

DIRECTORS' REPORT

The Shareholders,
The National Small Industries Corporation Ltd. (NSIC)

Dear Shareholders

On behalf of the Board of Directors of your Company, I have great pleasure in welcoming you to the 58th Annual General Meeting of the NSIC Ltd. The Annual Report and Audited Statement of Accounts for the financial year ended 31st March, 2013, together with comments of the Comptroller & Auditor General of India on the Accounts of the Company have been forwarded to you and with your permission, I take them as read.

1.0 Operating Performance

Financial year 2012-13 was yet another landmark year for the Corporation when it touched new heights and achieved record performance on various parameters resulting in the gross income (net of purchase and grants) of the Corporation growing from Rs. 25,271.45 lac to Rs. Rs. 34,180.03 lac in 2012-13, registering growth of 35% over previous year.

This could be possible due to all-round expansion of services by reaching out to larger number of MSMEs in the country. NSIC is addressing all the needs of the MSMEs in an integrated manner - comprising of stimulation, support, sustenance and growth of MSMEs. NSIC is continuing to play an important role in assisting number of MSMEs under its schemes, which are designed to suit the requirement of the sector in the changed economic scenario.

All the schemes operated by the Corporation for the MSMEs are demand driven and performance under all these schemes is increasing which clearly shows their attractiveness in-terms of their utility, pricing and the quality of service delivery. NSIC has been continuously striving to improve the customers' satisfaction by laying greater emphasis on the quality of service delivery. During the year 2012-13, Corporation did not receive any grant from Government for its operating expenditure.

Highlights of achievements for the year 2012-13 are briefly mentioned below:

- 1.1 The gross sales of the Corporation for 2012-13 went up to Rs.1,20,938.04 lac as compared to Rs.1,08,748.71 lac in the previous year registering a growth of 11%. The gross margin of the Corporation for 2012-13 went up to Rs.22,567.09 lac as compared to Rs.15,333.15 lac in the previous year registering a growth of 47%.

1.2 Profitability

The gross margin and profit before & after tax earned by the Company during 2012-13 vis-à-vis 2011-12 is depicted in the table below:

Particulars	(Rs. in Lac)	
	2011-12	2012-13
Gross Margin	15,333.15	22,567.09
Net Profit before Tax	6,021.14	9,235.50
Less : Provision for Tax	1,900.00	3,000.00
Net Profit after tax	4,121.14	6,235.50

1.3 Raw Material

One of the main requirements of MSMEs is steady and timely availability of raw materials. Accordingly, in the various support services rendered by the Corporation, while providing 'Marketing Support', Raw Material Distribution has been given top priority. Raw Material assistance to MSMEs at competitive rates with good quality and in time delivery not only enhances the competitive capacity of small units but also arrests sickness of the enterprises.

NSIC, through its distribution network, has been supplementing the availability of raw material to a large number of MSMEs scattered all over the country. Arrangements have been made with bulk manufacturers to provide raw materials to micro & small enterprises as per their requirements:

Raw materials distribution, in quantitative terms, grew up by 14% to 7,83,309 MTs in 2012-13 from 6,84,976 MTs in 2011-12.

Finance for Raw Material

The Portfolio of finance against Bank Guarantees reached Rs. 2,06,858.40 lac on 31st March, 2013 as against Rs. 1,57,289.55 lac on 31st March, 2012, thereby registering a growth of 32%.

1.4 Credit Facilitation

Credit facilitation by NSIC during the year 2012-13 to Micro, Small & Medium Enterprises increased to Rs. 4,39,202.23 lac from Rs. 3,82,342.26 lac in the previous year, registering a growth of 15%. During the year 2012-13 agreements were signed with six more Banks i.e. Corporation Bank, State Bank of Travancore, Allahabad Bank, Indian Bank, Punjab & Sind Bank and Indian Overseas Bank with this the Corporation has now tie-up arrangements with 21 banks for providing credit facilitation to the MSME sector.

1.5 Government Purchase and E-Marketing Portal

The Revenue from the schemes of Government Purchase and E-Marketing portal increased to Rs. 1,241.47 lac thereby posting a growth of 14% over the previous year.

1.6 Performance of NSIC – Technical Services Centres

Financial year 2012-13 continued to be another good year for the NSIC's Technical Centres when all seven centres operated without getting any grants to meet their administrative cost. This could be possible through these Centres beginning to undertake "Techno-Commercial activities".

1.7 Government Grants

For the financial year 2012-13, Government Grants were available only for operating schemes on behalf of the Government of India namely Performance & Credit Rating Scheme and Marketing Assistance Scheme.

Under the Performance & Credit Rating Scheme, 19,676 units were rated during the year as against the target of 18,000.

Under the Marketing Assistance Scheme, the Corporation could conduct various events namely Exhibitions, Buyer Seller Meets, Intensive Campaigns etc. Total number of events held was 776, which includes six international level exhibitions organized during the year to support marketing efforts of MSMEs.

