

# Directors' Report

Your Directors have pleasure in presenting the 23<sup>rd</sup> Annual Report of OTC Exchange of India together with the audited Statements of Accounts for the year ended 31<sup>st</sup> March, 2013.

## FINANCIAL RESULTS

The financials of your Exchange for the financial year 2012- 2013 are as follows:

*(Rs. in lacs)*

PARTICULARS		
	2012- 2013	2011- 2012
Income	392.65	403.20
Expenditure (Excluding Depreciation)	204.51	147.08
Surplus/(Deficit) Before Depreciation	188.14	256.12
Depreciation	12.93	13.20
Net Surplus/(Deficit) for the year	175.21	242.92
Surplus/(Deficit) brought forward from previous years	(3999.39)	(4242.31)
Accumulated Deficit carried forward to Balance Sheet	(3824.18)	(3999.39)

The Company has not accepted any deposits from the public during the year. The Exchange has separate funds in place as per the SEBI Guidelines as set out below:

Investor Protection Fund having a corpus of Rs.536.18 lacs (previous year Rs 488.94 lacs), Investors Services Fund having a corpus of Rs.81.65 lacs (previous year 73.03 lacs) and Settlement Guarantee Fund, including Base Minimum Capital of Members and Dealers, having a corpus of Rs.875.08 lacs (previous year Rs.861.42 lacs). The Exchange has also set up a Settlement Contingency Fund of Rs.50 lacs as required by SEBI. The investable portion of the above funds has been placed in fixed deposits of Banks as earmarked funds.

## OPERATIONS AT OTC EXCHANGE OF INDIA (OTCEI)

During the year, the Exchange has generated a net surplus of Rs 175.21 lacs (previous year Rs 242.92 lacs), which is the sixth consecutive year of net surplus. This has been possible due to constant financial discipline. The Securities and Exchange Board of India granted renewal of recognition to OTCEI as Stock Exchange under Section 4 of the Securities Contracts (Regulation) Act, 1956 for a

period of one year from 23rd August, 2013 to 22nd August, 2014 inter-alia with the following conditions:

- i) The Exchange can commence trading only after full compliance with the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012 and after complying with the Securities and Exchange Board of India's Circular No.MRD/DSA/SE/Cir-12/09 dated October 07,2009.
- ii) The Exchange shall comply with such other conditions as may be prescribed by SEBI from time to time.

Apart from the above conditions, the Exchange was advised that the shareholding of the promoters of OTCEI in the equity share capital of the OTCEI shall be brought within the permissible limit, as specified in Regulation 17(2) read with Regulation 16 of the Securities Contracts (Regulation)(Stock Exchanges and Clearing Corporations) Regulations, 2012 within a period of one month from the date of their above letter dated August 22,2013. Accordingly, the Exchange had written to all the promoter shareholders. Further, all those shareholders who are holding shares in excess of SECC Regulations met on September 2, 2013 and decided that OTCEI should request SEBI to grant the time of one more year to comply with the said Regulations. As advised, OTCEI had sent a request letter to SEBI on September 03, 2013.

During the year, the Promoters have taken considerable efforts to comply with the restriction on shareholdings of a recognized Stock Exchange stipulated by SEBI as per SECC Regulations, 2012. The Promoter Institutions had discussed various options available for disinvestment to comply with the SEBI Regulations including re-registration of OTCEI from Section 25 ('Not for profit') to Ordinary Company (For Profit) under the Companies Act, 1956. However, as there is no specific provision under the Companies Act,1956 where a Company can apply for conversion of Section 25 Company (non profit company) to an ordinary company, the provisions relating to shareholding restrictions could not be complied with.

