JRG Securities Limited
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JRG Securities Limited | Annual Report 2011-12

BUILDING A STRONGER PLATFORM

Forward-looking statement

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes' and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward looking statements will be realised, although we believe we have been prudent in our assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

Contents

CORPORATE INFORMATION

Board Members

Mr. Rahul Bhasin, Chairman

Mr. Munish Dayal, Director

Mr. P. Viswanathan, Director

Mr. Pradeep Mallick, Director

Mr. B.R Menon, Director

Mr. Gopi Chand S, Managing Director

Chief Operating Officer, Company Secretary & Legal Head

Mr. Harjit Singh Sidhu

Statutory Auditors

M/s B S R & Associates
KPMG House, No 10
Mahatma Gandhi Road,
Nungambakkom, Chennai- 600034

Bankers

HDFC Bank Ltd
The Federal Bank Ltd
ICICI Bank
Axis Bank
State Bank of Travancore
The South Indian Bank Ltd

Registered Office

JRG House, Ashoka Road,
Kaloor, Kochi-682017, Kerala
Tele: +91 484 3006000
Fax: +91 484 2409922
E mail: jrg@jrg.co.in
Website: www.inditrade.com

Global economic uncertainties, reforms slowdown, depreciating Rupee and slower consumer offtake enhanced the volatility of the Indian financial market in 2011-12.

This impacted the earnings of JRG Securities Limited.

Rather than complain about the external environment, we embarked on various initiatives to strengthen our enterprise.

So even as the prospects of the country's financial markets appear grim, we are optimistic that the country's long-term growth story will continue to remain attractive and will capitalise on the projected reality through the creation of a more sustainable business model.

CORPORATE IDENTITY

JRG Securities is one of the emerging companies in the Indian financial services intermediary segment, helping provide innovative financial solutions on the one hand and helping customers in making informed decision making on the other hand.

Lineage

- Incorporated in 1994 as a financial services intermediary to provide equity and commodity brokerage services in South India
- Acquired by Duckworth Limited, a subsidiary of Baring India Private Equity Fund II Limited, in 2007 through the acquisition of a 46% stake
- JRG Securities today, has grown into a leading financial and investment services enterprise, offering the most extensive range of financial products and services

Services offered

Equity brokerage: Comprises equity intermediation services

Commodity brokerage: Comprises dealings in agro-products, precious metals, metals, bullion and energy

Insurance: Comprises services under life insurance, general insurance, pension plans and health insurance

Non-banking financial services: Comprises services under margin finance, loan against shares, loan against commodities, gold loan plans, mutual funds, IPO services and tax filing

Internet trading and phone-based services: Comprises online/telephonic mutual fund, depository and fund management services

Commitment

We are a professional services provider

We ensure a delightful customer experience

We are a dynamic and motivated team with rich product expertise

We are reliable partners as our dealings are transparent

We invest in long-term partnerships with stakeholders

We differentiate ourselves as smart solution providers

Subsidiaries

- JRG Wealth Management Limited
- JRG Fincorp Limited
- JRG Insurance Broking (P) Limited
- JRG Business Investment Consultants Limited