2.0 Dividend

As per directions from Ministry of Finance, Government of India vide their O.M. No. F.19 (1)-I.III(A)/98 dated 20th August,1998, 20% of the net profit (i.e. 20% of Rs. 6,235.50 lac) has been provided for in the books of accounts as dividend i.e. Rs. 1,247.10 lac. Tax provision for dividend provided for 2012-13, amounting to Rs. 211.94 lac has been made as per applicable laws and has also been provided for in the books of accounts. The provision for dividend for 2012-13 is subject to approval by the shareholders.

It is pertinent to mention that the dividend provided for the year (Rs.1,247.10 lac) shows an increase of 51% over 2011-12 (Rs. 824.23 lac).

3.0 Management Discussion & Analysis

A separate report on Management Discussion and Analysis is attached to this report.

4.0 Support services offered to MSME Sector

The Corporation continued providing following support services to help the MSME sector to increase their business & reach.

4.1 Marketing Intelligence Cell

NSIC had established a Marketing Intelligence Cell for collecting and disseminating both domestic and international marketing intelligence in coordination with other relevant departments / agencies.

Marketing Intelligence Cell is acquiring and analyzing information in order to understand the market (both existing and potential customers) to determine the current and future needs and preferences, attitudes and behaviour of the market, assess changes in the business environment that may affect the size and nature of the market in future. This aims to promote business horizons of MSMEs of India through Marketing Intelligence Web Portal.

Potential beneficiaries are MSMEs seeking business collaborations and co-production opportunities, joint ventures, exporters and importers and those looking for technology transfer.

Promoting International Trade through NSIC's E-Marketing Web Portal

NSIC has enhanced its existing B2B Web Portal into an Integrated E-Marketing Web Portal www.msmemart.com that is not only useful for generation of leads for expanding businesses but it is the most economical and fastest medium for brand creation, recognition of small enterprises and marketing of their producers.

4.2 NSIC-Training-cum-Incubation Centres (NSIC-TICs) for creating new entrepreneurship

Training-cum-Incubation Centres were started in year 2008 by NSIC with a view to create self-employment opportunities by imparting training to the unemployed people who want to set up new small business enterprises in any of the manufacturing / services sectors or seek employment opportunities.

The scheme is being operated under PPP [Private Public Partnership] mode where private partners are associated with NSIC. Corporation offers technical & other support services to associated TICs with a view to achieve the objectives of the programme.

NSIC Training-cum-Incubation Centres provide a unique opportunity to first generation entrepreneurs to acquire skills for enterprise building and also helps to incubate them to become successful small business owners. At these centres, exposure in all areas of business operations are being provided such as business skills, ideas for structure an enterprise, identifications of appropriate technologies, hands on experience on working projects, financial linkages etc.

In the year 2012-13, twenty three new centers were added. As a result of this addition, now 68 centres are operational covering 19 states.

5.0 International Co-operation

Under International Cooperation, the focus of activities at the enterprise level is on the entrepreneurs and the objective is to initiate long term and sustainable enterprise to enterprise cooperation between Indian small enterprises and enterprises in target countries. This is achieved by exchanging business delegations and organizing one-on-one business meetings among the enterprises of both the countries.

In order to enhance the cooperation for institutional support with various countries, NSIC has signed MoUs / Agreements with the following countries:

5.1 Bulgarian Small & Medium Enterprises Promotion Agency (BSMEPA)

NSIC signed a Memorandum of Understanding (MoU) for cooperation in the field of Micro, Small and Medium Enterprises with Bulgarian Small & Medium Enterprises Promotion Agency (BSMEPA) on 16th October, 2012 at New Delhi during the 17th Session of the India-Bulgaria Inter-Governmental Joint Commission for Economic, Scientific and Technical Cooperation.

5.2 Social Fund for Development, Egypt:

A Memorandum of Understanding (MOU) was signed with Social Fund for Development (SFD), Arab Republic of Egypt on 19th March, 2013 at New Delhi for co-operation between the two organisations for the development of micro & small enterprises in Egypt in the presence of Hon'ble Prime Minister of India, Dr. Manmohan Singh and Hon'ble President of Arab Republic of Egypt .

5.3 Industrial & Infrastructure Development Finance Company Ltd. (IIDFC), Bangladesh

Mutual cooperation agreement signed with Industrial & Infrastructure Development Finance Company Ltd. (IIDFC), Bangladesh was renewed for further three years on 24th March, 2013 at Dhaka, Bangladesh for SME cooperation between the two countries.

Launching of India- South Africa Web Portal on MSMEs

NSIC launched a dedicated web portal www.buildsmme.com on the India-South Africa Micro, Small & Medium Enterprises jointly with High Commission of India in Johannesburg, South Africa on 23rd May, 2012. It is a comprehensive B2B portal developed by NSIC which would cater to business opportunities between MSMEs of the two countries and African continent at large.

6.0 Exhibitions

During the year NSIC organised six International level exhibitions in India, participated in twelve International exhibitions abroad and 120 domestic exhibitions, co-sponsoring of 15 events, conducted 16 Buyer Seller meets and 607 marketing campaigns. The trademark exhibition of the Corporation "Techmart India" was organised during November, 2012.

- 6.1 **“Techmart India, 2012”** is a unique platform to provide opportunities to MSMEs for displaying their capabilities, competencies and enhancing their marketing efforts and technology transfer. In this exhibition MSMEs’ technologies and the entire range of MSMEs’ opportunities were displayed.

