibility condition for vendors to participate in Reverse Auction?	Non-furnishing of compliance form in prescribed format by vendors	

Audit sub-objective		Question	Evidence	Data collection and audit analysis method
Sl. No.	Sub-objective			
		Whether Reverse Auction started on scheduled date & time?	Start of reverse auction on date & time other than the scheduled ones.	
		Whether Reverse Auction was monitored by authority appointed for this purpose?	Authority monitoring the reverse auction	
		Whether the lowest bidder sent through fax, e-mail, speed post etc., duly signed filled-in prescribed format as provided by the Company within prescribed time period (generally 24 hours) of Auction?	Non-furnishing of duly signed prescribed format by lowest bidder within prescribed time after auction.	
		In case of any variation between on-line bid value and the same sent as a signed document. Any variation was considered by the Company as sabotaging the tender process and whether action, including disqualification of vendor to conduct business with the Company, was taken against such bidder as per Company's Policy & Procedure?	Not taking action against defaulting vendor	Review of files relating to award of work.
10.	Whether specific purposes which were envisaged at the time of award of	Whether justifications for awarding contract on nomination basis were recorded with approval of competent authority and associated finance?	Reasons recorded for going in for award of work on nomination basis with approval of competent authority and vetted by finance.	Review of award file.

Audit sub-objective		Question	Evidence	Data collection and audit analysis method
Sl. No.	Sub-objective			
	contracts were materialised in respect of nomination basis contracts.	Whether no other manufacturer/supplier could have supplied the item to be purchased?	Readiness of other manufacturer/supplier to supply the item to be purchased	
		Whether circumstances were such that award of work on nomination basis was necessary?	Reasons recorded for going in for award of work on nomination basis with approval of competent authority and vetted by finance.	
		Whether in spite of inviting tender it was expected that no other vendor would respond?		
		Whether there was delay in execution of the project even after it was awarded on nomination basis defeating the object of award of contract on nominations basis i.e. early completion of the work?	Reasons for delay & loss in execution of project even after awarding work on nomination basis	
		Whether there was time and cost overrun of the project resulting in loss to the company and the same was analysed and approved by competent authority?		
11.	Whether all pre-cautions to safeguard organisation's interest were taken while awarding contracts on	Whether the reason for awarding the contract on risk and cost basis is justified and properly documented?	Reasons for awarding contract on risk and cost	Review of files relating to termination of defaulting contractor and award of balance work
		Whether Performance Bank guarantee/securities taken	Non-encashment of BGs of defaulting contractor	

Audit sub-objective		Question	Evidence	Data collection and audit analysis method
Sl. No.	Sub-objective			
	risk and cost basis	from the original contractor were encashed?		to new contractor
		Whether proper notice of termination of contract and award of the remaining portion of the work on risk and cost basis was served to the original contractor?	Proper termination notice not served before awarding work on risk & cost basis.	
		Whether proper assessment of incomplete work and work not done by the original contractor has been properly documented?	Assessment of work not done by original contractor	
		Whether all items of work which were incomplete/not done by the previous contractor were included in the contract awarded on risk and cost basis?	Inclusion of left over work by original contractor in contract awarded on risk and cost basis.	
		Whether action was taken by the management to recover extra cost incurred on account of award of contract on risk and cost basis was recovered from the original contractor?	Non-recovery of extra cost from original contractor	
		Whether penal action as prescribed in the original contract was taken timely against the original contractor?	Taking penal action against defaulting contractor.	
		<b>Whether the company has withheld the payment of RA Bills and LD for the</b>	Amount withheld on account of LD for delayed performance	

Audit sub-objective		Question	Evidence	Data collection and audit analysis method
Sl. No.	Sub-objective			
		<b>delayed performance of the contractor?</b>		
12.	Whether award of contract was done immediately after award approval and in case of refusal to accept award action as per company's procurement policy was taken against the defaulting party	<p>In cases where the L1 bidder refused to accept the Letter of Award, whether earnest money submitted by him along with the bid was forfeited and any other action as per company's procurement policy was taken against the defaulting party.</p> <p>In case of L-1 backing out then as per CVC guidelines whether the contract has been put to retendering?</p> <p>Whether all terms and conditions/specifications as included in bidding-documents were made part of contract agreement.</p> <p>Whether contract agreement was entered into after award of contract?</p> <p>Whether the contracts were awarded in time?</p>	<p>Action taken against L1 bidder refusing to accept award</p> <p>Re-tendering of work in case of refusal of L1 bidder</p> <p>Change in any of the term &amp; conditions included in bidding documents while framing agreement.</p> <p>Delay in award of contract after award approval</p>	Review of files relating to award of work.

**(B): Execution of Contracts:**

**Main Audit objective: Whether contracts were executed strictly as per agreed terms and conditions and fulfilment of all contractual obligations was ensured at the time of contract closing.**

13.	Whether execution of contracts was done strictly as per agreed terms & conditions and execution was monitored as per provisions of procurement/works manual.	Whether Performance Bank Guarantee and Bank Guarantee against advance were received from contractor in the prescribed format before release of advance?	Release of advance without obtaining BG in prescribed format.	Review of BG Registers and BG formats
		Whether there is proper laid down procedure for safe custody and monitoring of Bank Guarantee or other instruments?	Existence of mechanism for safe custody and monitoring of BGs to keep them live.	Enquiry from the management.
		Whether the advance along with interest thereon was recovered strictly as per provisions of contracts and the CVC guideline?	Non-recovery of advance and interest thereon as per terms of agreement.	Running Account bills and Contractors' Ledger
		Whether contract price was inclusive of taxes and duties or exclusive of taxes and duties? In case of contractual term inclusive of taxes and duties, how the taxes and duties included in contract price were considered if the actual taxes and duties became nil or much less due to exemption/revision of taxes and duty payment during the contract period?	Contractor not asked to pass on the tax benefit as a result of subsequent legislation though required as per contract.	
		Whether all statutory levies like Income tax, work contract tax, Royalty, <b>Labour Welfare cess</b> , etc. as applicable were deducted from running account bills and deposited in Govt.	Non-deduction of statutory levies from amounts payable to contractor	

	account before making payment to the contractor?		
	Whether payment of escalation was made as per formulae and source of indices prescribed in the agreement?	Payment of escalation not as per prescribed formula	Running Account Bills
	Whether work done by contractor was as per technical specifications laid down in the agreement. In case of change in any technical specification, whether the same was approved by the competent authority and documents in support of such change were placed on record?	Approval for change in technical specifications	Review of files relating to contract execution
	Whether there were delays on the part of Company in providing construction drawings and clear working front etc. ?	Handing over construction site and drawings	
	In case of work completed after the stipulated date of completion of the work, whether the final extension of time was available in the records, indicating the reasons for delay, attributable either on the part of Management or contractor and amount to be recovered as liquidated damages was available and found justifiable?	Final time extension along with justification for levying or not levying LD	
	In case of contract with foreign parties involving payment through Letter of Credit, whether adequate	Not obtaining BG to safeguard company's against any defects in	

		safeguards (e.g. bank guarantee for the amount equivalent to payment released by LC etc.) have been taken to ensure avoidance of loss in case equipment/materials supplied failed to meet stipulated specifications/requirement?	equipment/material supplied.	
		Whether the deviations in quantities were within the limits stipulated in the agreement or more than that? If more than the prescribed limit, Whether extra quantities and their rates were approved by competent authority and whether documents in support of working of such rates were placed on records?	Approval of rates for deviated quantities beyond stipulated limit	
		Whether work completion certificate was obtained from the contractor?	Completion certificate issued by contractor	
		Whether structure of project monitoring exist and is adequate?	Non-existence of adequate structure for project monitoring	
14.	Whether fulfilment of all contractual obligations on the part of contractor and safeguarding of organisation's interests were ensured at the time of contract closing.	Whether Performance Guarantee test has been successfully done?	Non-conducting of Performance Guarantee test by contractor	Review of final bill and contract closing file
		Whether all terms and conditions and work requirement as given in the contracts have been complied with?	Obligation of contractor not complete as per requirement of contract.	



		Whether all statutory dues have been recovered and deposited in Govt. account?	Statutory dues remaining unrecovered from contractor	
		Whether final bill has been received and duly checked and processed for payment?	Non-receipt and non-processing for payment of final bill	
		Whether the amount as specified in the contract (if any) or recommended by the Engineer in-charge to retain till the expiry of the defect liability period was retained or Bank guarantee accepted for the same?	Not holding any amount or not taking BG for making contractor responsible during defect liability period.	
		Whether certificate from the Construction and User Departments stating that all works as per scope of works has been completed in all respects and from the Finance Department that all financial aspects have been settled fully has been obtained?	Non-issue of completion certificate by concerned department and no dues certificate from Finance Department	

## SELECTION OF SAMPLE OF CONTRACTS FOR AUDIT

(i) Based on the number of contracts in the auditee organization due for audit and the availability of manpower, selection of sample of contracts for audit is to be done by the audit team by using IDEA Software package in accordance with selection criteria adopted by the concerned Office.

(ii) This sample need to be got approved from the concerned Head of the Office before being actually followed by the audit team.

An illustrative example of selection of sample of contracts for audit is given below:

No.	Particulars	Percentage of contracts to be audited *
<b>Sample selection of contracts awarded at Corporate Office level of the Company</b>		
1	Rs.100 crore and above	100
2	Less than Rs.100 crore but more than Rs.50 crore	75
3	Less than Rs.50 crore but more than Rs 25 crore	50
4	Less than Rs 25 crore but more than Rs.5 crore	25
5	Less than Rs.5 crore	10
<b>Sample selection of contracts awarded at Unit level of the Company</b>		
1	Rs.5 crore and above	100
2	Less than Rs.5 crore but more than Rs.1 crore	75
3	Less than Rs.1 crore but more than Rs 50 lakh	50
4	Less than Rs 50 lakh but more than Rs.10 lakh	25
5	Less than Rs.10 lakh	10

\* This may be modified suitably based on the specific needs of each Company, with the approval of concerned officer.

## GENERAL CHECKLIST/ DOCUMENTATION

Particulars	
a)	Distribution of selected contracts for detailed audit amongst audit team members by the Head of the audit team should be documented which should also be signed by all party members in token of their having noted the same and this document should be furnished along with draft Inspection Report
b)	In case of non-production of certain procurement files by the auditee organization, Half Margin on non-production of records should be issued which should be supported by Audit Requisition and reminders issued in this regard.
c)	In case any photocopy of any contract file is given due to any reason, a certificate from the person in charge of the concerned file may be taken certifying that the photocopy file given to audit contains photocopies of all correspondences/ documents and noting available in the original file and photocopy file is complete in all respect as original file. In case such certificate is not given by the concerned officer, a HM may be issued in this matter.
d)	This checklist given in Audit Design Matrix are required to be exercised during audit of contracts by the audit team. These audit checks are within the broad framework of Practice Guide for Audit of Contract Management and Practice Guide for Audit of Procurement issued by the Headquarters Office available on CAG website. The aim of this checklist is to assist the auditors in assessing the generic risks associated with the contracts they have selected to audit.
e)	All audit checks prescribed in the checklist are to be exercised by the concerned member of the audit team while auditing <b><u>each of the contract</u></b> allotted to him/her for audit.
f)	<b>After completion of audit of all contracts allotted to the member of the audit team, he/she is required to fill in the Matrix for all contracts allotted/audited by him/her. This duly filled in Matrix will be treated as a consolidated Verification Report on all the contracts allotted/audited to the concerned member of the audit team him/her.</b>
g)	While answering this checklist, answers needs to be given as 'yes' or 'no'. In case there is an audit observation, also give the Half Margin Number(s) against the audit check.
h)	This checklist should be signed by the concerned member of the audit team indicating his/her name and designation and need to be furnished along with draft Inspection Report in the format given below:

## II - Matrix for Audit of Contracts

*(Only one to be filled by the officer heading the audit team giving complete picture of contracts audited during compliance audit of a particular unit/auditee for a particular period).*

Name of Auditee:	Period of audit:
Dates during which audit was conducted:	Audit Party No:

Sl. No.	No. and date of award of contract	Brief description of work of contract	Value of award (Rs.in crore)	Name & designation of officer to whom allotted for audit.	HM issued* (Yes/No)	Contract Audit Check list no.