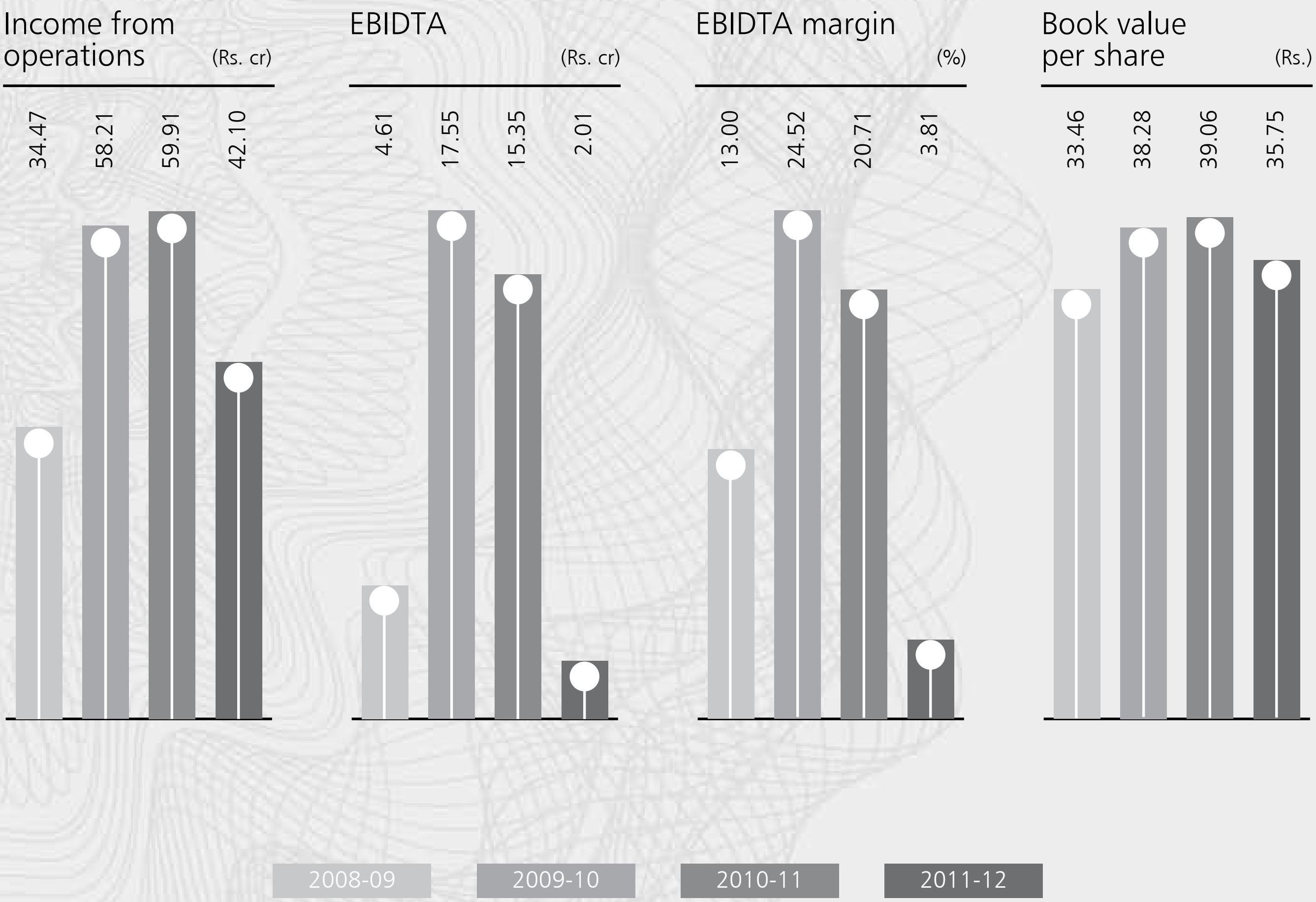
Memberships and affiliations

- Depository participant with NSDL and CDSL
- Member of NSE and BSE for equity trading
- Affiliation with MCX, NMCE, NCDEX, IPSTA and NCMSL
- Complies with all regulatory requirements of SEBI, IRDA, FMC and RBI

Location

Headquartered in Kochi, Kerala
Network of 300 branches and sub-brokers/ associates across Kerala, Tamil Nadu, Andhra Pradesh, Karnataka and Maharashtra

FINANCIAL HIGHLIGHTS



Based on consolidated numbers

CHAIRMAN'S STATEMENT

Dear Shareholders,

Things have not got better. Times are tougher. Globally, in countries like the US, Japan, the U.K and most of the Anglo Saxon world, de-leveraging-driven deflation is being countered with virtually zero interest rates, maintaining a precarious balance. In Southern Europe, profligate governments and banking systems stretched by over exposure to construction, real estate, etc, coupled with rising dependency ratios have made governments insolvent creating cleavages in the fabric of sustainability of the Eurozone. All this combined creates volatility on the availability of the capital we import to sustain our twin deficits, exposing savers to higher beta in capital markets. Given the Indian households low per capita income and concomitant low risk tolerance and sustained institutionalised bias against equity investors has kept your Company's ecosystem challenged. Investors have preferred the relative safe haven of bank accounts but threatened with structurally higher inflation embedded into our policy framework, and have sought refuge in real estate and gold.