Major attraction of this exhibition was the display of employment oriented micro projects and special display of exclusive handicrafts and other products of the associated units belonging to women entrepreneurs, schedule castes / schedule tribes and North Eastern Region.

Foreign delegates from South Africa, Sudan, Lithuania, Afghanistan, Slovenia and Sri Lanka visited Techmart India, 2012 and showed keen interest in the technologies displayed in Techmart.

- 6.2 **International Trade Fair in North East:** NSIC organised 20th edition of International Guwahati Trade Fair in association with Industries & Trade Fair Association of Assam inaugurated by Shri K.H. Muniyappa, Hon’ble Union Minister (Independent Charge) for MSMEs from 30th Jan., 2013 to 12th Feb., 2013 at Guwahati. In this fair seven foreign countries and 400 participants from all over the country exhibited their products and services.

- 6.3 **AERO INDIA, 2013:** NSIC participated in 9th edition of Aero India, 2013 organised by Ministry of Defence in association with Federation of Indian Chamber of Commerce & Industry at Bangalore from 6th – 10th February, 2013 inaugurated by Shri K.H. Muniyappa, Hon’ble Union Minister (Independent Charge) for MSMEs. MSMEs under the umbrella of NSIC participated with their products which varied from anodizing units to Aircraft equipments, RFIDs to Vacuum Furnaces, Heavy Precision Granites to Solar Plates units and power systems etc.

7.0 NSIC’s services in North Eastern Region (NER)

- 7.1 NSIC has a network of offices in NER. This includes Branch Office at Guwahati and Sub-Offices at Tinsukia (Assam), Imphal (Manipur); Dimapur (Nagaland); Itanagar (Arunachal Pradesh); Shillong (Meghalaya) and Agartala (Tripura).

- 7.2 During the year 33 Skill Development Training Programmes were conducted for the unemployed youth of North Eastern States in various parts of North-Eastern States viz. Assam, Tripura, Manipur, Nagaland, Meghalaya, Sikkim, Arunachal Pradesh and Mizoram, which were sponsored by Ministry of Micro, Small &

Medium Enterprises, Government of India and Indira Gandhi National Open University (IGNOU). In these programmes, all together 1036 trainees were trained, out of which 103 belonged to SC category, 165 to ST category and 583 trainees were women.

7.3 NSIC Guwahati also conducted 34 Entrepreneurship Orientation Programmes (EOP) for the students of different colleges in various North Eastern States. All together 5,073 students were trained under EOP, out of which 523 belonged to SCs, 643 belonged to STs and 2,574 students were women.

8.0 Equity Support

As recommended by the Prime Minister's Task Force on MSMEs, Government had sanctioned Equity infusion of Rs. 30,000 lac in the Corporation to be released in three tranches. The second tranche of equity amounting to Rs.7,500 lac was received during the year 2012-13.

9.0 Capital Structure & Borrowings

The Paid-up-Capital of the Company went upto Rs. 46,298.80 lac as on 31.03.2013. Loans from financial institutions and banks went upto Rs. 1,46,627.47 lac as against Rs. 1,17,944.88 lac at the end of the previous year. Repayment of installments and interest due till 31st March, 2013 in respect of all loans were made on the due dates.

10.0 Investments

NSIC had 1,21,400 equity shares of Rs.10/- each in Singer India Ltd. NSIC has investment of Rs. 10 lac (Rs. 5 lac in May, 1992 and another Rs. 5 lac in April, 1994) in equity of SIPPO and Rs. 5 lac in equity of SIPMO in December, 1994. Both these Companies were set up in early nineties for marketing of the products of small industries.

11.0 Fixed Deposit Scheme

Your company has not accepted any Fixed Deposits and as such no amount of principal or interest was outstanding as on 31st March, 2013.

12.0 Human Resource Management

- 12.1 The total manpower of the Company as on 31st March, 2013 was 899 as against 896 in the previous year.

The break-up of the manpower was as follows:

S. No.	Description	As on 31.03.2013	As on 31.03.2012
1.	Managerial	451	426
2.	Supervisory	192	166
3.	Non-Supervisory	256	304
	Total	899	896

12.2 Staff Training

Training is the process of enhancing the skills, capabilities and knowledge base of the employees. Training moulds the thinking of employees and leads to quality performance. It is a continuous and never ending process. Training is crucial for organizational development and success. Keeping in view, the training requirements, Corporation organized various training programmes for different levels of personnel. During the year 2012-13, 26 major in-house training programmes were organised which included Management Development Programmes; Specialized Programmes for Finance for Non-Finance Executives; Executive Development & Multi Skill Development Programmes; Programmes on Unicode Encoding Hindi; Programme on MS-Office Excel; on Change Management and Motivation; on Effective Business Communication; Mentorship Development Programme etc.

12.3 ISO

The Quality Management System ISO-9001:2000 was embedded in NSIC during the year 2003 and since then the system is deeply ingrained in various offices. 23 major branch offices, 7 NSIC-Technical Services Centres and Corporate Office are presently ISO certified under Quality Management System ISO-9001:2008.