*\*If HM issued, give H M No. also*

**List of contract file not produced to audit to be given separately in the following format.**

<b>Sl. No.</b>	<b>No. and date of award of contract</b>	<b>Brief description of work of contract</b>	<b>Value of award (Rs.in crore)</b>	<b>Requisition No. and Date</b>

**Signature & Name of the officer heading the audit team**

**Signature**\_\_\_\_\_

**Name**\_\_\_\_\_

**Date**\_\_\_\_\_

**III - Check list for Audit of Contract**  
(To be filled in by the officer for each contract audited by him)

<b>Check list no:</b>	<b>Value of award of contract:</b>
<b>No. and date of award of contract:</b>	<b>Name and designation of person who audited the contract:</b>
<b>Brief description of contract work:</b>	<b>Sl. No of matrix for audit of contracts: (From A)</b>

**III (A): Award of Contracts**

<b>Sl. No.</b>	<b>Checks to be applied</b>	<b>Yes/No</b>	<b>HM no.</b>
1	Whether organisation has procurement manuals for guidance and consistency in actions of those involved in award of contracts. ( <b>Refer Audit sub-objective sl. No. 1 of ADMAC*</b> )		
2	Whether Notice for invitation of Tender (NIT) was given adequate publicity. ( <b>Refer Audit sub-objective sl. no. 2 of ADMAC</b> )		
3	Whether the Bidding Documents included all information in clear terms that might be required for preparation of a valid bid by the bidders and for equitable evaluation of bids by the Tender Evaluation Committee. ( <b>Refer Audit sub-objective sl. No. 3 of ADMAC</b> )		
4	Whether tenders were received up to fixed date and time and whether as per CVC guidelines bids were opened on the same day by following transparent process and providing equitable opportunity to all bidders. ( <b>Refer Audit sub-objective sl. No. 4 of ADMAC</b> )		
5	Whether tendering process (i.e. through open tender, limited tender or rate contracts) to be followed was decided after considering all relevant factors. ( <b>Refer Audit sub-objective sl. No. 5 of ADMAC</b> )		
6	Whether bids were evaluated in most transparent manner with fairness to all bidders. ( <b>Refer Audit sub-objective sl. No. 6 of ADMAC</b> )		
7	Whether specific checks according to type of contracts were applied. ( <b>Refer Audit sub-objective sl. No. 7 of ADMAC</b> )		
8	Whether E-Procurement system was designed to ensure security of data provided audit trail facilities. ( <b>Refer Audit sub-objective sl. No. 8 of ADMAC</b> )		

9	Whether Reverse Auction was carried out as per guidelines laid down in this regard.(Refer Audit sub-objective sl. No. 9 of ADMAC)		
10	Whether specific purposes which were envisaged at the time of award of contracts were materialised in respect of nomination basis contracts.(Refer Audit sub-objective sl. No. 10 of ADMAC)		
11	Whether all pre-cautions to safeguard organisation's interest were taken while awarding contracts on risk and cost basis.(Refer Audit sub-objective sl. No.11 of ADMAC)		
12	Whether award of contract was done immediately after award approval and in case of refusal to accept award action as per company's procurement policy was taken against the defaulting party.(Refer Audit sub-objective sl. No.12 of ADMAC)		

**III (B): Execution of Contracts:**

13	Whether execution of contracts was done strictly as per agreed terms & conditions and execution was monitored as per provisions of procurement/works manual. (Refer Audit sub-objective sl. No.13 of ADMAC)		
14	Whether fulfilment all contractual obligations on the part of contractor and safeguarding of organisation's interests were ensured at the time of contract closing. (Refer Audit sub-objective sl. No.14 of ADMAC)		

*\*ADMAC: Audit Design Matrix for audit of contracts.*

**Signature & Name of officer who audited the contract**

Signature\_\_\_\_\_

Name\_\_\_\_\_

Date\_\_\_\_\_

## Glossary of Financial Terms

SI No	Financial Term	Meaning
1	<b>American Depository Receipts (ADR) (U.S.)</b>	A certificate issued in the United States in lieu of a foreign security. The original securities are lodged in Bank/Custodian abroad, and the American Depository Receipts (ADRs) are traded in the US for all intents and purposes as if they were a domestic stock. An ADR dividend is paid in US dollars, so it provides a way for American investors to buy foreign securities without having to go abroad, and without having to switch in and out of foreign currencies.
2	<b>Arbitrage</b>	Arbitrage consists of purchasing a commodity or security in one market for immediate sale in another market. It includes any activity which attempts to buy a relatively underpriced item and sell a similar, relatively overpriced item, expecting to profit when the prices resume a more appropriate theoretical or historical relationship.
3	<b>Asset Allocation</b>	The process of determining the optimal division of an investor's portfolio among different assets. Most frequently this refers to allocations between debt, equity, and cash.
4	<b>Asset allocation fund</b>	A mutual fund that splits its investment assets among stocks, bonds, and other vehicles in an attempt to provide a consistent return for the investor.
5	<b>Asset backed securities</b>	Securities backed by assets that are not mortgage loans. Examples include assets backed by automobile loans, credit card receivables and others.
6	<b>Asset based Securitization</b>	A process that creates a series of securities which is collateralized by assets mortgaged against loans, assets leased out, trade receivables, or assets sold on hire purchase basis or instalment contracts on personal property.
7	<b>Asset Liability Management (ALM)</b>	Asset Liability Management (ALM) is concerned with strategic balance sheet management involving all market risks. It also deals with liquidity management, funds management, trading and capital planning
8	<b>Asset Liability Management Committee (ALCO)</b>	Asset-Liability Management Committee (ALCO) is a strategic decision making body, formulating and overseeing the function of asset liability management (ALM) of a bank.
9	<b>Assets Under Management (AUM)</b>	Assets Under Management (AUM) are the overall market value of assets/capital that a mutual fund holds. The fund manager manages these assets and takes investment decisions on behalf of investors. AUM is an indicator of the size and success of a fund house.



<p><b>10</b></p>	<p><b>Available for Sale (AFS)</b></p>	<p>The securities available for sale are those securities where the intention of the bank is neither to trade nor to hold till maturity. These securities are valued at the fair value which is determined by reference to the best available source of current market quotations or other data relative to current value.</p>
<p><b>11</b></p>	<p><b>Aadhaar Enabled Payment System (AePS)</b></p>	<p>With the objective of empowering customers to use Aadhaar as a financial instrument, Aadhaar Enabled Payment system (AePS) was launched in January 2011. This system enables a range of Aadhaar enabled banking services like cash deposit, cash withdrawal, fund transfer,, balance enquiry and mini statement.</p>
<p><b>12</b></p>	<p><b>Aadhaar Payment Bridge system</b></p>	<p>Aadhaar Payment Bridge system is a unique payment system implemented by National Payments Corporation of India (NPCI), which uses Aadhaar number as a central key for electronically channelizing Government subsidies and benefits in the Aadhaar linked bank accounts of the intended beneficiaries. It is a payment system based on Aadhaar numbers issued by Unique Identification Authority of India (UIDAI) as the single financial address of the beneficiary and IIN (Institution Identification Number) of the bank issued by NPCI.</p>
<p><b>13</b></p>	<p><b>Atal Pension Yojana (APY)</b></p>	<p>Atal Pension Yojana (APY), a pension scheme for citizens of India, is focused on the unorganised sector workers. Under the APY, guaranteed minimum pension of Rs. 1,000/- or 2,000/- or 3,000/- or 4,000 or 5,000/- per month will be given at the age of 60 years depending on the contributions by the subscribers.</p>
<p><b>14</b></p>	<p><b>Alliance for Financial Inclusion (AFI)</b></p>	<p>The Alliance for Financial Inclusion (AFI) is led by its members and partners, central banks and other financial regulatory institutions from developing countries. AFI's members serve to give voice to the opportunities and challenges facing the unbanked. The network includes members from more than 90 countries working together to accelerate the adoption of proven and innovative financial inclusion policy solutions with the ultimate aim of making financial services more accessible to the world's unbanked.</p> <p>AFI's members are actively engaged in advancing financial inclusion policy at national, regional and international levels through partnerships and cooperative arrangements with other regulators, as well as with international organizations and private sector leaders. The network uses the depth of unique knowledge and experience to produce regulatory guidance, provide insights on innovative policy developments and highlight proven solutions in the field.</p>

<b>15</b>	<b>Application Supported by Blocked Amount (ASBA)</b>	Application Supported by Blocked Amount (ASBA) is an application containing an authorization to a Self Certified Syndicate Bank (SCSB) to block the application money in the Bank Account maintained with the SCSB, for subscribing to an issue.
<b>16</b>	<b>Balanced fund</b>	Funds which aim to provide both growth and regular income as such schemes invest both in equities and fixed income securities in the proportion indicated in their offer documents.
<b>17</b>	<b>Basis Point</b>	Basis Point is one hundredth of a percentage point. Basis points are used in currency and bond markets where the size of trades mean that large amounts of money can change hands on small price movements. Thus if the yield on a Treasury bill rose from 5.25% to 5.33% the change would have been eight basis points.
<b>18</b>	<b>Bear Market</b>	Bear Market is a weak or falling market characterized by the dominance of sellers.
<b>19</b>	<b>Bench Mark</b>	Security used as the basis for interest rate calculations and for pricing other securities. Also denotes the most heavily traded and liquid security of a particular class.
<b>20</b>	<b>Benchmark Index</b>	Indicators used to provide a point of reference for evaluating a fund's performance.
<b>21</b>	<b>Beneficial Owner</b>	The true owner of a security. Registered holder of the shares may act as a nominee to the true shareholders/owners. Beneficial Owner, as defined in the Depositories Act, 1996, means a person whose name is recorded as such with a Depository. Thus, unit holders holding units in dematerialized form are considered to be beneficial owners.
<b>22</b>	<b>Benefit Cost Ratio</b>	A ratio attempting to clearly identify the relationship between the cost and benefits of a proposed project. This ratio is used to measure both quantitative and qualitative projects, as sometimes benefits and costs cannot be measured exclusively on financial terms.
<b>23</b>	<b>Bharat Interface for Money (BHIM)</b>	Bharat Interface for Money (BHIM) is an app that lets anyone make simple, easy and quick payment transactions using Unified Payments Interface (UPI). Users can make instant bank to bank payments, pay and collect money using the mobile number or a Virtual Payment Address.
<b>24</b>	<b>Blue Chip</b>	The best rated shares with the highest status as investment based on return, yield, safety, market ability and liquidity.
<b>25</b>	<b>Bond</b>	Bond is a negotiable certificate evidencing indebtedness - a debt security issued by a company, municipality or government agency. A bond investor lends money to the issuer and, in exchange, the issuer promises to repay the loan amount on a specified maturity date. The issuer

		usually pays the bond holder periodic interest payments over the life of the loan.
26	<b>Bonus Shares</b>	Bonus Shares are shares issued by companies to their shareholders free of cost by capitalization of accumulated reserves from the profits earned in the earlier years.
27	<b>Book building process</b>	Book building process is a process undertaken by which a demand for the securities proposed to be issued by a corporate body is elicited and built up and the price for such securities is assessed for the determination of the quantum of such securities to be issued by means of a notice, circular, advertisement, document or information memoranda or offer document. “Book building” means thus a process undertaken to elicit demand and to assess the price for determination of the quantum or value or coupon of specified securities or Indian Depository Receipts, as the case may be, in accordance with the SEBI (Issue of Capital and Disclosure requirements) Regulations.
28	<b>Book Value</b>	Book Value is the net amount shown in the books or in the accounts for any asset, liability or owners’ equity item. In the case of a fixed asset, it is equal to the cost or revalued amount of the asset less accumulated depreciation. Also called carrying value. The book value of a firm is its total net assets, i.e. the excess of total assets over total liabilities.
29	<b>Call Money</b>	Call Money is the unpaid instalment of the share capital of a company, which a shareholder is called upon to pay.
30	<b>Call Option</b>	Call Option is an agreement that gives an investor the right, but not the obligation, to buy an instrument at a known price by a specified date. For this privilege, the investor pays a premium, usually a fraction of the price of the underlying security
31	<b>Capital to Risk Weighted Assets Ratio</b>	Capital to Risk Weighted Assets Ratio (CRAR) is arrived at by dividing the capital of the bank with aggregated risk weighted assets for credit risk, market risk and operational risk. The higher the CRAR of a bank the better capitalized it is.
32	<b>Cash Market</b>	A market for sale of security against immediate delivery, as opposed to the futures market
33	<b>Cash Reserve Ratio</b>	Cash Reserve Ratio is the cash parked by the banks in their specified current account maintained with RBI.
34	<b>Cash Management Bills</b>	In 2010, Government of India, in consultation with RBI introduced a new short-term instrument, known as Cash Management Bills (CMBs), to meet the temporary mismatches in the cash flow of the Government of India. The CMBs have the generic character of T-Bills but are issued for maturities less than 91 days.