The Ministry of Corporate Affairs in 2011 proposed to come out with guidelines for conversion of Section 25 Companies to normal companies under the Act. The proposed guidelines do not contemplate such a situation such as our Company's where the situation is somewhat different. OTCEI has commenced business, has assets and need to convert the Company from Section 25 to a normal Company under Section 32 of the Act, without transferring its assets to any other Company with the similar objects. In view of above, the Exchange had sent a letter to the Assistant Director, Ministry of Corporate Affairs, Government of India, New Delhi with a request that the proposed guidelines be suitably amended so as to include provision for conversion of OTC Exchange of India from Section 25 to an ordinary

company without transferring the assets of the Company to any other Company. The Exchange had also submitted a letter dated November 6, 2012 to Department of Economic Affairs requesting them to take up the matter of conversion of OTCEI from Section 25 company to an ordinary company with MCA. In response to this representation, the Exchange had received a letter from Department of Economic Affairs, Ministry of Finance, New Delhi, on 5th June, 2013 enclosing replies of the Ministry of Corporate Affairs(MCA) and SEBI on the representation of the Exchange for conversion of OTC Exchange of India from Section 25 Company(not for profit) to an ordinary company(for profit) under the Companies Act,1956. Further, the Exchange had filed an application on 27th June,2013 along with all necessary documents with the Registrar of Companies(ROC) requesting to convert OTCEI into an ordinary company under the provisions of Section 32 of the Companies Act, 1956. We understand that as there is no provision in the Companies Act, 1956 for conversion, the matter had been sent to Ministry of Corporate Affairs(MCA), Delhi for their guidance.

Recently, the Companies Bill 2013 had been passed by the parliament. Under sub-clause 4(ii) of clause 8 of the new Companies Bill, 2013, there is a provision for conversion of Section 25 Company to an Ordinary Company subject to Rules and Regulations, which are awaited.

SEBI, vide circular dated May 30, 2012, had come out with an exit policy for exchanges. As per this policy, the exchanges whose turnover is less than Rs 1000 crores may apply for voluntary surrender of their licenses. If the turnover is less than Rs 1000 crores for a continuous period of two years and the exchange does not apply for voluntarily surrender of license, SEBI may de-recognize such exchanges after expiry of two years from the date of circular. In view of above, various meetings of promoters were held during the year. In their recent meeting held on September 5, 2013, the representatives of the Promoters had agreed in principle that the exchange may go for voluntary winding up of the Company. Further, each participant was requested to convey the approval in this regard at the earliest.

As per SEBI's Securities Contracts (Regulation)(Stock Exchanges and Clearing Corporations) Regulations, 2012 issued on 20th June, 2012, every recognised stock exchange shall have a minimum networth of one hundred crore rupees at all times provided that a recognised stock exchange having a lesser networth as on the date of commencement of these regulations shall achieve a minimum networth of one hundred crore rupees within a period of three years from the date of commencement of these regulations. The networth of OTCEI as on 31st March, 2013 was Rs 37.77 crores (including capital reserve of Rs 69.78 crs. consisting of admission fees etc taken from members/dealers).

## SHARE CAPITAL

The Share Capital of your Exchange consists of equity shares as follows:

### **Authorised Share Capital:**

During the year under review, the Authorized Share Capital of your Exchange is 2,00,00,000 equity shares of Rupees 10(ten) each amounting to Rs 20,00,00,000 (Rupees Twenty Crores Only)

### **Paid Up Share Capital:**

During the year under review, the paid-up equity of your Company is 1,00,00,000 Equity Shares of Rs.10(ten) each amounting to Rs.10,00,00,000 (Rupees Ten Crores Only).

During the year one of the shareholders of OTCEI "Canbank Financial Services Ltd.(CFSL)" had sold their entire equity shareholding of 800000(8%) in OTCEI to its parent Company "Canara Bank" in compliance with the SECC Regulations of SEBI.

## DIVIDEND

Your Company, being Section 25 Company under the Companies Act, 1956, is prohibited from declaring any dividend to the shareholders.

## SUBSIDIARY COMPANY

A statement pursuant to Sec. 212 of the Companies Act, 1956, in respect of OTCEI Securities Limited (OSL), the wholly owned subsidiary of your company, and its Accounts for the year 2012 - 2013 together with the Report of the Directors and the Auditors thereon, are attached to the Accounts of the Company.

A meeting of the Promoters of OTCEI was held on June 24, 2013 at the office of IDBI to discuss various non-compliances of the Exchange as per the MIMPS Regulations 2006 and SECC Regulations, 2012 including SEBI's exit option for non-operational stock exchanges as per Circular No.CIR/MRD/DSA/14/2012 dated May 30, 2012. Considering that OSL had been making losses and that there may be income tax liability on OTCEI due to OTCEI's investment in OSL, the Board of OTCEI had agreed in principle for voluntary winding-up of the Subsidiary "OTCEI Securities Limited".