13.0 Personal and Industrial Relations

During the year 2012-13, good and cordial relations were maintained with NSIC Employees Unions of the Corporation. There was no agitation or strike. Meetings were held with Unions from time to time to discuss various issues and to resolve them amicably. As a result thereof, harmonious industrial relations were maintained during the year 2012-13.

14.0 Particulars of Employees

Pursuant to Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of employees) Rules 1975 there was no employee drawing monthly remuneration of Rs. 5,00,000/- and above.

15.0 Representation of SCs, STs & Minorities

The directives of the Government issued from time to time with regard to the reserved categories such as Schedule Castes, Schedule Tribes, Other Backward Classes, Disabled persons are being followed by the Corporation. The post based Reservation Rosters are being maintained which are duly inspected by the Liaison Officer of the Corporation and displayed on the intranet.

The number of SC, ST, OBC, persons with disability and Minorities in the Corporation as on 31st March, 2013 are as under:

Schedule Castes	170
Schedule Tribes	20
Other Backward Classes	105
Persons with Disability	22
Minorities	81

During the financial year, Special Recruitment Drive for SCs / STs / OBCs / Persons with disability was launched to fill up the backlog vacancies.

Concession of one year in a particular cadre has been allowed to SCs / STs employees of the Corporation for consideration of promotions of Group C & D posts.

16.0 Vigilance Activities

Vigilance is basically and admittedly a part of managerial function. Vigilance department works in cooperation with other divisions / units of the Corporation at all levels. Besides, the vigilance department also coordinates with CVC, CBI and other related outside agencies. The Vigilance denotes watchfulness and alertness, which is most important and vital for growth of any Corporation. It ensures that there is no wastage, misuse or pilferage of the available resources and optimum use of these resources to fulfil the objective.

The Vigilance department not only assists the management in punishing the unscrupulous employees for their acts of misconduct, but also helps in saving the honest and efficient officials from harassment by way of false and motivated complaints made out of personal vendetta.

During the year 2012-13, a "Vigilance Awareness Week" was observed from 29.10.2012 to 03.11.2012 as a campaign against corruption and to create awareness among the employees of the Corporation. A pledge to bring integrity and eradicate corruption was administered to all the employees of the Corporation in all its offices at various places of the country.

The Immovable Property Returns of all officers of "A" & "B" category of the Corporation were availed and action taken as felt necessary based on their scrutiny. A number of surprise visits and checks were carried out in various offices of the Corporation and corrective steps taken wherever required.

Required reports and returns were also submitted to concerned Ministry and CBI / CVC. The CVC advices, as and when received, were processed as per directions of CVC.

A close liaison was kept with outside agencies investigating the cases of financial irregularities and necessary infrastructure and documents were provided to them for speedy disposal of the cases. It was also ensured that the persons having doubtful integrity are not posted at sensitive positions.

17.0 Recognitions

In recognition of the services rendered by the Company for the development of MSMEs, following awards were conferred upon NSIC:

17.1 **"India Pride Award 2013"**: CMD, NSIC was awarded India Pride Award, 2013 by Dainik Bhaskar Group in appreciation of the Innovative NSIC Incubation Model for creating new employment opportunities and development of MSME sector in the country.

17.2 NTSC-Chennai received an Award and Letter of Appreciation from VEL TECH Dr. RR & Dr. SR Technical University, Chennai for supporting in student Development Initiatives by way of In-plant Training / Projects and summer internships and also for continuous support in imparting technical skills to students to make "India – a Superpower in 2020".

18.0 Corporate Social Responsibility, Sustainable Development and Research & Development

18.1 Corporation has always been conscious for discharging its duties & responsibilities towards the society. It has taken up various CSR initiatives for the benefit of the weaker sections of the society, upliftment of the girl child & women. In continuation of this objective, the Board of Directors had decided to implement the DPE guidelines for funds to be allocated towards Corporate Social Responsibility initiatives. During the year, Corporation took up the following initiatives under CSR activities:

- Eye, Dental & Health care facilities for weaker sections of the society through health camps;
- Running cost of fully equipped Mobile Medical Unit (MMU) for providing health care facilities at the doorsteps of urban poor;
- Computer centers were set up for providing computer education to the under privileged;
- Education for under privileged children in selected slum areas for pre-school going children and school going children in the form of getting their home work done and extra studies in the form of bridge education;
- Vocational training to physically challenged persons & weaker sections of society to equip them with the required skill set to enable them to take up employment or set up their own small enterprises;
- Integrated development of selected slum clusters by taking up special programme(s) for upliftment of girl children and women; (Training in dress designing and tailoring), sewing machines were also provided.
- Training in solar lanterns assembly and distribution in the selected areas where there is no electricity;
- Provided artificial limbs & Tricycles to the physically challenged persons.
- Provided books, shoes, and clothes to 54 SCs & STs girls.

- Medical services program for the mentally challenged persons by providing one ambulance van.
- Providing education to visually impaired children with brail writing slate, text books, private coaching.
- A Van was provided for commuting purposes of mentally challenged children so that they can attend a special school to equip them for giving an independent life to the maximum extent possible.