The ingrained institutionalised bias against equity investors with regulators not recognising them as relevant consequential stakeholders has persisted. SEBI worries about customers of financial products but not the consequences of their actions on investors in the financial service firms. RBI treats non-banks as stepchildren in the financial system and acts inimically to their interests without giving them a voice. Competition commission does not act against violators but against companies in a manner that hurts minority shareholders. Pension trustees do not allow investments into equity. Numerous ministries routinely prescribe price caps in industries where the norm does not mean basic cost of capital over cycles. Government-controlled companies routinely make minority investors bear part of the governments subsidy burden. MNC's routinely charge royalty for brands built at the cost of minority shareholders and transfer away profits in related party transactions. Local promoter groups capture disproportionate economics under the fig leaf of the independent director elected by the majority shareholder regime. Investment bankers act of inducements to over price issuance are hidden behind legalese and accounting firms cannot be held responsible for what they sign under their own charter. The socialistic conditioning of the powers that be precludes seeing investors as essential stakeholders in the formation and sustenance of risk capital and they continue to privately dismiss them as speculators. This mindset and hence the structural bias is unlikely to change soon and hence other than for a liquidity driven asset price inflation, it would be unduely optimistic to imagine a widespread equity cult developing in our country.

As true realisation of the structural bias against him have dawned, hope and aspiration of capital appreciation have dimmed and the local saver has systematically withdrawn from participating in the capital markets with delivery volumes at the lowest level since 2007 (a phenomenon vastly hidden by a substantial increase in programme trading and large cap focussed international flows). This has reduced the catchment of customers for all players in the industry. Lower volumes and steeply negative operating leverage in an industry with a predominantly fixed cost structure has led to a mutually destructive price cutting spiral. Matters have been made worse by exchanges continuously

This mindset and hence the structural bias is unlikely to change soon and hence other than for a liquidity-driven asset price inflation, it would be unduely optimistic to imagine a widespread equity cult developing in our country.

reducing entry barriers to promote their own volumes and revenue and by increasing costs of compliance and customer service brought upon by the net settlement rules imposed by SEBI. The low revenue yield and high fixed costs of branches have left your Company with no choice but to suspend growth of high fixed cost physical branches and focus on enhancing productivity, efficiency and customer satisfaction in existing cost centres (and prune those which it felt would not be able to withstand a sustained downturn). This has been facilitated by large investments in IT. The back end risk management and low cost scalability backbone has already been put in place but the piece enhancing customer interface is currently work in progress. ROI for conventional customer acquisition models have become unattractive and hence new initiatives focus on productivity of the selling process and on using technology and centralisation to enhance its efficacy. The business model is increasingly been evolved onto the web platform with lower fixed costs, lower opex and enhanced customer experience after an initial familiarisation stage. The ideal being sought is to minimise fixed cost drag in the ensuing period of low revenue productivity while ensuring good customer experience and distribution and platform so that your Company is in a position to address market needs on any uptrend.

A pilot for corporate real estate advisory has been successful and will be scaled. The proclivity of savers to hide from inflation by buying gold will be addressed by facilitated by distributing bonds of the asset class. The Company is attempting to facilitate investments and offerings in a wide array of fixed income instruments and mutual funds as well as facilitate access for insurance needs of customers. Fixed cost defrayment is also being attempted by providing service as a DSA's to third parties to meet loan requirements of our customer franchise. Though we have treaded a very risk-averse path in managing our own balance sheet in the light of multiple uncertainties we are now seeking to enhance the yield and productivity on that. Increased focus on centralised dealing as well as enhancement of service standards and customer franchise extension especially in the currency and commodity should allow us to enhance productivity in the coming year.

Talent acquisition has been substantial specially at senior levels, largely driven by the untiring efforts of Mr. Tandon and aided by Mr.Manohar. Compliance and risk management standards have improved specially on the disaster recovery parameter with migration of the back office to a third party provider. Accounting controls and standards have continuously improved under the able supervision of the head of your audit committee Mr. P.V. Viswanathan.

The prognosis is not bright in the short term. We have charged the management team with the challenge of increasing productivity and building muscle and increasing customer relevance such that we can win big if the tide turns. I want to thank you all for your continued indulgence in very trying times.