## CORPORATE GOVERNANCE

The company is committed to maintain the highest standards of corporate governance and adhere to the corporate governance requirements.

## LISTINGS

The number of listed companies on the Exchange stands at 60 as on March 31, 2013.

## PARTICULARS OF EMPLOYEES

As required by the provision of Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particular of employees) Rules, 1975 as amended, there are no employees who draw remuneration as set out in the aforesaid provision of the Act.

## DIRECTORS

In accordance with the provisions of the Companies Act, 1956 and pursuant to the Articles of Association of the Company, Shri S.C.Bhargava and Shri Omprakash Porwal retire by rotation at the ensuing Annual General Meeting and are eligible for reappointment. The Board of Directors has recommend their re-appointment.

Shri R B L Vaish and Shri P.B.Nimbalkar were appointed as Public Interest Directors on the Board of OTCEI with effect from December 28,2012. The Exchange has received notices under Section 257 of the Companies Act, 1956. The Board has recommended their appointment.

Maj.Gen.TejKrishenKaul, Shri Biswjit Banerjee, Shri Umesh Jain, Shri K Rajeev Krishnan, Dr.M.Thiripalraju, Smt Rita Bhattacharya, Shri Ronak Doshi, Shri K Sanatkumar ceased to be the Directors of the Company consequent to their resignation/change of nomination from the Board with effect from June 26, 2012, June 29,2012 July 11,2012, December 15,2012, December 28,2012, January 12, 2013, January 30, 2013 and February 26, 2013 respectively.

## DIRECTORS RESPONSIBILITY STATEMENT

The Directors confirm that:

- a. in the preparation of the annual accounts, the applicable accounting standards have been followed, along with proper explanation relating to material departures, if any;

- b. they have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent, so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the surplus and deficit of the Company for that period;
- c. they have taken proper and sufficient care for the maintenance of adequate accounting records, in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- d. they have prepared the annual accounts on a going concern basis.

#### **AUDIT COMMITTEE**

The Audit Committee comprises five directors viz. Shri R B L Vaish, Shri Omprakash Porwal, Shri S.C.Bhargava, Shri Deepak Gupta and Shri Munesh Kumar Goel as its members. Shri R B L Vaish is the Chairman of the Audit Committee. The Committee met 3 times during the year i.e. April 03, 2012, June 29,2012 and March 28,2013.

#### **AUDITORS**

M/s. Shah Gupta & Co, Chartered Accountants, who are the Statutory Auditors, will retire at the ensuing Annual General Meeting. As recommended by the Audit Committee, the Board had recommended that M/s Mittal & Associates, Chartered Accountants, might be appointed as Statutory Auditors of the Company to hold office from the conclusion of ensuing Annual General Meeting till the conclusion of next Annual General Meeting and to audit financial accounts of the exchange for the financial year 2013-2014. The company has received a certificate from the Auditors to the effect that their appointment, if made, would be within the limits prescribed under Section 224(1B) of the Companies Act, 1956. Their appointment is required to be made by a Special Resolution pursuant to Section 224A of the companies Act, 1956.

#### **CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS/OUTGO**

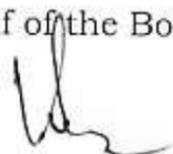
Your exchange's operations are not power intensive. However, there is a continuous effort to conserve and optimize use of energy. Considering nature of business activities of the company, your directors have nothing to report with regard to conservation of energy, technology absorption and innovation.

There was not inflow or outflow of foreign exchange during the year under review.

#### ACKNOWLEDGEMENTS

The Board of Directors would like to express their appreciation and gratitude to Ministry of Finance, all its Promoter Institutions, Securities and Exchange Board of India, Ministry of Corporate Affairs and Reserve Bank of India and banks for their continued support and co-operation. The Board would also like to thank its Members and Dealers as well as the listed companies for their support. The Directors also appreciate the teamwork and valuable contribution of all the employees of your Exchange.

For and on behalf of the Board



S C Bhargava  
Chairman

Mumbai

Date: September 10, 2013