18.2 Sustainable Development

Under the Sustainable Development during the year project for obtaining BEE Certification for NTSC Hyderabad was taken up wherein, office building of NTSC, Hyderabad has been awarded a BEE Five Star Label.

Training to ten MSME Associations in aspects of “Sustainable Development” was imparted. The Rain Water Harvesting System at Corporate Office Building at Okhla has been set up.

18.3 Research & Development

The Research & Development activities were in form of Development of Software for tracking of application under Government Purchase Scheme and Development of on-line registration process for membership under B2B portal.

A study was carried out to identify new areas / technologies where NSIC can help the MSME sector in foundry cluster in Punjab. The study was conducted to assess their technological requirements, so as to enable them to meet the challenges of high end quality casting products of large Indian industries and foreign companies. The study identifies suitable cost effective technology for improving quality of product, ways to improve energy efficiency & mechanism to minimize environmental pollution in the sector.

19.0 Citizens' Charter

NSIC is committed to providing efficient and prompt service on the basis of objectivity, transparency and courtesy in dealing with our citizens for the promotion and growth of MSMEs. To inculcate these values in the employees, NSIC has come out with a Citizens' Charter. Specific officers have been assigned to work as link between public and the company.

20.0 Signing of Memorandum of Understanding with the Government

NSIC signed a MoU with the Ministry of Micro, Small and Medium Enterprises for the year 2013-14.

The Company's rating based on the results for the year 2012-13 would be "Excellent".

21.0 Rajbhasha

Ensuring the compliance of the provisions of Official Language Act, 1963, rules framed thereunder and the directives issued by Department of Official Language from time to time, following activities were carried out in the Corporation during the year 2012-13:-

- At Corporate Office Hindi divas was observed on 14th Sept., 2012 and from 14th Sept., 2012 to 13th Oct., 2012 "Hindi Month" was organised during which various Hindi competitions were conducted and awards given to the winners.
- Our subordinate offices also observed Hindi Divas / Week / Fortnight / Month during September, 2012 and organised various Hindi competitions.
- Our employees participated in the competitions organised by Delhi based Public Sector Undertakings in November, 2012 under the aegis of Town Official Language Implementation Committee (TOLIC), Delhi.
- During the year, four meetings of Official Language Implementation Committee were conducted for progressive use of Hindi in the Corporation.
- Hindi inspections of twelve divisions of Corporate Office and 17 subordinate offices were made. Similarly, Hindi Inspection team of our Administrative Ministry conducted the inspection of our Corporate Office on 8th February, 2013.
- After ensuring 80% working knowledge of Hindi in Zonal Offices, Six Branch Offices were got notified under rule 10(4) of Official Language Rules, 1976.
- Besides organizing Hindi workshops in Corporate Office at regular intervals, Hindi workshops and Rajbhasha Hindi awareness programmes were also organised in Branches / Centres of the Corporation during the course of their inspections.

- By organizing two day full training programmes on Unicode & Encoding font Mangal at Corporate Office as well as NTSC, 52 employees were given practical training to use Unicode Hindi font on their computers for day to day work.
- Unicode bilingual font Mangal was uploaded on all the computers of Corporate Office.
- Representative from Corporate Office was nominated for participating in VISHWA HINDI SAMMELAN organised by Ministry of External Affairs at Johannesburg (South Africa).
- Official Language inspection of Branch Office, Ludhiana was made by the 3rd Sub-Committee of Parliamentary Official Language Committee on 28th September, 2012. Hon'ble Members of the Committee appreciated the performance made towards use of Official Language in the office.

22.0 Particulars of Energy Conservation, Technology absorption

As NSIC does not have manufacturing activities, the declaration of information regarding conservation of energy & technology absorption is not required.

23.0 Foreign Exchange

During the year 2012-13, the company earned foreign exchange valuing Rs. 13.88 lac from activities abroad.

24.0 Board of Directors

The Board of Directors of the Company met seven times during the year and seven Audit Committee Meetings were held.

25.0 Audit Committee

The members of the Audit Committee are Shri Rakesh Rewari, Shri Rajiv Chawla and Shri Sirajuddin Qureshi all independent Directors.

The Board Audit Committee met seven times during the year.

26.0 Director's Responsibility Statement

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

- a. that in the preparation of the Annual Accounts, the applicable Accounting Standards were followed alongwith proper explanations relating to material departures.
- β. that the Directors selected such accounting policies and applied them consistently and made judgements and estimates that were 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 profit or loss of the Company for the year under review.
- χ. that the Directors took 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.
- δ. that the Directors prepared the Annual Accounts for the year ended on 31st March,2013 on a 'going concern basis'.

27.0 Corporate Governance

A separate report on Corporate Governance forms part of the Annual Report and is annexed.

28.0 Auditor's Report to Shareholders

The Report of the Statutory Auditors is annexed. The Directors have considered the comments of the Statutory Auditors, and felt that the notes given on the Balance Sheet, Profit & Loss Account and Income & Expenditure Account in clarification are adequate. The observations of the Auditors have been noted for appropriate action.

The review of the Accounts of the Company for the year ended 31st March, 2013 by the Indian Audit and Accounts Department together with comments of the Comptroller & Auditor General of India under Section 619(4) of the Companies Act,1956, are also annexed.