Sincerely,

Rahul Bhasin
Chairman

OUR VALUE DRIVERS

Investor base

Duckworth Limited, a subsidiary of Baring India Private Equity Fund II Limited, a leading Indian private equity firm of international repute is the single largest investor in JRG. Baring India, it enjoys a proven track record of creating value across companies acquired by it through a strong focus on corporate governance, regulatory compliance, talent management and execution of strategic growth plans.

Professional management

JRG's management team comprises professionals drawn from within the Company and elsewhere. The team brings in a high level of entrepreneurial energy coupled with professional integrity.

Strong network

JRG extended its reach in South India and associated with its customers through 300 touch-points, catering to the needs of Tier-I, II and III cities.

Internet trading

JRG's new online trading platform, www.inditrade.com, has attracted young, Internet-savvy retail investors from across the country. The Company possesses a growing base of Internet customers and is looking to scale this platform. Call-and-trade is also gaining popularity among customers.

Talent

JRG believes in creating and sharing value. The organisation has been built based on the philosophy of 'professional entrepreneurship' and aims to become a preferred employer in the industry. The Company invests in training employees on a regular basis to improve the quality of services.

Technology

Technology is the centre of most of JRG's investments. The Company has completely automated its services, minimising duplication of work and human intervention. It also possesses cutting-edge technology with direct wired exchange connectivity powered by back-ups, best-in-class trading servers, fastest storage backbone and robust and secure back office systems. The Company has a dedicated IT help desk and enjoys a 99.9% uptime with multiple connectivity solutions.

One-stop convenience

JRG provides one-stop convenience by providing a bouquet of services under equity, commodity and currency brokering, life and non-life insurance products, portfolio and wealth management services, financial advisory and currency trading.

Trust and transparency

JRG enjoys an industry experience of over 17 years. It possesses best-in-class compliance and risk management systems and a credible investor/management team that inspires trust. Besides, within a short span, Inditrade emerged as a trustworthy and customer-focused brand.

EQUITY BROKERAGE

Revenue, 2011-12: Rs. 20.77 cr

Proportion of total revenue, 2011-12: 51.78%

Segment status: Largest

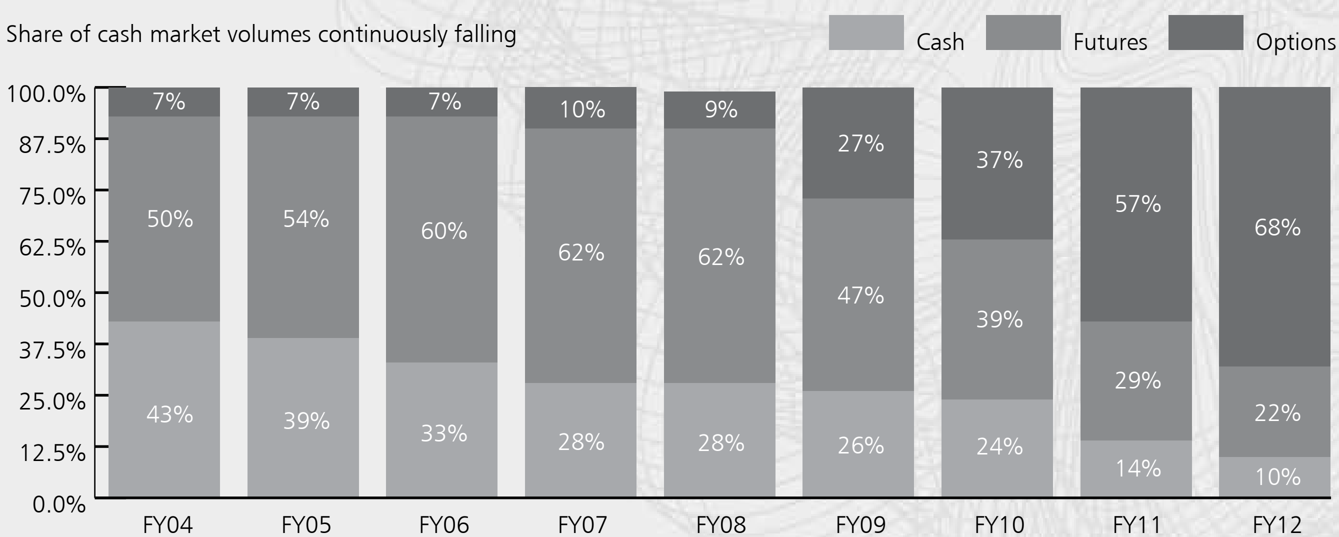
Overview

In 2011-12, the overall Indian equity market volumes increased a nominal 5% as compared with 46% in the previous year. While the high-yielding cash and futures volumes declined in absolute numbers, the growth was supported by volumes on options trading. The drop in the high-yielding cash market volumes sharply impacted the overall equity brokerage revenue pool, which declined 20% in 2011-12.