35	<b>Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI)</b>	Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI) is a Government of India Company licensed under section 8 of the Companies Act, 2013 with Govt. of India having a shareholding of 51% by the Central Government and select Public Sector Banks and the National Housing Bank also being shareholders of the Company. The object of the company is to maintain and operate a Registration System for the purpose of registration of transactions of securitisation, asset reconstruction of financial assets and creation of security interest over property, as contemplated under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act). CERSAI is providing the platform for filing registrations of transactions of securitisation, asset reconstruction and security interest by the banks and financial institutions. At present the portal provides facility to file security interest in immovables created through all types of mortgages and in units under constructions besides filing of Security Interests in movables, intangibles and factoring transactions is also available on the portal.
36	<b>Certificate of Deposit</b>	A negotiable certificate issued by a bank, usually for a period of one month to a year, as evidence of an interest bearing time deposit. This may also be offered at a discount.
37	<b>Cheque Truncation System (CTS)</b>	Cheque Truncation System (CTS) is the process of stopping the physical movement of cheques. As per the amended Negotiable Instruments Act, 1881, in cheque truncation, the movement of the physical instrument is stopped and replaced by electronic images and the associated Magnetic Ink Character Recognition (MICR) line of the cheque.
38	<b>Circuit Breaker</b>	A system to curb excessive speculation in the stock market, applied by the Stock Exchange authorities, when the index spurts or plunges by more than a specified per cent. Trading is then suspended for some time to let the market cool down.
39	<b>Close ended Fund</b>	A type of investment company that has a fixed number of shares which are publicly traded. The price of a closed end share fluctuates based on investor supply and demand. Closed ended funds are not required to redeem shares and have managed portfolios.
40	<b>Clearing Corporation</b>	Clearing Corporation means an entity that is established to undertake the activity of clearing and settlement of

		trades in securities or other instruments or products that are dealt with or traded on a recognized stock exchange and includes a clearing house.
<b>41</b>	<b>Clearing Member</b>	“Clearing Member” means a person having clearing rights in any recognized clearing corporation and includes a clearing member as defined in clause (ae) of sub-regulation (1) of Regulation 2 of the Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Regulations, 1992
<b>42</b>	<b>Collateralised Mortgage Obligation (CMO)</b>	A generic term for a security backed by real estate mortgages. CMO payment obligations are covered by interest and /or principal payments from a pool of mortgages. In addition to its generic meaning, CMO usually suggest a non-governmental issue.
<b>43</b>	<b>Collateralised Borrowing and Lending Obligation (CBLO)</b>	<p>The Clearing Corporation of India Ltd. (CCIL) has developed and introduced with effect from January 20, 2003 a money market instrument called Collateralised Borrowing and Lending Obligation (CBLO).</p> <p>In the CBLO market, financial entities can avail short term loans by providing prescribed securities as collateral. The CBLO market is almost similar to the call money market.</p> <p>The uniqueness of CBLO is that lenders and borrowers use collateral for their activities.</p> <p>It is thus a discounted instrument available in electronic book entry form for the maturity period ranging from one day to one year.</p> <p>In the CBLO market, members can borrow or lend funds against the collateral of eligible securities. Eligible securities are Central Government securities including Treasury Bills, and such other securities as specified by the CCIL. Borrowers in CBLO have to deposit the required amount of eligible securities with the CCIL. For trading, the CCIL matches the borrowing and lending orders (order matching) submitted by the members. Borrowers have to pay interest to the lenders in accordance with the bid.</p>
<b>44</b>	<b>Commercial Paper</b>	A short term promise to repay a fixed amount that is placed on the market either directly or through a specialized intermediary. It is usually issued by companies with a high credit standing in form of a promissory note redeemable at par to the holder on maturity and therefore does not require any guarantee. Commercial Paper (CP) is thus an unsecured money market instrument issued in the form of a promissory note and held in a dematerialized form through any of the depositories approved by and registered with SEBI. A CP is issued in minimum denomination of ₹5 lakh and

		<p>multiples thereof and shall be issued at a discount to face value No issuer shall have the issue of CP underwritten or co-accepted and options (call/put) are not permitted on a CP. Companies, including NBFCs and AIFIs, other entities like co-operative societies, government entities, trusts, limited liability partnerships and any other body corporate having presence in India with net worth of ₹100 cr or higher and any other entities specifically permitted by RBI are eligible to issue Commercial papers subject to conditions specified by RBI.</p>
45	<b>Commodity Futures</b>	<p>A commodity futures contract is an agreement to buy or sell a specific amount of a commodity at a fixed date in the future at a predetermined price. This contract specifies further details, like the quality of the commodity and the delivery location.</p> <p>An investor could take a long position (where he buys a contract) or a short position (where he sells it). If the investor expects the price of a commodity to rise, he takes a long position. If he expects the price to fall, he opts for the short position.</p> <p>These contracts allow buyers of commodities to avoid the risks associated with price fluctuations of products or raw materials. For example, a manufacturer of steel instruments may buy a contract for protection against rising steel prices. The sellers of commodities enter into contracts to lock in a price for their products. For example, an oil company may take a contract to guard against a fall in oil prices in future.</p> <p>Other players—like funds, arbitrageurs, and retail investors—use futures contracts to gain from price movements.</p> <p>The prices of commodities change on a weekly or even daily basis. When the price of a commodity rises, the buyer of the futures contract makes money. The buyer gets the product at the lower, agreed-upon price. He can now sell it at the higher current market price. If the price falls, the seller of the futures contract makes money. The seller buys the commodity at the current lower market price. He then sells it to the futures buyer at the higher, agreed-upon price.</p>
46	<b>Constituent Subsidiary General Ledger Account (SGL)</b>	<p>A Constituent Subsidiary General Ledger (SGL) Account is an account held by an intermediary at Reserve Bank of India (RBI) on behalf of its constituents who have empowered the said intermediary to carry out various transactions on their behalf. In this account only constituent transactions can take place and under no circumstances the intermediary will use this account for proprietary transactions.</p>

<b>47</b>	<b>Convertible Bond</b>	A bond giving the investor the option to convert the bond into equity at a fixed conversion price or as per a pre-determined pricing formula.
<b>48</b>	<b>Coupon</b>	Coupon is the interest paid on a bond expressed as a percentage of the face value. If a bond carries a fixed coupon, the interest is paid on an annual or semi-annual basis. The term also describes the detachable certificate entitling the bearer to payment of the interest. Coupon is this The rate of interest paid on a debt security as calculated on the basis of the security's face value.
<b>49</b>	<b>Coupon Rate</b>	The interest rate stated on the face of coupon
<b>50</b>	<b>Credit Ratings</b>	Credit Ratings measure a borrower's creditworthiness and provide an international framework for comparing the credit quality of issuers and rated debt securities. Rating agencies allocate three kinds of ratings: issuer credit ratings, long-term debt, and short-term debt. Issuer credit ratings are amongst the most widely watched. They measure the creditworthiness of the borrower including its capacity and willingness to meet financial needs. The top credit rating issued by the main agencies – Standard& Poor's, Moody's and Fitch IBCA - is AAA or Aaa. This is reserved for a few sovereign and corporate issuers. Ratings are divided into two broad groups - investment grade and speculative (junk) grade.
<b>51</b>	<b>Credit Agency Rating</b>	Credit Rating Agency means a body corporate which is engaged in, or proposes to be engaged in, the business of rating of securities offered by way of public or rights issue. Rating means an opinion regarding securities, expressed in the form of standard symbols, or in any other standardized manner, assigned by a credit rating agency and used by the issuer of such securities, to comply with the requirement of the SEBI (Credit Rating Agencies) Regulations, 1999.
<b>52</b>	<b>Current Yield</b>	Current Yield is a measure of the return to a bondholder calculated as a ratio of the coupon to the market price. It is simply the annual coupon rate divided by the clean price of the bond.
<b>53</b>	<b>Custodian</b>	Custodian is an organization, usually a bank or any other approved institutions, that hold the securities and other assets of mutual funds and other institutional investors. Custodian is thus an entity appointed to perform custodial service for the assets under management of its present and future schemes managed by the Asset Management Company (AMC) who is not affiliated to the sponsor and/or its associates. The custodian is responsible for settlement of trades and ensuring custodial services for the fund.

<b>54</b>	<b>Debenture Trustee</b>	Debenture Trustee means a Trustee appointed in respect of any issue of debentures of a body corporate. Debenture Trustee Service ensures the protection of interest of debenture holders whilst ensuring an adequate asset coverage ratio.
<b>55</b>	<b>Deferred Tax Assets</b>	Unabsorbed depreciation and carry forward of losses which can be set-off against future taxable income which is considered as timing differences result in deferred tax assets. The deferred Tax Assets are accounted as per the Accounting Standard 22.
<b>56</b>	<b>Deferred Tax Liabilities</b>	Deferred tax liabilities have an effect of increasing future year's income tax payments, which indicates that they are accrued income taxes and meet definition of liabilities.
<b>57</b>	<b>Derivative</b>	Derivative is : (1) A security derived from a debt instrument, share, loan whether secured or unsecured, risk instrument or contract for differences or any other form of security; (2) A contract which derives its value from the prices, or index or prices, of underlying securities.
<b>58</b>	<b>Derivative Markets</b>	Derivative Markets are Markets such as futures and option markets that are developed to satisfy specific needs arising in traditional markets. These markets provide the same basic functions as forward markets, but trading usually takes place on standardized contracts.
<b>59</b>	<b>Development Financial Institutions (DFI)</b>	As per Ministry of Finance, Department of Financial Services, Government of India, Development Financial Institutions (DFIs) regulated by the Ministry of Finance are National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), India Infrastructure Finance Company Ltd. (IIFCL), National Housing Bank (NHB), Export-Import Bank of India (EXIM Bank), Industrial Finance Corporation of India (IFCI).
<b>60</b>	<b>Depository and Depository Participant</b>	A Depository can be compared to a bank. A Depository holds securities (like shares, debentures, bonds, Government Securities, units etc.) of investors in electronic form. Besides holding securities, a depository also provides services related to transactions in securities.  A Depository Participant (DP) is an agent of the Depository who acts like an intermediary between the Depository and the investors. DP is an entity who is registered with SEBI to offer depository related services.



61	<b>Electronic Fund Transfer</b>	Electronic Fund Transfer includes all means of electronic transfer of funds like Direct Credit/Direct Debit, National Electronic Clearing System, Real Time Gross Settlement (RTGS), National Electronic Fund Transfer (NEFT), etc or such like modes as may be introduced by the relevant authorities from time to time.
62	<b>Escrow Account</b>	Escrow Account is the trust account established by a broker under the provisions of the license law for the purpose of holding funds on behalf of the broker's principal or some other person until the consummation or termination of a transaction.
63	<b>External Commercial Borrowings</b>	In India External Commercial Borrowings are defined to include commercial bank loans, buyers' credit, suppliers' credit, securitised instruments such as Floating Rate Notes and Fixed Rate Bonds, etc., credit from official export credit agencies and commercial borrowings from the private sector window of Multilateral Financial Institutions such as International Finance Corporation (Washington), ADB, AFIC, CDC etc. ECBs are being permitted by the Government as a source of Finance for Indian corporates for expansion of existing capacity as well as for fresh investment.
64	<b>Fixed Income Money Market and Derivatives Association of India (FIMMDA)</b>	The Fixed Income Money Market and Derivatives Association of India (FIMMDA), an association of Scheduled Commercial Banks, Public Financial Institutions, Primary Dealers and Insurance Companies was incorporated as a Company under section 25 of the Companies Act, 1956 on May 4th, 1998. FIMMDA is a voluntary market body for the bond, money and derivatives markets. FIMMDA has members representing all major institutional segments of the market. The membership includes Nationalized Banks such as State Bank of India, its associate banks and other nationalized banks; Private sector banks such as ICICI Bank, HDFC Bank, IDBI Bank; Foreign Banks such as Bank of America, ABN Amro, Citibank, Financial institutions such as IDFC, EXIM Bank, NABARD, Insurance Companies like Life Insurance Corporation of India (LIC), ICICI Prudential Life Insurance Company and all Primary Dealers.
65	<b>Fixed Income Securities</b>	Fixed Income Securities are Debt Securities created and issued by, <i>inter alia</i> , Central Government, State Government, Local authorities, Municipal Corporations, Public Sector Undertakings (PSUs), Public Companies, Private Companies, Bodies Corporate, Special Purpose Vehicles (incorporated or

		otherwise) and any other entities, which yield at fixed rate by way of interest, premium, discount or a combination of any of them.
66	<b>Fixed Rate Bonds</b>	These are bonds on which the coupon rate is fixed for the entire life (i.e. till maturity) of the bond. Most Government bonds in India are issued as fixed rate bonds. For example – 8.24%GS2018 was issued on April 22, 2008 for a tenor of 10 years maturing on April 22, 2018. Coupon on this security will be paid half-yearly at 4.12% (half yearly payment being half of the annual coupon of 8.24%) of the face value on October 22 and April 22 of each year.
67	<b>Floating Rate Bonds</b>	<b>Floating Rate Bonds (FRB)</b> are securities which do not have a fixed coupon rate. Instead it has a variable coupon rate which is re-set at pre-announced intervals (say, every six months or one year). FRBs were first issued in September 1995 in India. For example, a FRB was issued on November 07, 2016 for a tenor of 8 years, thus maturing on November 07, 2024. The variable coupon rate for payment of interest on this FRB 2024 was decided to be the average rate rounded off up to two decimal places, of the implicit yields at the cut-off prices of the last three auctions of 182 day T- Bills, held before the date of notification. The coupon rate for payment of interest on subsequent semi-annual periods was announced to be the average rate (rounded off up to two decimal places) of the implicit yields at the cut-off prices of the last three auctions of 182 day T-Bills held up to the commencement of the respective semi-annual coupon periods. The Floating Rate Bond can also carry the coupon, which will have a base rate plus a fixed spread, to be decided by way of auction mechanism. The spread will be fixed throughout the tenure of the bond.
68	<b>Floating Rate Debt Instruments</b>	Floating Rate Debt Instruments are debt securities issued by Central and/or State Government, Corporates or PSUs with interest rates that are reset periodically. The periodicity of interest reset could be daily, monthly, quarterly, half yearly, annually or any other periodicity that may be mutually agreed with the issuer and the Fund. The interest on the instruments could also be in the nature of fixed basis points over the benchmark gilt yields.
69	<b>Further/Follow On Public Offer (FPO)</b>	As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, “Further Public Offer” means an Offer of specified securities by a listed issuer to the public for subscription and includes an offer for sale of specified securities to the public by any existing holders of such specified securities in a listed issuer.