The Directors' Replies to the Statutory Auditors' Report & C& AG's Report are Annexed.

29.0 Acknowledgements

The Board of Directors wish to place on record their gratitude to the Hon'ble Minister of Micro, Small & Medium Enterprises (MSME) for all the help, guidance, and support provided. The Board wishes to place on record its appreciation for the guidance provided by the Secretary, Ministry of MSME. The Directors also wish to place on record their thanks to the AS&FA and AS&DC (MSME) for their continued support. The Board would also like to place on record its appreciation for the support received from the Ministry of Micro,

Small & Medium Enterprises and from other Ministries and Government of India. The Directors are grateful to the Comptroller and Auditor General of India, Member Audit Board and the Statutory Auditors for their valued co-operation. The Directors also acknowledge the valuable assistance provided by its Bankers.

The Board of Directors hereby accord their deep appreciation of the valuable services and dedicated efforts of the NSIC employees at all levels.

On behalf of the Board of Directors

Place : New Delhi
Date : 29th July, 2013

(H. P. Kumar)
Chairman-cum-Managing Director

Annexure to Directors' Report

Management Discussion & Analysis

Presented below is the analysis of the performance of the Corporation for the year 2012-13 :

▪ Business Overview

The gross sales of the Corporation for 2012-13 went up to Rs.1,20,938.04 lac as compared to Rs.1,08,748.71 lac in the previous year registering a growth of 11%.

The gross margin of the Corporation for 2012-13 went up to Rs.22,567.09 lac as compared to Rs.15,333.15 lac in the previous year registering a growth of 47%.

The Gross Income (Net of purchases and grants) of the Corporation for 2012-13 went upto Rs. 34,180.03 lac as against Rs 25,271.45 lac in 2011-12 registering a growth of 35%.

Raw Material Distribution, in quantitative terms, grew up by 14% to 7,83,309 MTs from 6,84,976 MTs in 2011-12.

The Portfolio of Raw Material Assistance against Bank Guarantee reached to Rs. 2,06,858.40 lac on 31st March, 2013 as against Rs.1,57,289.55 lac on 31st March, 2012, thereby registering a growth of 32%.

The credit facilitation to Micro, Small & Medium Enterprises increased to Rs. 4,39,202.23 lac from Rs.3,82,342.26 lac during the previous year registering a growth of 15%.

The Revenue from the schemes of Government Purchase and B2B Portal increased to Rs.1,241.47 lac thereby posting a growth of 14% over the previous year.

▪ Financial Performance

The major highlights of financial performance of the Corporation vis-à-vis last year are as follows:

Description	(Rs in Lac)	
	2012-13	2011-12
Gross Income (Net of Sales / Purchase) (A)	42,790	31,322
Expenditure:-		
Employees Remuneration & Other Benefits	7,612	6,770
Depreciation	208	181
Finance & other Charges	25,735	18,350
Total Expenditure(B)	33,555	25,301
Net Profit Before Tax (A-B)=C	9,235	6,021
Provision for Income Tax (D)	3,000	1,900
Net Profit after Tax available for appropriations (C-D)=E	6,235	4,121
Proposed Dividend (F)	1,247	824
Tax on Proposed Dividend (G)	212	134
Balance of Profit available for appropriations (E-F-G)	4,776	3,163
Net Worth	43,460	31,281

- **Dividend**

The Corporation has recommended dividend of Rs. 1,247.10 lac for the year 2012-13.

- **Segment-wise Performance**

In line with AS-17 on "Segment Reporting" issued by the Institute of Chartered Accountant of India, Corporation's activities are broadly classified into 'Promotional' and 'Commercial'. The 'Promotional' activities include the activities for which budgetary support is provided to the Corporation by the Government and / or its agencies.

The 'Commercial' activities inter-alia include the activities whereby the Corporation provides 'Marketing', 'Credit', 'Technology' and 'other support' services to cater to the diverse needs of the MSMEs. These 'Integrated' support services are funded by the Corporation. In addition activities not met out of the budgetary support but which are promotional in nature (since carried out with the intent to support the MSMEs) are merged with commercial activities as the expenses of such activities are borne by the Corporation. Accordingly, the activities of the Corporation have been divided into two segments namely "Commercial" & "Promotional".

The following table presents the revenue, profit / (loss), assets and liabilities information to the Business segments for the year ended 31st March, 2013:

(Rs. in Lac)