The increasing cost of regulatory compliance further exacerbated the pressure on profitability of broking companies. With the persistence of these industry dynamics, market players also continued to focus on containing costs and restructuring business models with relatively larger players (with access to capital) exploring alternate sources of revenue and profits.

With the rapid growth in options volumes, the share of the future and options (F&O) segment in overall market volumes continued to increase. Cash trading volumes declined from Rs. 46,824 bn in 2010-11 to Rs. 28,008 bn in 2011-12. However, the F&O segment continued to rise with trading volumes increasing from Rs. 2.92 lakh bn in 2010-11 to Rs. 3.13 lakh bn with its share increasing to 90% of total volumes in 2011-12 leading to further pressure on yields *(Source: NSE and BSE)*.

Share of cash market volumes continuously falling



After a smart post-2008 crisis recovery, when the Indian equity market increased 81% in 2009 and 18% in 2010, 2011 was a disappointment. While global factors such as the European crisis and slow recovery in the US were the main triggers, inflation in India as well as delay in government policy-making were the main reasons behind the country's disappointing year. The benchmark Sensex fell around 23% since the beginning of the year *(Source: Hindustan Times, December 30, 2011)*.

The year 2011-12 remained subdued marked by international economic crisis and high headline inflation combined with growing interest rates. This resulted in a large number of retail clients shying away from the market. JRG's retail volumes fell as clients stayed away for most of the year. Our services comprise the following:

Retail

Retail broking: The Company has embraced an advisory model for its equity brokerage services, unleashing the value of its in-house research provided by its team of analysts. This team also includes dedicated dealers and advisors who provide personalised trade and execution services to active traders, retail investors and high net worth investors. The Company invested in best-in-class technology, research and analytics services, transparency and compliance measures, call-and-trade facilities, customer service, reach and delivery.

Highlights, 2011-12

• Extended the equity brokerage business across 300 physical touch points (100 branches and 200 sub-brokers/ associates) across South India and Maharashtra

Retail broking – online equity portal (www.inditrade.com): The Company launched its Internet trading brand, christened Inditrade in 2009-10. In view of the increasing popularity of online trading, the portal offers a superior user-interface and empowers customers to trade online and invest in various of products comprising equities, commodities, currencies, mutual funds and insurance. The brand is positioned along the lines of superior execution and best-in-class technology powered by a dedicated team.

Highlights, 2011-12

• Registered a pool of over 6,000 Internet clients (as on March 31, 2012)

Depository services

JRG provides depository services through its DP (depository participant) status with the NSDL and CDSL and facilitates trading and settlement of dematerialised shares, performing clearing services for all security transactions. It also offers depository services to create a seamless transaction platform, executing trade under JRG Securities and settling these transactions under JRG Depository Services.

Services

• Transfer of shares from one account to another, both online and off-market

• Pledging and un-pledging shares

• Dematerialisation and rematerialisation of shares

• Offer various tariff plans to suit every investor category – traders, investors, HNIs, corporates and NRIs, among others

Highlights, 2011-12

• Over 90,445 depository accounts with NSDL and 5,256 accounts with CDSL (as on March 31, 2012)

Outlook

Financial brokerage in India is going through sweeping changes with new players looking to be a part of the highly competitive brokerage market, leading to dwindling income. Many existing players were forced to undercut operations due to a lack of revenue while others survive on the basis of consolidation. The market is also witnessing new and stringent guidelines issued by regulatory authorities from time to time.

Road ahead

Going ahead, the Company will focus on expanding its business by strengthening client relationship.

COMMODITY BROKERAGE

Revenue, 2011-12: Rs. 15.32 cr

Proportion of total revenue, 2011-12: 36.38%

Segment status: Second largest

Overview

JRG provides commodity broking through its subsidiary JRG Wealth Management Limited, which is a member of MCX, NCDEX, NMCE, IPSTA and NCDX spot exchanges. The commodity broking business comprises actively traded agro-commodities (pepper, rubber, cardamom, turmeric, chili, jeera and refined soya), base metals, metals, bullion (gold and silver) and energy.