70	<b>Foreign Institutional Investor</b>	Foreign Institutional Investor is an institution established or incorporated outside India which proposes to make investment in India in securities; provided that a domestic asset management company or domestic portfolio manager who manages funds raised or collected or brought from outside India for investment in India on behalf of a sub-account, shall be deemed to be a Foreign Institutional Investor.
71	<b>Foreign Portfolio Investor</b>	‘Foreign Portfolio Investor’ means a person who satisfies the eligibility criteria prescribed under Regulation 4 of the SEBI (Foreign Portfolio Investors) Regulations, 2014. Any Foreign Institutional Investor or a qualified foreign investor who holds a valid certificate of registration shall be deemed to be a foreign portfolio investor till the expiry of the block of three years for which fees have been paid as per the SEBI (Foreign Institutional Investors) Regulations, 1995.
72	<b>Foreign Inward Remittance</b>	Foreign Inward Remittance means remittance in Foreign Currency in a Bank Account in India from outside India, subject to relevant RBI guidelines.
73	<b>Forward Contract</b>	An agreement for the future delivery of the underlying commodity or security at a specified price at the end of a designated period of time. Unlike a future contract, a forward contract is traded over the counter and its terms are negotiated individually. There is no clearing house for forward contracts, and the secondary market may be non-existent or thin.
74	<b>Futures Contract</b>	An exchange traded contract generally calling for delivery of a specified amount of a particular financial instrument at a fixed date in the future. Contracts are highly standardized and traders need only agree on the price and number of contracts traded.
75	<b>Gilt Edged</b>	A term used to describe a bond, generally issued by the Government or issued with a Government Guarantee so much so that there are no doubts about the ability of the issuer to pay regular interest and the principal amount to the bond holders.
76	<b>Gilts or Government Securities</b>	Gilts or Government Securities are Securities created and issued by the Central Government and/or State Government (including Treasury Bills) or Government Securities as defined in the Public Debt Act 1944, as amended or re-enacted from time to time.
77	<b>Gilt Fund</b>	Gilt Fund is the Fund that invests exclusively in Government Securities
78	<b>Global Depository Receipt (GDR)</b>	Global Depository Receipt (GDR) is an instrument in the form of a depository receipt or certificate (by whatever name it is called) created by the Overseas Depository Bank outside India and issued to non-

		resident investors against the issue of ordinary shares or Foreign Currency Convertible Bonds of issuing company.
79	<b>Green Shoe Option</b>	“Green shoe option” means an option of allotting equity shares in excess of the equity shares offered in the public issue as a post-listing price stabilizing mechanism.
80	<b>Growth Fund</b>	Growth Fund means the Unit trusts or Mutual Funds which invest with the objective of achieving mostly capital growth rather than income. Growth funds are mostly more volatile than conservative income or money market funds because managers invest on shares or property that are subject to larger price movements.
81	<b>Hedge</b>	Hedge means an asset, liability or financial commitment that protects against adverse changes in the value of or cash flows from another investment or liability. An unhedged investment or liability is called an “exposure”. A perfectly matched hedge will gain in value what the underlying exposure loses or lose what the underlying exposure gains.
82	<b>Hedge Funds</b>	Hedge Funds are Private investment pools that invest aggressively in all types of markets, with managers of the fund receiving a percentage of the investment profits.
83	<b>Held Till Maturity (HTM)</b>	Held Till Maturity (HTM) are the securities acquired by the banks with the intention to hold them up to maturity.
84	<b>Held for Trading (HFT)</b>	Held for Trading (HFT) are the Securities where the intention is to trade by taking advantage of short-term price / interest rate movements.
85	<b>Indexed Asset</b>	An indexed asset has coupon and principal payments that are adjusted upward in response to increase in price level. This adjustment is intended to compensate lenders for the decline in purchasing power of loan repayments.
86	<b>Index Fund</b>	Index Fund is a mutual fund which invests in a portfolio of shares that matches identically the constituents of a well known stock market index. Hence changes in the value of the fund mirror changes in the index itself.
87	<b>Index futures</b>	Futures contract based on an index, the underlying asset being the index, are known as Index Futures Contracts. For example, futures contract on NIFTY Index and BSE-30 Index. These contracts derive their value from the value of the underlying index.
88	<b>Indian Depository Receipt (IDR)</b>	Indian Depository Receipt is a receipt, evidencing an underlying foreign security, issued in India by a foreign company which has entered into an agreement with the issuer and depository, custodian and depository or underwriters and depository, in accordance with the terms of prospectus or letter of offer, as may be prescribed.

89	<b>Initial Public Offer (IPO)</b>	As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, “Initial Public Offer” means an offer of specified securities by an unlisted issuer to the public for subscription and includes an offer for sale of specified securities to the public by any existing holders of such specified securities in an unlisted issuer.
90	<b>Insider</b>	Insider means any person who, is or was connected with the company or is deemed to have been connected with the company, and who is reasonably expected to have access, connection, to unpublished price sensitive information in respect of securities of a company, or who has received or has had access to such unpublished price sensitive information.
91	<b>Insider Trading</b>	Practice of corporate agents buying or selling their corporation’s securities without disclosing to the public significant information which is known to them but which has not yet affected the price.
92	<b>Institutional Investors</b>	Institutional Investors are the Organizations those invest, including insurance companies, depository institutions, pension funds, investment companies, and endowment funds. “Institutional investor” means (i) qualified institutional buyer; or (ii) family trust or intermediaries registered with the Board, with net worth of more than five hundred crore rupees, as per the last audited financial statements, for the purposes of listing and/or trading on innovators growth platform in terms of Chapter X of the SEBI (ICDR) Regulations, 2018.
93	<b>Investment Banker</b>	Financial conglomerate which conducts a full range of investment related activities from advising clients on securities issues, acquisitions and disposal of businesses, arranging and underwriting new securities, distributing the securities etc.
94	<b>Investment Management Agreement</b>	The Investment Management Agreement is the Agreement entered into between the Mutual Fund Trustee Company and the Mutual Fund Asset Management Company, with the prior approval of the SEBI. The said Agreement contains the clauses as are mentioned in the fourth schedule of SEBI (Mutual Fund) Regulations, 1996, as are necessary for the purpose of making Investments.
95	<b>Inflation Indexed Bonds</b>	Inflation Indexed Bonds (IIBs) are bonds wherein both coupon flows and Principal amounts are protected against inflation. The inflation index used in IIBs may be Whole Sale Price Index (WPI) or Consumer Price Index (CPI). Globally, IIBs were first issued in 1981 in UK. In India, Government of India through RBI issued IIBs (linked to WPI) in June 2013. Since then, they were issued on monthly basis (on last Tuesday of each month)

		till December 2013. Based on the success of these IIBs, Government of India in consultation with RBI issued the IIBs (CPI based) exclusively for the retail customers in December 2013.
96	<b>Issue</b>	‘Issue’ means an Offer of sale or purchase of securities by any body corporate, or by any other person or group of persons on its or his or her behalf, as the case may be, to or from the public, or the holders of securities of such body corporate or person or group of persons through a merchant banker.
97	<b>Interest Rate Swap (IRS)</b>	Interest Rate Swap (IRS) is a financial contract between two parties exchanging a stream of interest payments for a notional principal amount on multiple occasions till maturity. Typically, one party receives a pre-determined fixed rate of interest while the other party receives a floating rate, which is linked to a mutually agreed benchmark, with provision for mutually agreed periodic resets.
98	<b>LIBOR- London Interbank Offer Rate</b>	LIBOR - London Interbank Offer Rate is often used as a basis for pricing Euro-loans. LIBOR represents the interest rate at which first class banks in London are prepared to offer dollar deposits to other first class banks. There are a number of similar rates like HIBOR (Hong Kong Interbank Offer Rate); SIBOR (Singapore Interbank Offer Rate); TIBOR (Toronto Interbank Offer Rate).
99	<b>Lead Manager</b>	Lead Manager is the merchant banker(s) associated with the issue and responsible for due diligence and other associated issue related activities. “Lead Manager” means thus a merchant banker registered with the Board (SEBI) and appointed by the issuer to manage the issue and in case of a book built issue, the lead manager(s) appointed by the issuer shall act as the book running lead manager(s) for the purposes of book building.
100	<b>Liquidity Adjustment Facility (LAF)</b>	Under the scheme ( <b>Liquidity Adjustment Facility (LAF)</b> ), repo auctions (for absorption of liquidity) and reverse repo auctions (for injection of liquidity) will be conducted on a daily basis (except Saturdays). It will be same-day transactions, with interest rates decided on a cut-off basis and derived from auctions on a uniform price basis. Liquidity Adjustment facility (LAF) is thus a facility extended by RBI to the scheduled commercial banks (excluding Regional Rural Banks-RRBs) and PDs to avail of liquidity in case of requirement or park excess funds with RBI in case of excess liquidity on an overnight basis against the collateral of G-Secs including SDLs. Basically, LAF enables liquidity

		management on a day to day basis. The operations of LAF are conducted by way of repurchase agreements (repos and reverse repos). with RBI being the counterparty to all the transactions. The interest rate in LAF is fixed by RBI from time to time. LAF is an important tool of monetary policy and liquidity management.
<b>101</b>	<b>Loss Asset</b>	A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.
<b>102</b>	<b>Marked to market basis</b>	The process whereby the book value or collateral value of a security is adjusted to reflect current market value.
<b>103</b>	<b>Market capitalization</b>	Market capitalization is the market value of a company, calculated by multiplying the number of shares issued and outstanding by their current market price.
<b>104</b>	<b>Marketable Lot</b>	Marketable Lot is a fixed minimum number, in which or in multiples of which, shares are bought and sold on the stock exchange. For shares whose face value is Rs. 10, the marketable or trading lot may be 50 or 100. For Rs. 100 shares the market lot is usually 5 or 10. Companies may, however, decide on other lots, such as 1 share for Rs. 500, although it is now rare. Any number of share less than the marketable lot makes an odd lot, difficult to buy and disadvantageous to sell. When companies issue bonus or rights shares in less than 1:1 ratio, odd lots are often the result.
<b>105</b>	<b>Member Lending Institutions (MLI)</b>	Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), is a vital institution in facilitating flow of collateral free credit to units in Micro and Small Enterprises (MSE) sector. CGTMSE has various guarantee schemes to the Member Lending Institutions (MLIs) to enable increased credit flow to the MSE Sector. All Scheduled Commercial Banks (either PSU, Private or Foreign Banks), selected Regional Rural Banks, selected state financial corporations, NBFCs, Small Finance Banks (SFBs) or such of those institutions as may be directed by the Government of India (GOI) can avail of guarantee cover in respect of their eligible credit facilities under the Scheme of . Small Industries Development Bank of India (SIDBI), National Small Industries Corporation Ltd. (NSIC) and North Eastern Development Finance Corporation Ltd. (NEDFi) have been included as eligible institution
<b>106</b>	<b>Merchant Banker</b>	Merchant Banker means any person who is engaged in the business of issue management either by making arrangement regarding selling, buying or subscribing to

		securities or acting as manager, consultant, adviser or rendering corporate advisory service in relation to such issue management.
107	<b>Merchant Acquiring Business (MAB)</b>	<p>Merchant Acquiring Business (MAB) is primarily referred to as the mechanism of providing necessary infrastructure and facilitating payment for goods and services purchased through medium of a card</p> <p>The various stakeholders in MAB are :</p> <p><b>Issuer:</b> The Bank that issues cards.</p> <p><b>Cardholder:</b> Customer / Non customer using card for making payment.</p> <p><b>Merchant:</b> Entity which accepts payments through cards.</p> <p><b>Acquirer:</b> The Bank that provides necessary infrastructure to the merchant to accept payment, maintains relationship and facilitate acceptance payments through cards.</p> <p><b>Intermediary Agency:</b> Visa or MasterCard who facilitate interbank settlements.</p>
108	<b>Merchant Discount Rate (MDR)</b>	Merchant Discount Rate (MDR) is the commission charged by the acquirer (SBI) to the Merchant (Trader/Service Provider). It is also termed as Merchant Service Fee (MSF).
109	<b>MIBOR</b>	MIBOR known as Mumbai Interbank Bid and Offer rates are calculated by the average of the interbank offer rates based on quotations at nearly 30 major banks.
110	<b>Micro Finance Institutions</b>	<p>An NBFC-MFI (Non Banking Finance Companies-Micro Finance Institutions) is defined as a non-deposit taking NBFC (other than a company licensed under Section 25 of the Indian Companies Act, 1956) that fulfils the following conditions: i. Minimum Net Owned Funds of Rs.5 crore. (For NBFC-MFIs registered in the North Eastern Region of the country, the minimum NOF requirement shall stand at Rs. 2 crore). ii. Not less than 85% of its net assets are in the nature of “qualifying assets.”</p> <p>“Net assets” are defined as total assets other than cash and bank balances and money market instruments.</p> <p>“Qualifying asset” shall mean a loan which satisfies the following criteria:- a. loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding Rs. 1,00,000 or urban and semi-urban household income not exceeding Rs. 1,60,000 ; b. loan amount does not exceed Rs. 60,000 in the first cycle and Rs. 1,00,000 in subsequent cycles; c. total indebtedness of the borrower does not exceed Rs.1,00,000 Provided that loan, if any availed towards meeting education and</p>