Description	For the year ended 31/03/2013			For the year ended 31/03/2012		
	Promotional	Commercial	Total	Promotional	Commercial	Total
A. Primary Segment – Business Segment						
I. SEGMENT REVENUE						
a. Segment Revenue (including grant)	#8826.33	149287.58	158113.91	#6190.06	128498.73	134688.79
II. SEGMENT RESULTS						
a. Segment Results @	(42.30)	6277.80	6235.50	(117.74)	4238.88	4121.14
b. Operating Profit before interest	-	22441.76	22441.76	-	15150.30	15150.30
c. VRS & prior period	-	82.99	82.99	-	(2.19)	(2.19)
d. Interest Paid	-	13123.27	13123.27	-	9131.35	9131.35
e. Net Profit before Tax	-	9235.50	9235.50	-	6021.14	6021.14
f. Tax	-	3000.00	3000.00	-	1900.00	1900.00
g. Net Profit after Tax	-	6235.50	6235.50	-	4121.14	4121.14
III. ASSETS & LIABILITIES						
a. Segment Assets	1239.26	199037.16	200276.42	1272.56	149805.38	151077.94
b. Unallocated Assets	-	-	21514.37	-	-	25905.77
c. Total Assets	1239.26	199037.16	221790.79	1272.56	149805.38	176983.71
d. Segment Liabilities	2462.65	141238.05	143700.70	5044.46	115904.49	120948.95
e. Unallocated Liabilities	-	-	78090.09	-	-	56034.76
f. Total Liabilities	2462.65	141238.05	221790.79	5044.46	115904.49	176983.71
IV. OTHER INFORMATION						
(a) Cost incurred during the period to acquire fixed assets (including CWIP)	54.69	1473.22	1527.91	229.25	1763.98	1993.23
(b) Depreciation ##	75.91	314.73	390.64	86.76	180.67	267.43
(c) Non cash expenditure other than depreciation	-	310.80	310.80	-	402.20	402.20

This includes grant receivable (net) of (-) Rs 1700.16 lac (Rs.2122.79 lac).

@ Deficit of promotional activity transferred to commercial activity segment.

The depreciation of promotion segment is charged to capital reserve.

- **SCOT Analysis**

- (a) Strengths:**

- NSIC is a national level organization with the knowledge base about working of MSME sector and having presence all over the country by having offices in 155 locations. All the offices are manned by professionals.
- The Corporation offers integrated package of services, ranging from financial support, marketing, technology and information support to micro, small & medium enterprises.
- The Corporation has linkages with micro, small & medium industry organizations / associations within the country and several partner organizations overseas for development of MSME sector.
- The Corporation has proven track record in the area of international cooperation in MSME sector development and institutional capacity building.
- The considerable asset base of the Corporation gives it an added advantage for expansion of its activities.

- (b) Challenges:**

- A small Resource base as compared to other institutions providing services to MSME Sector.
- Notifications and implementation of 'Procurement Preference Policy' by the Government to increase MSEs' contribution to Government purchases.

- (c) Opportunities:**

- There is vast potential for its services within the country and abroad.
- New avenues in "Service & Medium Sector".
- Many new avenues have come up in the "Services and Medium sector. International Cooperation, Technology Transfer & International Consultancies to developing countries.
- Availability of physical assets for development of new projects.

(d) Threats

- Competition from other national and state level institutions in the areas of marketing, technology support and financing pose a threat to the core activities of the Corporation.
- State Governments preference to state agencies over NSIC, for raw material distribution.
- Entry of large players due to globalization poses challenges for MSME sector.
- Inadequate credit flow from commercial banks to MSME sector, specially to new and start-up enterprises.
- **Management Information System (MIS)**

MIS in the company is well established, however, it is constantly fine tuned to cater to the ever growing information needs for effective & quick decision making as well as for statutory requirements.

▪ Internal Control Systems

The company has put in place adequate internal control measures. These are in the form of various manuals and procedures issued by the management covering all critical and important activities. These manuals and procedures are updated from time to time and are subject to strict compliance which is monitored by internal audit. The Internal Audit department checks the adequacy and effectiveness of Internal Control System, reviews and monitors compliance of various policies and procedures. Functioning of internal Audit and adequacy of internal control system is reviewed by Board Level Audit Committee.

▪ Human Resource

The manpower strength of the Corporation as on 31st March, 2013 was 899. Human Resource is the main asset of the company and it has been its endeavour to create favorable work environment for growth, enhancement of competencies, nurturing talent so as to maximize employee contribution towards organizational objectives. For this purpose, various training programmes were conducted, wherein internal and external faculty imparted training on various topics. In addition to this, employees were nominated for various training programmes.

- **Code of Ethics and Business Conduct**

The Corporation has issued " Code of Ethics and Business Conduct" for compliance by its employees and Board of Directors.

- **Risks & Concerns**

The Corporation regularly identifies and reviews the risks which can be the outcome of regular business activities and takes appropriate steps from time to time to mitigate these risks. The management is committed to further strengthen risk management capabilities in order to protect and enhance shareholders value. In order to ensure the integration and alignment of the risk management system with the corporate and operational objectives and also that risk management is undertaken as a part of normal business practice and not as a separate at set times, the Corporation has devised the "Risk Management Policy"

Besides business risks the Corporation can have risks in the form of change in the Government policies towards MSME sector and from the natural calamities.

- **Future Outlook**

Corporation has been recording continuous growth in its business operations. This reflects on the relevance and importance of its services to the MSME sector, its capacity to remain relevant and contemporary and its ability to fulfill the expectations of the stakeholders.

In order to increase its level of services to MSMEs, NSIC has designed its business plan to enable it to provide enhanced volumes of its services and products, consolidate its marketing position by increasing its geographical footprints to add new raw materials and distribution centres. These steps will surely ensure future sustainability and profitability of the Company.