During 2011-12, the Company's commodity futures trading volumes declined owing to high volatility across all commodities including bullion, agriculture and metals. The highest turnover of Rs. 14,802.48 cr was recorded in Silver trading followed by Rs. 12,293.48 cr in Gold and Rs. 9641.06 cr in Crude oil. Trading volumes in the Indian commodity exchanges rose 54% from Rs. 112,867 bn in 2010-11 to Rs. 173,696 bn in 2011-12.

Highlights 2011-12

- Enlisted over 80 commodity dealers and 26,599 clients
- Maintained active client rate at more than 80% of the clientele
- Received 'Zee Best Agri Analyst of the Year' award for the second consecutive time

Research

JRG's nine member analyst team covers the active listed stocks, currencies and commodities, with comprehensive research reports issued on a regular basis. The Company's research wing offers the following:

Qualified professionals dedicated to various segments (bullion, base metals and agri research), supported by services (trading and investment advisory as well as daily, weekly and monthly reports) and risk management services

- Relationship management team conducting seminars, workshops and investment camps for investors
- A single screen customised market watch for MCX and NCDEX along with NSE/ BSE real-time commodity information and client ledger positions

Initiatives

- Reintroduced the advisory desk across its three zones to offer superior customer service
- Minimised attrition through robust customer loyalty
- Restructured the centralised dealer desk to facilitate evening shift trading to relieve partial load of branch dealers (the evening shift accounts for a large volume of trading and can be dealt easily through the centralised dealer desk) and achieved around 6% of the total trading volume within four months of starting the service
- Introduced disciplined trading for clients through adopting long to mid-term strategies
- Commenced webinars at the branch and franchisees
- Conducted various customer awareness programmes along with MCX and NSE
- Tied-up with FMC for investor education programmes

Road ahead

• Expect to undertake franchisee development as only 70 among the 195 outlets are engaged in commodity trading

• Increase commodity-based franchisees in the relatively under-penetrated markets of Andhra Pradesh, Karnataka and Maharashtra

Optimism

• Consumer spending in India is likely to grow four-fold to touch USD 3.6 tn by 2020, driven by rising incomes and aspirations, widespread media proliferation and better physical reach (Source: IBEF)

• The wealth of high net worth individuals in India is set to grow by a 23% CAGR over the next four years and will touch a staggering USD 4.69 tn (Source: IBEF)

• Close to 65% of Indians between the age of 20-60 years are working, leading to higher disposable incomes and lifestyle aspirations. Among BRIC nations, India is expected to remain the youngest with its working age population estimated to rise 70% of the total demographic by 2030 – the largest in the world. Some estimates suggest that India will see 70 mn new entrants into its workforce over the next five years

• The salary of the average Indian grew 12% in 2012, higher than most other global nations. India's per capita income stood at Rs. 60,972 in 2011-12 *(Source: Deccan Herald)*. In line with economic growth, estimates suggest that private final consumption expenditure (PFCE) is expected to scale from USD 790 bn in 2010 to USD 3.6 tn by 2020 *(Source: ENAM)*

India – A growth story

As per the United Nations (UN), India is projected to see a faster growth of 7.5% this fiscal on the back of higher savings and investment rates, even as most of the Asia-Pacific economies are likely to expand at a slower pace *(Source: IBEF).*

Meanwhile, India continued its ascent as a top destination for private clean energy investments, according to a research report released by The Pew Charitable Trusts. Clean energy investments (excluding research and development) have grown 600% since 2004.