		<p>medical expenses shall be excluded while arriving at the total indebtedness of a borrower; d.tenure of the loan not to be less than 24 months for loan amount in excess of Rs. 30,000 with prepayment without penalty; e. loan to be extended without collateral; f. aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs g. loan is repayable on weekly, fortnightly or monthly instalments at the choice of the borrower.</p>
<b>111</b>	<b>Money Laundering</b>	<p>Money laundering is the process of converting the proceeds of illegal activities – disclosure of which would trigger financial losses or criminal prosecution – into real or financial assets whose origins remain effectively hidden from law enforcement officials and from society in general.</p>
<b>112</b>	<b>Money Market</b>	<p>Money Market is the market encompassing the trading and issuance of short-term non-equity debt instruments, including treasury bills, commercial paper, bankers' acceptance, certificates of deposits etc. The market may be local or international.</p> <p>While the G-Secs market generally caters to the investors with a long-term investment horizon, the money market provides investment avenues of short term tenor. Money market transactions are generally used for funding the transactions in other markets including G-Secs market and meeting short term liquidity mismatches. By definition, money market is for a maximum tenor of one year. Money market instruments include call money, repos, T- Bills, Cash Management Bills , Commercial Paper, Certificate of Deposit and Collateralized Borrowing and Lending Obligations (CBLO).</p>
<b>113</b>	<b>Money Market Instruments</b>	<p>Money Market Instruments include Commercial Papers, Commercial Bills, Treasury Bills, Government Securities having an unexpired maturity upto one year, call or notice money, Certificate of Deposit, Usance Bills, and other like instruments as specified by the Reserve Bank of India from time to time.</p>
<b>114</b>	<b>Money Market Mutual Funds</b>	<p>Money Market Mutual Funds are the schemes investing exclusively in safer short-term instruments such as treasury bills, certificates of deposit, commercial paper and inter-bank call money, government securities, etc.</p>
<b>115</b>	<b>Mortgage backed securities</b>	<p>Mortgage backed securities are the Securities backed by mortgage loans, including pass-through securities, modified pass-through securities, mortgage-backed bonds, and mortgage pay-through securities.</p>
<b>116</b>	<b>National Automated Clearing House (NACH)</b>	<p>The National Automated Clearing House (NACH) is a web based solution that covers a large number of core banking enabled bank branches spread across the</p>

		country, irrespective of their location. The system can be used for processing bulk transactions for distribution of subsidy, dividend, interest, salary, pension etc and for bulk transactions for collection of periodic payments like recovery of loan instalments, Systematic Investment Plan (SIP), Insurance Premium and Utility Payments like telephone, electricity, water charges etc.
<b>117</b>	<b>National Common Mobility Card (NCCM)</b>	The National Common Mobility Card (NCCM) has been launched in India with the tagline of 'One Nation One Card' on March 04, 2019. The NCCM card has 2 instruments on it – a regular debit card which can be used at an ATM, and a local wallet (stored value account), which can be used for contactless payments, without the need to go back to the server or additional authentication. The National Common Mobility Card is an open loop card, which can be used for all local travel needs in the country. This is aimed at low value payments for various segments e.g. Transit, Smart cities, Toll, Parking and other low value merchant payments, in addition to the normal day to day retail payments. The vision behind the introduction of this card is to have interoperability, based on open standards.
<b>118</b>	<b>National Archival Service (NAS)</b>	It is a centralized system used for storage of cheque images and data which are processed through Cheque Truncation System. It will retain images and data for a period of 10 years as per regulatory mandate.
<b>119</b>	<b>National Digital Literacy Mission</b>	The Digital Saksharta Abhiyan (DISHA) or National Digital Literacy Mission (NDLM) Scheme has been formulated to impart IT training to 52.5 lakh persons, including Anganwadi and ASHA workers and authorised ration dealers in all the States/UTs across the country so that the non-IT literate citizens are trained to become IT literate so as to enable them to actively and effectively participate in the democratic and developmental process and also enhance their livelihood
<b>120</b>	<b>National Exchange for Automated Trading (NEAT)</b>	The NSE (National Stock Exchange) operates on the 'National Exchange for Automated Trading' (NEAT) system, a fully automated screen based trading system, which adopts the principle of an order driven market. NSE consciously opted in favour of an order driven system as opposed to a quote driven system. This has helped reduce jobbing spreads not only on NSE but in other exchanges as well, thus reducing transaction costs.
<b>121</b>	<b>National Financial Switch</b>	National Financial Switch (NFS) is the largest network of shared Automated Teller Machines (ATMs) in India. As on 31 March 2018, there were 1061 members using NFS network connected to more than 2.39 lakh ATMs.

		NFS manages about 95 % of the interbank ATM transactions in the country.
122	<b>National Pension System (NPS)</b>	National Pension System (NPS) is a pension cum investment scheme launched by Government of India to provide old age security to Citizens of India. It brings an attractive long term saving avenue to effectively plan your retirement through safe and regulated market-based return. The Scheme is regulated by Pension Fund Regulatory and Development Authority (PFRDA). National Pension System Trust (NPST) established by PFRDA is the registered owner of all assets under NPS.
123	<b>Negotiated Dealing System (NDS)</b>	Negotiated Dealing System (NDS) is the Electronic platform for facilitating dealing in Government Securities and Money Market Instruments, introduced by RBI.
124	<b>Negotiated Dealing System- Order Matching Segment: (NDS-OM)</b>	In August 2005, RBI introduced an anonymous screen-based order matching module called Negotiated Dealing System- Order Matching Segment (NDS-OM). This is an order driven electronic system, where the participants can trade anonymously by placing their orders on the system or accepting the orders already placed by other participants. Anonymity ensures a level playing field for various categories of participants. NDS-OM is operated by the CCIL on behalf of the RBI. Direct access to the NDS-OM system is currently available only to select financial institutions like Commercial Banks, Primary Dealers, well managed and financially sound UCBs and NBFCs, etc. Other participants can access this system through their custodians i.e. with whom they maintain Gilt Accounts. The custodians place the orders on behalf of their customers. The advantages of NDS-OM are price transparency and better price discovery.
125	<b>Net Asset Value (NAV)</b>	Net Asset Value (NAV) is the current market worth of a mutual fund's share. A fund's net asset value is calculated by taking the fund's total assets, securities, cash and any accrued earnings, deducting liabilities, and dividing the remainder by the number of units outstanding.
126	<b>Non-Performing Asset (NPA)</b>	An asset, including a leased asset, becomes non performing when it ceases to generate income for the bank.
127	<b>Non Banking Financial Company (NBFC)</b>	A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956/2013 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase,

		insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property.
<b>128</b>	<b>Offer Document</b>	Offer Document’ means any Document, by which a Mutual fund invites Public for subscription of units of a scheme. “Offer Document” means thus a red herring prospectus, prospectus or shelf prospectus, as applicable, referred to under the Companies Act, 2013, in case of a public issue, and a letter of offer in case of a rights issue.
<b>129</b>	<b>Off Balance Sheet exposures</b>	Off-Balance Sheet exposures refer to the business activities of a bank that generally do not involve booking assets (loans) and taking deposits. Off-balance sheet activities normally generate fees, but produce liabilities or assets that are deferred or contingent and thus, do not appear on the institution's balance sheet until and unless they become actual assets or liabilities.
<b>130</b>	<b>Offer for Sale</b>	Offer for Sale: is an offer of securities by existing shareholder(s) of a company to the public for subscription, through an offer document.
<b>131</b>	<b>Open Ended Scheme</b>	An open-ended fund or scheme is one that is available for subscription and repurchase on a continuous basis.
<b>132</b>	<b>Open Market Operation</b>	An Open Market Operation is the purchase or sale of government securities by the monetary authorities (RBI in India) to increase or decrease the domestic money supply. Open Market Operations (OMOs) are thus the market operations conducted by the RBI by way of sale/ purchase of Government Securities (G-Secs) to/ from the market with an objective to adjust the rupee liquidity conditions in the market on a durable basis. When the RBI feels that there is excess liquidity in the market, it resorts to sale of securities thereby sucking out the rupee liquidity. Similarly, when the liquidity conditions are tight, RBI may buy securities from the market, thereby releasing liquidity into the market.
<b>133</b>	<b>Option</b>	Option is the contractual right, but not an obligation, to buy (call option) or sell (put option) a specified amount of underlying security at a fixed price (strike price) before or at a designated future date (expiration date). The option writer is the party that sells the option. As per the Securities Contract Regulation Act (SCRA), “option in securities” means a contract for the purchase or sale of a right to buy or sell, or a right to buy and sell, securities in future.

134	<b>Option premium</b>	The market price of an option that is paid by an option buyer to the option writer (seller) for the right to buy (call) or sell (put) the underlying security at a specified price (called “strike price” or “exercise price”) by the option’s expiration date.
135	<b>Option Seller</b>	Option Seller, also called the option writer, is the party who grants a right to trade a security at a given price in the future.
136	<b>Option Spread</b>	A spread is a type of option position where you buy an option and sell an option and both of them are from the same option class.
137	<b>Owned Fund/Net Owned Fund</b>	<p><b>‘Owned Fund’</b> means aggregate of the paid-up equity capital, preference shares which are compulsorily convertible into equity, free reserves, balance in share premium account and capital reserves representing surplus arising out of sale proceeds of asset, excluding reserves created by revaluation of asset, after deducting there from accumulated balance of loss, deferred revenue expenditure and other intangible assets.</p> <p><b>‘Net Owned Fund’</b> is the amount as arrived at above, minus the amount of investments of such company in shares of its subsidiaries, companies in the same group and all other NBFCs and the book value of debentures, bonds, outstanding loans and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group, to the extent it exceeds 10% of the owned fund.</p>
138	<b>Pari Passu</b>	A term used to describe new issue of securities which have same rights as similar issues already in existence.
139	<b>Pass Through Certificates</b>	‘Pass Through Certificates’ are in the nature of participation certificates that enable the investors to take a direct exposure on the performance of the securitised assets.
140	<b>Permanent Retirement Account Number (PRAN)</b>	Upon successful enrolment under National Pension Scheme (NPS), a Permanent Retirement Account Number (PRAN) is allotted to the subscriber under NPS. After registration of the Subscriber, a PRAN card is dispatched to the Subscriber which has Subscriber's name, Father's name, Photograph and Signature/thumb impression and Subscriber's date of birth. This card proves the completeness of information in the Central record Keeping Agency (CRA) system. A PRAN Kit containing PRAN card, Subscriber details (referred as Subscriber Master List) and an information booklet is sent to the Subscriber's registered address. The Subscriber Master List includes all the information as provided by the Subscriber in the application and captured in CRA system. CRA-FC is Facilitation Centre

		appointed by CRA to facilitate Nodal Offices to submit applications for allotment of PRAN.
<b>141</b>	<b>Put Option</b>	Put Option is an option that gives the right to sell a fixed number of securities at a specified price (the strike price) within a specified period of time.
<b>142</b>	<b>Pradhan Mantri Jan Dhan Yojana (PMJDY)</b>	<p>Pradhan Mantri Jan-Dhan Yojana (PMJDY)"under the National Mission for Financial Inclusion was launched initially for a period of 4 years (in two phases) on 28th August 2014. It envisages universal access to banking facilities with at least one basic banking account for every household, financial literacy, access to credit, insurance and pension.</p> <p>The objective of the Pradhan Mantri Jan-Dhan Yojana (PMJDY) is to ensure access to financial services, namely, Banking/ Savings &amp; Deposit Accounts, Remittance, Credit, Insurance, Pension in an affordable manner. Account can be opened in any bank branch or Business Correspondent (Bank Mitr) outlet. Accounts opened under PMJDY are being opened with Zero balance. However, if the account-holder wishes to get cheque book, he/she will have to fulfill minimum balance criteria.</p>
<b>143</b>	<b>Primary Dealer</b>	In order to accomplish the objective of meeting the Government borrowing needs as cheaply and efficiently as possible, a group of highly qualified financial firms/banks are appointed to play the role of specialist intermediaries in the G-Sec market between the issuer on the one hand and the market on the other. Such entities are generally called Primary dealers or market makers. In return of a set of obligations, such as making continuous bids and offer price in the marketable G-Secs or submitting reasonable bids in the auctions, these firms receive a set of privileges in the primary/ secondary market.
<b>144</b>	<b>Professional Clearing Member (PCM)</b>	<p>Clearing Corporation admits a special category of members namely professional clearing members. Professional Clearing Member (PCM) are clearing members who are not trading members. They are typically banks, custodians etc. who clear and settle trades executed for their clients (individuals, institutions etc.).</p> <p>In such an event, the functions and responsibilities of the PCM would be similar to Custodians. PCMs may also undertake clearing and settlement responsibility for trading members. In such a case, the PCM would settle the trades carried out by the trading members connected to them. The onus for settling the trade would be thus on the PCM and not the trading member.</p>