- **Cautionary Statement**

Statements in Management Discussion and Analysis describing the Company's objectives, projections, expectations, estimates are based on current business environment. Actual results could differ from those expressed or implied based on government policy decisions and future economic environment.

Report on Corporate Governance

Objective & Philosophy on Corporate Governance

- The objective of Corporate Governance is to enhance and maximize shareholders' value and protect the interests of other stakeholders like customers, employees and society at large in order to build an environment of trust and confidence among all the constituents.

The Corporation firmly believes that only good Corporate Governance practices would ensure ethical and efficient conduct of the affairs of the Company and also help in maximizing value for all its stakeholders. We believe that good Corporate Governance emerges from the application of the best and sound management practices and compliance with the laws coupled with adherence to the highest standards of transparency and business ethics.

Corporate Governance of NSIC is a continuous process which helps to manage the Company's affairs in a fair, accountable and transparent manner. Your Company is committed to transparency in all its dealings and places high emphasis on business ethics. The Company believes that sound Corporate Governance is critical for enhancing & retaining the trust of the stakeholders. The Company believes that, in whatever it does, it must contribute to the economic and social development of the country. Your Company practices a culture that is based on core values and ethics.

The Company has complied with the conditions of Corporate Governance as given below:

- **Board of Directors**

The strength of the Board was eight Directors comprising of one Chairman-cum-Managing Director, two Functional Directors, two Nominee Directors of the Government of India and three non-official part-time Directors. All the Directors are professionals from diverse fields having valuable experience in management, legal, administration and finance.

The meetings of Board of Directors were held at periodical intervals. During the year under review, seven Board Meetings were held on 25th June, 2012, 14th August, 2012, 29th August, 2012, 26th November, 2012, 18th – 19th January, 2013 and 28th March, 2013.

The details of constitution of the Board and the number of directorships held in other Companies as on 31st March, 2013, and their attendance at the Board Meetings and Annual General Meeting held during the year, are given below:

S. No.	Name of the Director	Category	No. of Board meetings attended	Attendance at the AGM held on 29 th Aug., 2012	No. of outside directorships
1.	Dr. H.P. Kumar Chairman-cum- Managing Director	Executive	07	Yes	-
2.	Shri Amarendra Sinha	Government Nominee	01	-	One
3.	Shri C.K. Mishra	Government Nominee	06	-	Two
4.	Shri Rakesh Rewari	Non-Executive Independent	06	Yes	One
5.	Shri Ravindra Nath	Executive	07	Yes	-
6.	Sh. P. Udayakumar	Executive	07	Yes	-
7.	Shri Rajiv Chawla	Non-Executive Independent	07	Yes	Four
8.	Shri Sirajuddin Qureshi	Non-Executive Independent	Leave of absence was granted	Leave of absence was granted	Twenty Five (Includes twenty Pvt. Ltd. Cos.)

▪ **Audit Committee**

The members of the Audit Committee are Shri Rakesh Rewari, Shri Rajiv Chawla and Shri Sirajuddin Qureshi.

The Audit Committee meeting(s) were convened seven times during the year.

▪ **Remuneration Committee**

The members of the Remuneration Committee are Shri Rakesh Rewari, Shri Rajiv Chawla and Shri Sirajuddin Qureshi.

Our Company being a Government Company, the appointment, tenure and remuneration of Directors is decided by the President of India. The remuneration paid to Chairman-cum-Managing Director and Functional Directors during the year 2012-13 was as per terms and conditions of their appointment. Independent Directors are paid only sitting fee at a rate fixed by the Board within the ceiling fixed under the Companies Act, 1956 and also in accordance with the Government guidelines for attending the Board Meetings as well as

Committee Meeting's. The Government Nominee Directors do not draw any remuneration / sitting fee for Board / Committee Meetings from the Company.

- **Disclosure**

- **Related Party Transactions**

- The Company does not have any related party transactions, which may have potential conflict with its interests.

- **Code of Ethics and Business Conduct**

- As per the Corporate Governance Guidelines Corporation has issued "Code of Ethics and Business Conduct" for compliance and has also posted the same on the website of the Company.

- **Statutory Requirements**

- Section 274(1)(g) of the Companies Act, 1956 is not applicable to the Government Companies. However, none of the Directors of your Company is disqualified as per provisions of Section 274 (1) (g) of the Companies Act, 1956. Your Directors have made necessary disclosures as required under various provisions of the Companies Act, 1956. None of the employees of your Company drew remuneration exceeding the limits laid down under Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended from time to time.

- **Training and evaluation of non-executive Board members**

The non-executive Board members are eminent personalities having wide experience in the field of business, education, industry, commerce and administration. Detailed presentation on the business models, performance plans etc. of the Corporation are made to the non-executive Board members, on their induction on the Board.

- **Details of compliance with the requirements of DPE Guidelines on Corporate Governance**

The requirements of the DPE Guidelines on Corporate Governance for CPSEs have been duly complied with by the Company. In this regard, certificate from M/s. A.K. Singh & Associates, Company Secretaries, Practicing Company Secretaries, confirming compliance with the conditions of Corporate Governance as stipulated under DPE Guidelines on Corporate Governance is annexed.