145	<b>Qualified Institutional Buyer</b>	As per SEBI (ICDR) Regulations, 2018, “Qualified Institutional Buyer” means: (i) a mutual fund, venture capital fund, alternative investment fund and foreign venture capital investor registered with the Board; (ii) a foreign portfolio investor other than Category III foreign portfolio investor, registered with the Board; (iii) a public financial institution; (iv) a scheduled commercial bank; (v) a multilateral and bilateral development financial institution; (vi) a state industrial development corporation; (vii) an insurance company registered with the Insurance Regulatory and Development Authority of India; (viii) a provident fund with minimum corpus of twenty five crore rupees; (ix) a pension fund with minimum corpus of twenty five crore rupees; (x) National Investment Fund set up by resolution no. F. No. 2/3/2005-DDII dated November 23, 2005 of the Government of India published in the Gazette of India; (xi) insurance funds set up and managed by army, navy or air force of the Union of India; and (xii) insurance funds set up and managed by the Department of Posts, India; and (xiii) systemically important non-banking financial companies.
146	<b>Qualified Institutional Placement</b>	“Qualified Institutions Placement” means issue of eligible securities by a listed issuer to qualified institutional buyers on a private placement basis and includes an offer for sale of specified securities by the promoters and/or promoter group on a private placement basis, in terms of SEBI (ICDR) Regulations.
147	<b>Real Time Gross Settlement (RTGS)</b>	The RTGS concept has been designed to achieve sound risk management in the settlement of interbank payments. Transactions are settled across accounts held at the Central Bank on a continuous gross basis where settlement is immediate, final and irrevocable.
148	<b>Record Date</b>	A date on which the records of a company are closed for the purpose of determining the stock holders to whom dividends, proxy’s rights etc., are to be sent.
149	<b>Registrar to an Issue</b>	The person appointed by a body corporate or any person or group of persons to carry on the activities of collecting applications from investors in respect of an issue; keeping a proper record of applications and monies received from investors or paid to the seller of the securities and assisting body corporate or person or group of persons in- determining the basis of allotment of securities in consultation with the stock exchange; finalising of the list of persons entitled to allotment of securities; processing and despatching allotment letters, refund orders or certificates and other related documents in respect of the issue.
150	<b>Registrar and Transfer Agent</b>	Registrar and Transfer Agent (RTA) is an entity appointed by the Mutual Fund (MF) to render services

		<p>to its investors / unit holders viz., receipt and processing of financial transactions (subscription, redemption, switch) from investors, dividend processing and Pay-out, brokerage processing for distributors, processing of non-financial transactions like, bank mandate, nominee, pledge, change of address, change of email address, transmission of units related request, name correction, etc.</p> <p>Additionally, the RTA also provides customer care support services through its wide-network of Investor Service Centres (ISCs), its call centre and its web portal such as, requests for latest NAVs, requests for balances/ account statements, requests for fund literature. The RTA also manages the dividend distribution process and commission processing for the MF.</p>
151	<b>Repurchase Agreement (Repo)</b>	<p>Repurchase Agreement (Repo) is a financing arrangement used primarily in the government securities market whereby a dealer or other holder of government securities sells the securities to a lender and agrees to repurchase them at an agreed future date at an agreed price which will provide the lender an extremely low risk return. Repos are popular because they can virtually eliminate credit problems. Thus, Repo means a Sale of Government Securities with simultaneous agreement to repurchase them at a later date.</p>
152	<b>Repo Market</b>	<p>Repo or ready forward contract is an instrument for borrowing funds by selling securities with an agreement to repurchase the said securities on a mutually agreed future date at an agreed price which includes interest for the funds borrowed. The reverse of the repo transaction is called 'reverse repo' which is lending of funds against buying of securities with an agreement to resell the said securities on a mutually agreed future date at an agreed price which includes interest for the funds lent. There are thus two legs to the same transaction in a repo/ reverse repo. The duration between the two legs is called the 'repo period'. Predominantly, repos are undertaken on overnight basis, i.e., for one day period. The Settlement of repo transactions happens along with the outright trades in G-Secs. The consideration amount in the first leg of the repo transactions is the amount borrowed by the seller of the security. On this, interest at the agreed 'repo rate' is calculated and paid along with the consideration amount of the second leg of the transaction when the borrower buys back the security. The overall effect of the repo transaction would be borrowing of funds backed by the collateral of G-Secs. The repo market is regulated by the Reserve Bank of India.</p>



<b>153</b>	<b>Retail Individual Investor</b>	‘Retail Individual Investor’ means an individual investor who applies or bids for specified securities for a value of not more than two lakhs rupees.
<b>154</b>	<b>Retail Individual Shareholder</b>	“Retail Individual Shareholder” means a shareholder who applies or bids for specified securities for a value of not more than two lakhs rupees.
<b>155</b>	<b>Reverse Repo</b>	Reverse Repo is the purchase of securities with an agreement to resell them at a higher price at a specific future date. This is essentially just a loan of the security at a specific rate. Also called reverse repurchase agreement. Thus, Reverse Repo means Purchase of Government Securities with simultaneous agreement to sell them at a later date.
<b>156</b>	<b>Restructuring</b>	A restructured account is one where the bank, grants to the borrower concessions that the bank would not otherwise consider. Restructuring would normally involve modification of terms of the advances/securities, which would generally include, among others, alteration of repayment period/ repayable amount/ the amount of installments and rate of interest. It is a mechanism to nurture another wise viable unit, which has been adversely impacted, back to health.
<b>157</b>	<b>Retail Payment Systems</b>	<p>“Payment system” means a system that enables payment to be effected between a payer and a beneficiary, involving clearing, payment or settlement service or all of them, but does not include a stock exchange. “Payment system” includes the systems enabling credit card operations, debit card operations, smart card operations, money transfer operations or similar operations.</p> <p>In the retail payments space, RBI manages and operates the National Electronic Funds Transfer (NEFT) system as also Electronic Clearing Service (ECS) – Debit and Credit, while other retail payments are owned and operated by NPCI and other payment system operators. The National Payments Corporation of India (<u>NPCI</u>) operates Retail Payment systems such as National Financial Switch (NFS), CTS, IMPS, UPI-including Bharat Interface for Money (BHIM), National Unified USSD (Unstructured Supplementary Service Data) Platform (NUUP), NACH, AePS, BHIM Aadhaar Pay, APBS, BBPS, National Electronic Toll Collection (NETC), National Common Mobility Card (NCMC), RuPay etc.</p>
<b>158</b>	<b>Rights Issue</b>	“Rights Issue” means an offer of specified securities by a listed issuer to the shareholders of the issuer as on the record date fixed for the said purpose.
<b>159</b>	<b>Secondary Market</b>	Secondary Market is the market for previously issued securities or financial instruments.

		Secondary Market is thus the market in which outstanding securities are traded. This market is different from the primary or initial market when securities are sold for the first time. Secondary market refers to the buying and selling that goes on after the initial public sale of the security.
<b>160</b>	<b>Securities</b>	Securities includes shares, scrips, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in or of any incorporated company or other body corporate as defined in the Securities (Contract) Regulation Act, 1956, and includes Notes, Bonds, Debentures, Debenture Stock, Warrants, Futures, Options, Derivatives etc and other transferable securities of a like nature in or of any incorporated company or other body corporate. It also includes Gilts/Government Securities, Mutual Fund Units, Money Market Instruments like Call Deposit, Commercial Paper, Treasury Bills etc and such other instruments as may be declared by Government of India and/or SEBI and/or RBI and/or any other Regulatory Authority to be securities and rights or interest in securities.
<b>161</b>	<b>Securitization</b>	Securitization is the process of homogenizing and packaging financial instruments into a new fungible one. Acquisition, classification, collateralization, composition, pooling and distribution are functions within this process. Securitisations is thus the process of pooling and repackaging of homogenous illiquid financial assets into marketable securities that can be sold to investors. The process leads to the creation of financial instruments that represent ownership interest in, or are secured by a segregated income producing asset or pool of assets. The pool of assets collateralises securities. These assets are generally secured by personal or real property (e.g. automobiles, real estate, or equipment loans), but in some cases are unsecured (e.g. credit card debt, consumer loans).
<b>162</b>	<b>Securities Transaction Tax</b>	Securities Transaction Tax means tax leviable on the taxable securities transactions under the provisions of Income Tax Act 1961. The "taxable securities transaction" means a transaction of purchase or sale of an equity share in a company or a derivative or a unit of an equity oriented fund [or a unit of a business trust], entered into in a recognised stock exchange, sale of a unit of an equity oriented fund to the Mutual Fund etc.
<b>163</b>	<b>Self Certified Syndicate Bank (SCSB)</b>	Self Certified Syndicate Bank (SCSB) means a Bank registered with SEBI to offer the facility of applying through the ASBA process. ASBAs can be accepted

		only by SCSBs, whose names appear in the list of SCSBs as displayed by SEBI.
<b>164</b>	<b>Short Selling</b>	Short Selling means selling a stock which the seller does not own at the time of trade.
<b>165</b>	<b>Society for Worldwide Interbank Financial Telecommunications (SWIFT)</b>	The Society for Worldwide Interbank Financial Telecommunications (SWIFT) is a dedicated computer network to support funds Transfers messages internationally between over 900 member banks world-wide.
<b>166</b>	<b>Sovereign Gold Bonds</b>	Sovereign Gold Bonds- SGBs are unique instruments, prices of which are linked to commodity price viz Gold. SGBs are also budgeted in lieu of market borrowing. The calendar of issuance is published indicating tranche description, date of subscription and date of issuance. The Bonds shall be denominated in units of one gram of gold and multiples thereof. Minimum investment in the Bonds shall be one gram with a maximum limit of subscription per fiscal year of 4 kg for individuals, 4 kg for Hindu Undivided Family (HUF) and 20 kg for trusts and similar entities notified by the Government from time to time, provided that (a) in case of joint holding, the above limits shall be applicable to the first applicant only; (b) annual ceiling will include bonds subscribed under different tranches during initial issuance by Government and those purchased from the secondary market; and (c) the ceiling on investment will not include the holdings as collateral by banks and other Financial Institutions. The Bonds shall be repayable on the expiration of eight years from the date of issue of the Bonds. Pre-mature redemption of the Bond is permitted after fifth year of the date of issue of the Bonds and such repayments shall be made on the next interest payment date. The bonds under SGB Scheme may be held by a person resident in India, being an individual, in his capacity as an individual, or on behalf of minor child, or jointly with any other individual. The bonds may also be held by a Trust, HUFs, Charitable Institution and University. Nominal Value of the bonds shall be fixed in Indian Rupees on the basis of simple average of closing price of gold of 999 purity published by the India Bullion and Jewellers Association Limited for the last three business days of the week preceding the subscription period. The issue price of the Gold Bonds will be ₹ 50 per gram less than the nominal value to those investors applying online and the payment against the application is made through digital mode. The Bonds shall bear interest at the rate of 2.50 percent (fixed rate) per annum on the nominal value. Interest shall be paid in half-yearly rests and the last interest shall be payable

		on maturity along with the principal. The redemption price shall be fixed in Indian Rupees and the redemption price shall be based on simple average of closing price of gold of 999 purity of previous 3 business days from the date of repayment, published by the India Bullion and Jewellers Association Limited. SGBs acquired by the banks through the process of invoking lien/hypothecation/pledge alone shall be counted towards Statutory Liquidity Ratio.
<b>167</b>	<b>Special Purpose Vehicle (SPV)</b>	The Infrastructure assets in India are usually held through different Special Purpose Vehicles (SPVs), where the promoters of such SPVs create separate holding companies which in turn hold stake in the underlying SPVs. Thus, the sponsors may have separate Holding Companies which hold multiple SPVs which have projects of a particular category.
<b>168</b>	<b>State Development Loans (SDL)</b>	In terms of Sec. 21A (1) (b) of the Reserve Bank of India Act, 1934, the RBI may, by agreement with any State Government undertake the management of the public debt of that State. Accordingly, the RBI has entered into agreements with 29 State Governments and one Union Territory (UT of Puducherry) for management of their public debt. Under Article 293(3) of the Constitution of India (under section 48A of Union territories Act, in case of Union Territory), a State Government has to obtain the permission of the Central Government for any borrowing as long as there is any outstanding loan that the State Government may have from the Centre. Market borrowings are raised by the RBI on behalf of the State Governments to the extent of the allocations under the Market Borrowing Program as approved by the Ministry of Finance in consultation with the Planning Commission.
<b>169</b>	<b>STRIPS – Separate Trading of Registered Interest and Principal of Securities.</b>	Separate Trading of Registered Interest and Principal of Securities- STRIPS are the securities created by way of separating the cash flows associated with a regular G-Sec i.e. each semi-annual coupon payment and the final principal payment to be received from the issuer, into separate securities. They are essentially Zero Coupon Bonds (ZCBs). However, they are created out of existing securities only and unlike other securities, are not issued through auctions. Stripped securities represent future cash flows (periodic interest and principal repayment) of an underlying coupon bearing bond. Being G-Secs, STRIPS are eligible for SLR. All fixed coupon securities issued by Government of India, irrespective of the year of maturity, are eligible for Stripping/Reconstitution, provided that the securities are reckoned as eligible investment for the purpose of

		Statutory Liquidity Ratio (SLR) and the securities are transferable.
<b>170</b>	<b>Statutory Liquidity Ratio</b>	Statutory liquidity ratio is in the form of cash (book value), gold (current market value) and balances in unencumbered approved securities.
<b>171</b>	<b>Stock Index Future</b>	Stock Index Future is the futures contract whose price varies in line with the movements of a stock market index.
<b>172</b>	<b>Stock Lending</b>	<p>Stock lending means the lending of a security by the registered owner, to an authorized third party, for a fixed or open period of time, for an agreed consideration secured by collateral. The demand to borrow securities comes mainly from market makers to cover short positions or take arbitrage opportunities.</p> <p>Stock Lending means thus lending of securities to another person or entity for a fixed period of time, at a negotiated compensation, in order to enhance returns of the portfolio.</p>
<b>173</b>	<b>Stock Option (Employees Stock Option Plan- ESOP)</b>	Stock option is the right to purchase shares of common stock in accordance with an agreement, upon payment of a specified amount. It is a compensation scheme under which executives are granted options to purchase common stock over an extended option period at a stated price.
<b>174</b>	<b>Subordinated Debt</b>	Subordinated Debt refers to the status of the debt. In the event of the bankruptcy or liquidation of the debtor, subordinated debt only has a secondary claim on repayments, after other debt has been repaid.
<b>175</b>	<b>Substandard Asset</b>	A substandard asset would be one, which has remained NPA for a period less than or equal to 12 months. Such an asset will have well defined credit weaknesses that jeopardize the liquidation of the debt and are characterised by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.
<b>176</b>	<b>Suo Moto</b>	Suo moto is a Latin term meaning "on its own motion". It is used in situations where a government or court official acts of its own initiative.
<b>177</b>	<b>Sweat equity</b>	A sweat equity share is an equity share issued by the company to employees or directors at a discount or for consideration other than cash for providing know-how or making available rights in the nature of intellectual property rights or value additions.
<b>178</b>	<b>Systematic Investment Plan (SIP)</b>	It is the facility given to the unit holders to invest specified fixed sums in a Scheme on a periodic basis by giving a single instruction.
<b>179</b>	<b>Systematic Transfer Plan (STP)</b>	It is the facility given to the unit holders to transfer sums on periodic basis from one scheme to another scheme

		launched by the Mutual Fund from time to time by giving a single instruction.
<b>180</b>	<b>Systematic Withdrawal Plan</b>	It is the facility given to the unit holders to withdraw amounts from the Scheme on periodic basis by giving a single instruction.
<b>181</b>	<b>Syndicate Member</b>	“Syndicate Member” means an intermediary registered with the Board and who is permitted to accept bids, applications and place orders with respect to the issue and carry on the activity as an underwriter.
<b>182</b>	<b>Systemic risk</b>	Systemic risk is the Risk that affects an entire financial market or system, and not just specific participants. It is not possible to avoid systemic risk through diversification.
<b>183</b>	<b>Systematically Important NBFCs</b>	The Non Banking Financial Companies (NBFCs) whose asset size is of ₹ 500cr or more as per last audited balance sheet are considered as systemically important NBFCs. The rationale for such classification is that the activities of such NBFCs will have a bearing on the financial stability of the overall economy
<b>184</b>	<b>Total Expense Ratio (TER)</b>	<p>Under SEBI (Mutual Funds) Regulations, 1996, Mutual Funds are permitted to incur / charge certain operating expenses for managing a Mutual Fund scheme – such as sales &amp; marketing / advertising expenses, administrative expenses, transaction costs, investment management fees, registrar fees, custodian fees, audit fees – as a percentage of the fund’s daily net assets.</p> <p>This is commonly referred to as ‘Total Expense Ratio’(TER). TER is thus the cost of running and managing a Mutual Fund which is charged to the scheme.</p>
<b>185</b>	<b>Treasury Bill</b>	Treasury Bill is a short term bearer discount security issued by governments as a means of financing their cash requirements. Treasury Bills play an important role in the local money market because most banks are required to hold them as part of their reserve requirements and because central bank open market operations undertaken in the process of implementing monetary policy are usually conducted in the treasury bill market. Thus, the Debt obligations of the Government that have maturities of one year or less are normally called Treasury Bills or T-Bills. Treasury Bills are short-term obligations of the Treasury/ Government. They are instruments issued at a discount to the face value and form an integral part of the money market.
<b>186</b>	<b>Trust Deed</b>	Trust Deed is a detailed legal document which sets out in precise legal terms the rules under which a trust works, its aim, the fees and charges that are created, plus the responsibilities of the Manager and the Trustee. As

		per SEBI Debenture Trustee rules, trust deed is a deed executed by the body corporate in favour of the trustees named therein for the benefit of the debenture holders.
<b>187</b>	<b>Trust Promoter</b>	Trust Promoter is the person or company responsible for attracting investors into a unit trust or mutual fund.
<b>188</b>	<b>Trustee</b>	Trustee is the Legal custodian who looks after all the monies invested in a unit trust or mutual fund.
<b>189</b>	<b>Turn Around Time</b>	The National Payments Corporation of India (NPCI) offers to banks, financial institutions and corporates the option of bulk processing of transactions through NACH. This system facilitates bulk debits as well by using the mandate forms issued by the customers to their corporates or the banks. The destination after duly verifying and confirming the authentication of the mandate should submit the mandate to NACH system for onward transmission to the sponsor bank within 48 hours of completion of the activity. This is known as the Turn Around Time (TAT) required for registering the mandates.
<b>190</b>	<b>Underlying</b>	Underlying is the designated financial instrument which must be delivered in completion of an option or futures contract.
<b>191</b>	<b>Underwriter</b>	One who does underwriting. A financial organization that handles sales of new securities which accompany or municipality wishes to sell in order to raise money. Typically the underwriters will guarantee subscription to securities say, an issue of equity from the company at a stated price, and are under an obligation to purchase securities upto the amount they have underwritten, should the public not subscribe for the issue.
<b>192</b>	<b>Underwriting</b>	An agreement with or without conditions to subscribe to the securities of a body corporate when the existing shareholders of such body corporate or the public do not subscribe to the securities offered to them.
<b>193</b>	<b>Unified Payment Interface (UPI)</b>	Unified Payments Interface (UPI) is a system that powers multiple bank accounts into a single mobile application (of any participating bank), merging several banking features, seamless fund routing and merchant payments under one hood. The UPI offers an architectural framework and a set of standard Application Programming Interface (API) specifications to facilitate online payments.
<b>194</b>	<b>Unsystematic Risk</b>	Also called the diversifiable risk, residual risk, or company-specific risk, the risk that is unique to a company such as a strike, the outcome of unfavourable litigation, or a natural catastrophe.
<b>195</b>	<b>Venture Capital</b>	Professional moneys co-invested with the entrepreneur usually to fund an early stage, more risky venture. Offsetting the high risk is the promise of higher return that the investor takes. A venture capitalist not only

		brings in moneys as “equity capital” (i.e. without security/charge on assets) but also brings on to the table extremely valuable domain knowledge, business contacts, brand equity, strategic advice, etc. He is a fixed interval investor, whom the entrepreneurs approach without the risk of “ takeover”.
<b>196</b>	<b>Venture Capital Fund</b>	A fund established in the form of a trust or a company including a body corporate and registered under the SEBI venture capital fund regulations which - has a dedicated pool of capital, raised in a manner specified in the regulations and invests in venture capital undertaking in accordance with the regulations. Venture Capital Fund is thus a fund set up for the purpose of investing in start-up businesses that is perceived to have excellent growth prospects but does not have access to capital markets.
<b>197</b>	<b>Venture Capital Undertaking</b>	A domestic company whose shares are not listed an a recognised stock exchange in India and which is engaged in the business for providing services, production or manufacture of article or things or does not include such activities or sectors which are specified in the negative list by the Board with the approval of the Central Government.
<b>198</b>	<b>Volatility</b>	Volatility equates to the variability of returns from an investment. It is an acceptable substitute for risk; the greater the volatility, the greater is the risk that an investment will not turn out as hoped because its market price happens to be on the downswing of a bounce at the time that it needs to be cashed in. The problem is that future volatility is hard to predict and measures of past volatility can, themselves, be variable, depending on how frequently returns are measured (weekly or monthly, for example) and for how long. Therefore, putting expectations of future volatility into predictive models is of limited use, but resorting to using past levels of volatility is equally limited.
<b>199</b>	<b>Yield to maturity (YTM)</b>	The rate of return anticipated on a bond if it is held until the maturity date. YTM is considered a long term bond yield expressed as an annual rate. The Yield to maturity (YTM) is thus the yield promised to the bondholder on the assumption that the bond will be held to maturity and coupon payments will be reinvested at the YTM. It is a measure of the return of the bond.
<b>200</b>	<b>Zero Coupon Bond</b>	Zero Coupon Bond is a bond that pays no interest while the investor holds it. It is sold originally at a substantial discount from its eventual maturity value, paying the investor its full face value when it comes due, with the difference between what he paid initially and what he



		finally collected representing the interest he would have received over the years it was held.

## Abbreviations

Sl No	Abbreviation	Full form
1	AAUM	Average Assets Under Management
2	ABS	Asset Backed Securitisation
3	ACC	Authorized Collection Centre
4	ACU	Additional Competitive Underwriting
5	ADR	American Depository Receipts
6	AEPS	Aadhaar Enabled Payment System
7	AIF	Alternate Investment Fund
8	ALCO	Asset Liability Committee/Asset Liability Collateral Obligations
9	ALM	Asset Liability Management
10	AMC	Mutual Fund Asset Management Company
11	AMC (charges)	Annual Maintenance Contract (charges)
12	AMFI	Association of Mutual Funds in India
13	AML	Anti Money Laundering
14	AMS	Audit Management System
15	AMTC	Advance Minimum Transaction Charges
16	AOA	Articles of Association
17	APY	Atal Pension Yojana
18	ARC	Asset Reconstruction Company
19	AS	Accounting Standards
20	ASF	Annual Surveillance Fee
21	ATM	Automated Teller Machines
22	AUCA	Advance Under Collection Account
23	AUM	Assets Under Management
24	AVP	Assistant Vice President
25	B/S	Balance Sheet
26	B2B	Business to Business
27	B2C	Business to Consumer
28	BBPS	Bharat Bill Payments System
29	BGSSL	Baroda Global Shared Services Ltd
30	BHIM	Bharat Interface for Money
31	BIFR	Board for Industrial and Financial Reconstruction
32	BKC	BandraKurla Complex Financial Centre in Mumbai
33	BLR	Bank Loan Rating
34	BOB	Bank of Baroda
35	BOBFSL	Bank of Baroda Financial Services Ltd
36	BOI	Bank of India
37	BOLT	BSE (Bombay Stock Exchange) Online Trading
38	BPO	Business Process Outsourcing
39	BSE	Bombay Stock Exchange Ltd

40	BSNL	Bharat Sanchar Nigam Ltd
41	C & AG DPC Act	Comptroller & Auditor General (Duties, Powers and Conditions of Service) Act 1971
42	CAGR	Compound Annual Growth Rate
43	CAR	Capital Adequacy Ratio
44	CBDT	Central Board of Direct Taxes
45	CBLO	Collateralized Borrowing & Lending Obligations
46	CBS	Core Banking Solutions
47	CBSL	Canara Bank Securities Ltd
48	CCC	Corporate Credit Card
49	CCIL	Clearing Corporation of India Ltd
50	CCM	Currency Chest Management
51	CCPS	Compulsorily Convertible Preference Shares
52	CD	Certificate of Deposit
53	CDMRD	Commodity Derivatives Market Regulation Department (of SEBI)
54	CDR	Corporate Debt Restructuring
55	CDR	Corporate Debt Restructuring
56	CDR	Centralized Dealing Room
57	CDSL	Central Depositories Services (India) Ltd
58	CEO	Chief Executive Officer
59	CERSAI	Central Registry of Securitisation Asset Reconstruction and Security Interest of India
60	CFD	Corporation Finance Department (of SEBI)
61	CFO	Chief Financial Officer
62	CFS	CentBank Financial Services Ltd
63	CFS	Consolidated Financial Statements
64	CGFEL	Credit Guarantee Fund Scheme for Educational Loans
65	CGFF	Credit Guarantee Fund Scheme for Factoring
66	CGFMU	Credit Guarantee Fund Scheme for Micro Units
67	CGFSD	Credit Guarantee Fund Scheme for Skill Development
68	CGFSI	Credit Guarantee Fund Scheme for Stand-Up India
69	CGHS	Central Government Health Scheme
70	CGST	Central Goods and Service Tax
71	CIBIL	Credit Information Bureau (India) Ltd
72	CIMS	Centralized Information Management System
73	CIS	Collective Investment Scheme
74	CISA	Certified Information Systems Auditor
75	CISM	Certified Information Security Manager
76	CISO	Chief Information and Security Officer
77	CKYC	Central Know Your Customer Services
78	CMB	Cash Management Bills
79	CMTS	Compliance Management and Tracking System
80	COD	Committee of Directors
81	COO	Chief Operating Officer
82	CoR	Certificate of Registration
83	CORDEX	Credit and Operational Risk Data Exchange
84	CP	Commercial Papers

85	CPI	Consumer Price Index
86	CPSU	Central Public Sector Undertaking
87	CRA	Credit Rating Agency
88	CRA	Central Record Keeping Agency
89	CRAR	Capital to Risk Weighted Asset Ratio
90	CRR	Cash Reserve Ratio
91	CSGL	Constituent Subsidiary General Ledger
92	CSR	Corporate Social Responsibility
93	CTR	Cash Transaction Report
94	CTS	Cheque Truncation System
95	DBT	Direct Benefit Transfer
96	DCCB	District Central Co-operative Banks
97	DCM	Debt Capital Market
98	DDHS	Department of Debt and Hybrid Securities (of SEBI)
99	Demat	Dematerialized
100	DEPA	Department Economic and Policy Analysis (of SEBI)
101	DFID	Department for International Development
102	DIPAM	Department of Investment and Public Asset Management
103	DMS	Document Management Services
104	DP	Depository Participant
105	DR/BCP	Disaster Recovery/Business Continuity Plan
106	DRP	Disaster Recovery Plan
107	DRT	Debt Recovery Tribunal
108	E&MDA	Export Promotion and Marketing Development Assistance Division of the Ministry of Commerce, Government of India
109	EAD	Enquiries and Adjudication Department (of SEBI)
110	ECB	External Commercial Borrowings
111	ECGC	Export Credit Guarantee Corporation Ltd
112	ECHS	Ex-Servicemen Contributory Health Scheme
113	ECIB	Export Credit Insurance for Banks
114	ECM	Equity Capital Market
115	ECS	Electronic Clearing System
116	EDMS	Electronic Document Management Solution
117	EFD	Enforcement Department (of SEBI)
118	ERP	Enterprise Resource Planning
119	ESIC	Employees State Insurance Corporation
120	ESOP	Employee Stock Option Plan
121	EXIM	Export Import Bank of India
122	F&O	Futures & Options
123	FA	Financial Assets
124	FCI	Factor Chain International
125	FEMA	Foreign Exchange Management Act
126	FI	Financial Institutions
127	FII	Foreign Institutional Investors
128	FIMMDA	Fixed Income Money Market and Derivatives Association
129	FISS	Fixed Income Securities System
130	FIU	Funds in Use

131	FLAS	Financial Literacy and Advisory Services
132	FMCG	Fast Moving Consumer Goods
133	FPI	Foreign Portfolio Investors
134	FPO	Follow on Public Offer
135	FRB	Floating Rate Bonds
136	FVCI	Foreign Venture Capital Investors
137	G Sec	Government Securities
138	GAH	Gilt Account Holders
139	GDR	Global Depository Receipts
140	GFR	General Financial Rules
141	GIC	General Insurance corporation of India
142	GIFT	Gujarat International Finance Tec City, Gandhinagar, Gujarat
143	GOI	Government of India
144	HDFC	Housing Development Finance Corporation Ltd
145	HNI	High Net Worth Investors
146	HTM	Held to Maturity
147	IBA	Indian Banks Association
148	IBBI	Insolvency and Bankruptcy Board of India
149	IBC	Insolvency and Bankruptcy Code, 2016
150	ICAI	The Institute of Chartered Accountants of India
151	ICICI	Industrial Credit and Investment Corporation of India
152	IDBI	Industrial Development Bank of India
153	IDL	Intra-Day Liquidity
154	IDMD	Internal Debt Management Department (of RBI)
155	IDR	Indian Depository Receipts
156	IDT	Intra Day Trading
157	IDW	Income Distribution Warrants
158	IFCI	Industrial Finance Corporation of India
159	IFSC	International Financial Services Centre
160	IFSC	Indian Financial System Code (for Bank transactions)
161	IIB	Inflation Indexed Bonds
162	IIBI	Industrial Investment Bank of India
163	IIDF	India Infrastructure Development Fund
164	IIN	Issuer Identification Number
165	IL&FS	Infrastructure Leasing and Financial Services
166	IMA	Investment Management Agreement
167	IMD	Investment Management Department (of SEBI)
168	IMPS	Immediate Payment Service
169	Ind AS	Indian Accounting Standards
170	Indian GAAP	Generally Accepted Accounting Principles in India
171	IOF	India Opportunities Fund
172	IPEF	Investor Protection and Education Fund
173	IPO	Initial Public Offer
174	IPP	Institutional Placement Programme
175	IRDAI	Insurance Regulatory and Development Authority of India Ltd
176	IRF	Initial Rating Fee
177	IRS	Interest Rate Swaps

178	ISARC	India SME Asset Reconstruction Company Limited
179	ISD	Integrated Surveillance Department (of SEBI)
180	ISIN	International Security Identification Number
181	ITeS	Information Technology enabled Services
182	ITSL	IDBI Trusteeship Services Ltd
183	IU	Information Utility
184	IVD	Investigations Department (of SEBI)
185	KASEZ	Kandla Special Economic Zone
186	KMP	Key Managerial Personnel
187	KYC	Know Your Customer
188	LAD	Legal Affairs Department (of SEBI)
189	LAF	Liquidity Adjustment Facility
190	LAN	Local Area Network
191	LAPS	Loan against Property and Securities
192	LC	Letter of Credit
193	LIC	Life Insurance Corporation of India
194	LIS	Low Income states
195	LLP	Limited Liability Partnership
196	LMS	Locker Management System
197	M&A	Mergers & Acquisitions
198	MAB	Merchant Acquiring Business
199	MAT	Management Action Trigger
200	MBS	Mortgage Backed Securitisation
201	MCA	Ministry of Corporate Affairs
202	MCLR	Marginal Cost of Lending Rates
203	MCX	Multi Commodity Exchange
204	MDR	Merchant Discount Rate
205	MF	Mutual Funds
206	MFI	Micro Finance Institution
207	MICR	Magnetic Ink Character Recognition
208	MII	Market Infrastructure Institutions
209	MIRSD	Market Intermediaries Regulation and Supervision Department(of SEBI)
210	MLI	Member Lending Institution
211	MLT	Medium to long term duration (Credit covers)
212	MOA	Memorandum of Association
213	MOF	Ministry of Finance
214	MOU	Memorandum of Understanding
215	MRA	Master Restructuring Agreement
216	MRD	Market Regulation Department (of SEBI)
217	MS Fund	Maharashtra State Social Venture Fund
218	MSME	Micro, Small and Medium Enterprises
219	MTM	Marked to Market
220	MUC	Minimum Underwriting Commitment
221	MUC	Minimum Usage Fee
222	MUDRA	Micro Units Development & Refinance Agency Ltd
223	NABARD	National Bank for Agricultural and Rural Development

224	NACAS	National Advisory Committee on Accounting Standards
225	NACH	National Automated Clearing House
226	NAS	National Archival Services
227	NASDAQ	National Association of Securities Dealers and Automated Quotations
228	NASSCOM	National Association of Software and Services Companies
229	NAV	Net Assets Value
230	NBFC	Non Banking Financial Company
231	NBFC-ND-SI	Systematically Important Non Deposit Taking Non-Banking Financial Company
232	NCB	Non Competitive Bidding
233	NCD	Non Convertible Debentures
234	NCDEX	National Commodity and Derivative Exchange
235	NCGTC	National Credit Guarantee Trustee Company Limited
236	NCLT	National Company Law Tribunal
237	NCMC	National Common Mobility Card
238	NCSB	Non Corporate Small Business Segment
239	NDLM	National Digital Literacy Mission
240	NDS-OM	Negotiated Dealing System-Order Matching
241	NEAT	National Exchange for Automated Trading
242	NEFT	National Electronic Fund Transfer
243	NEIA	National Export Insurance Account Trust
244	NESL	National E Governance Services Ltd
245	NETC	National Electronic Toll Collection
246	NFO	New Fund Offer (of Mutual Fund scheme)
247	NFS	National Financial Switch
248	NFSIT	National Venture Fund for Software and Information Technology Industry
249	NGO	Non Government Organization
250	NHB	National Housing Bank
251	NISM	National Institute of Securities Market
252	NOF	Net Owned Funds
253	NPA	Non Performing Assets
254	NPCI	National Payments Corporation of India Ltd
255	NPS	National Pension Scheme
256	NSDL	National Securities and Depositories Ltd
257	NSE	National Stock Exchange Ltd
258	NSSO	National Sample Survey Office
259	OCI	Other Comprehensive Income
260	OFS	Offer for Sale
261	OIA	Office of International Affairs (of SEBI)
262	OIAE	Office of Investor Assistance and Education (of SEBI)
263	OMO	Open Market Operations
264	OMS	Offsite Monitoring System
265	OPL	Opinion Letters
266	OTC	Over-the-counter
267	OTS	One Time Settlement
268	P/L	Profit & Loss Account

269	PA& SF	Project Advisory and Structured Finance
270	PAN	Permanent Account Number
271	PCM	Professional Clearing Member
272	PD	Primary Dealers
273	PDAI	Primary Dealers Association of India
274	PFRDA	Pension Fund Regulatory and Development Authority
275	PFs	Pension Funds
276	PGAM	Pioneer Global Asset Management S.p.A
277	PIFL	Pragati India Fund Ltd
278	PIPE	Private Investment in Public Equity
279	PMJDY	PradhanMantri Jan DhanYojana
280	PMLA	Prevention of Money Laundering Act, 2002
281	PMMY	PradhanMantri Mudra Yojana
282	PMS	Portfolio Management Services
283	PMS	Portfolio Management Service/Scheme
284	PNB	Punjab National Bank
285	POP	Point of Presence
286	POS	Point of Sale
287	PPM	Project Portfolio Management
288	PRAN	Permanent Retirement Account Number
289	PRI	Price Return variant of an Index
290	PSIG	Poorest States Inclusive Growth
291	PSL	Priority Sector Lending
292	PTC	Physical Trusteeship Certificates
293	PTC	Pass Through Certificates
294	QIB	Qualified Institutional Buyers
295	QIP	Qualified Institutional Placements
296	RAF	Risk Assurance Fund
297	RBI	Reserve Bank of India
298	RCSA	Risk and Control Self-Assessment
299	ReBIT	Reserve Bank Information Technology Private Limited
300	RERA	Real Estate Regulatory Authority/Real Estate Regulation Act
301	RIDF	Rural Infrastructure Development Fund
302	ROC	Registrar of Companies
303	RRB	Regional Rural Banks
304	RTA	Registrars and Transfer Agents
305	RTA	Registrar and Transfer Agent
306	RTGS	Real Time Gross Settlement
307	SAI	Statement of Additional Information (of Mutual Fund scheme)
308	SAP	System Application Product
309	SARFESAI	Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002
310	SASF	Stressed Assets Stabilization Fund
311	SAT	Securities Appellate Tribunal
312	SBG	State Bank Group
313	SBI	State Bank of India
314	SBIGFL	SBI Global Factors Ltd



315	SBIPFPL	SBI Pension Funds Private Limited
316	SC/RC	Securitization Company/Reconstruction Company
317	SCB	State Co-operative Banks
318	SCB	Scheduled Commercial Banks
319	SCORES	SEBI's Complaint Redressal System
320	SCRA	Securities Contracts Regulation Act
321	SDL	State Development Loans
322	SDOF	Structured Debt Opportunities Fund
323	SEBI	Securities and Exchange Board of India
324	SEBI (ICDR)	SEBI (Issue of Capital and Disclosure Requirement) Regulations
325	SEI	Carnegie Mellon University's Software Engineering Institute
326	SF	Samriddhi Fund
327	SGB	Sovereign Gold Bond
328	SGF	Small and Medium Enterprises Growth Fund
329	SGF	Securities Guarantee Fund
330	SGL	Subsidiary General Ledger
331	SGM	Settlement Guarantee Mechanism
332	SGST	State Goods and Service Tax
333	SHCIL	Stock Holding Corporation of India Ltd
334	SID	Scheme Information Document (of Mutual Fund scheme)
335	SIDBI	Small Industries Development Bank of India
336	SIP	Systematic Investment Plan
337	SLA	Service Level Agreement
338	SLR	Statutory Liquidity Ratio
339	SME	Small and Medium Enterprises
340	SOP	Standard Operating Procedure
341	SPD	Standalone Primary Dealers
342	SR	Security Receipts
343	SSC	Shared Services Centre
344	STA	Security Trustee Agreement
345	STCI	Securities Trading Corporation of India
346	STCI PD	STCI Primary Dealers Ltd
347	STCL	SIDBI Trustee Company Ltd
348	STR	Suspected Transaction Report
349	STRIPS	Separate Trading of Registered Interest and Principal of Securities
350	STT	Securities Transaction Tax
351	SUS	Single User System
352	SUUTI	Specified Undertaking of the Unit Trust of India
353	SVCL	SIDBI Venture Capital Ltd
354	SVP	Senior Vice President
355	SWIFT	Society for Worldwide Inter Bank Financial Telecommunication
356	TAN	Tax Deduction Account Number
357	TAT	Turn Around Time
358	T-Bills	Treasury Bills
359	TDS	Tax Deduction at Source
360	TEMS	Trusteeship Enterprise Management System
361	TER	Total Expense Ratio

362	TEV	Techno Economic Valuation (studies)
363	TF	TEX Fund
364	TIG	Treasury Investment Group
365	TM	Trading Member
366	TRI	Total Return Index
367	UCC	Unique Client Code
368	UPI	Unified Payments Interface
369	UTI	Unit Trust of India
370	UTIITSL	UTI Infrastructure Technology and Services Ltd
371	UTIRSL	UTI Retirement Solutions Ltd
372	VCF	Venture Capital Fund
373	VP	Vice President
374	WAP	Weighted Average Price Method
375	WB Fund	West Bengal MSME VC (Micro, Small and Medium Enterprises Venture Capital ) Fund.
376	WITECO	Western India Trustee and Executor Company
377	WPI	Wholesale Price Index
378	WTD	Whole Time Director
379	THE YEAR ENDING (Y/E)	Financial Year Ending
380	YTM	Yield to Maturity
381	ZCB	Zero Coupon Bonds