India's clean energy sector continued to flourish in 2011, with private investment increasing 54% to USD 10.2 bn, placing the country sixth among the G20 nations. This was the second highest growth rate among the G20 nations *(Source: IBEF).*

The World Economic Forum plans to establish permanent physical presence in India by setting up an office in the next 12 months *(Source: IBEF).*

CURRENCY TRADING

Overview

The foreign exchange market witnessed higher volatility in 2011-12. The currency has lost a fifth of its value vis-à-vis the US dollar over the last year *(Source: Business Line).*

The rupee plunged, breaching the psychological barrier of 50 a USD amidst a mood of negativity. *(Source: The Hindu).*

The RBI sold USD 2.92 bn in the foreign exchange market during November 2011, the highest monthly dollar sales in two-and-a-half years. The central bank also sold USD 1.6 bn in the forward market for the first time in the current financial year to arrest the fall of the Rupee. The Rupee was Asia's worst performing currency in 2011 as it depreciated by almost 19%. *(Source: Business Standard).*

On December 15, 2012, the RBI restricted rebooking of cancelled forward contracts and reduced the net overnight open position limits (trading limits) for banks in the foreign exchange market. The move was aimed to curb volatility in the foreign exchange market, which had nearly doubled in less than six months *(Source: Business Standard).*

After a hands-off approach for nine months, the RBI intervened in the foreign exchange market in September 2011 by selling USD 845 mn. In October 2011 alone, it sold USD 943 mn *(Source: Business Standard).*

Highlights, 2011-12

• Possessed 12 currency terminals (as on 31 March 2012)

Services

• Customised foreign exchange hedging strategies for large, small and medium enterprises

• For the investing and trading community, the trading desk provides linear and non-linear trading strategies on domestic pairs across currency majors as EUR/ USD, GBP/ USD and USD/ JPY as well as major crosses like EUR/ GBP, EUR/ JPY and GBP/ JPY

Road ahead

• Identify key talent for active engagement in customer awareness programmes for currency trading

• Tie-up with NSE and MCX to hold customer awareness programmes

• Target SMEs and conduct seminars to increase corporate participation

Strengths

• Possesses strong product development skills
• The research desk is well-equipped to provide timely information to market participants
• Embraces effective risk management practices
• Appointed dedicated relationship managers for retail and corporate customers

NBFC

Accounted for 15% of revenues in 2011-12

Overview

JRG entered the NBFC (non-banking financial company) space in 2007-08 through its subsidiary JRG Fincorp, which is registered with the RBI as an NBFC not accepting public deposits, to complement its large pool of financial products and services.

The Company is one of the leading players among the organised private sector companies and provides agro-commodity and capital market loans in Kerala. It is growing its presence in the commodity loans segment in Maharashtra, Kerala and Andhra Pradesh and has also signed a collateral management agreement with NCMSL, a subsidiary of NCDEX.

The Company offers a diverse range of products under the capital and commodity segments which comprises:

Margin funding

Key features

- Borrowing is available against extensive list of shares
- Leverage up to two times
- Simplified documentation
- No processing fees
- Quick loan processing, option to take delivery beyond the ordinary trade cycle
- Attractive interest rates
- Facility to convert to alternative borrowing options

JRG Fincorp's margin funding book size as on March 31, 2012 stood at Rs. 34.89 cr with 1,045 clients.

Loan against shares

Key features:

- Borrowing is available against extensive list of shares
- Simplified documentation
- Repayment possible through various models such as EMI, flexible and bullet
- Quick loan processing with attractive interest rates
- No penalty on prepayment

JRG Fincorp's LAS (loan-against-shares) book size as on March 31, 2012 stood at Rs. 15.97 cr comprising 1.033 clients.

Gold loans

Key features:

- Providing finance with appropriate margins at attractive interest rates
- Post loan repayment, the client enjoys the flexibility to get back the pledged gold in demat or physical form

JRG Fincorp's gold loan book size as on March 31, 2012 was Rs. 83,098 comprising two clients.

Commodity funding: JRG Fincorp provides funding for cardamom, pepper, rubber, chili, steel, gold and silver. The commodity funding book size as on March 31, 2012 was Rs. 18.86 cr comprising six clients.

Road ahead

- Create a dedicated sales team
- Establish 12 new branches in the coming months
- Focus on SME loans

INSURANCE AND SUPPORT SERVICES

Accounted for 1.45% of our revenues in 2011-12

Overview

Increasing GDP and demand growth has opened up a plethora of opportunities for India's insurance industry. India currently has 24 general insurance companies including the ECGC and Agriculture Insurance Corporation of India and 23 life insurance companies. S&P's rating services has rightly described India's non-life insurance industry as a 'goldmine of growth potential' *(Source: IBEF).*

According to IRDA, the total insurance penetration, which is the ratio of insurance premium as a percentage of GDP, has increased from 2.32 in 2000-01 to 5.10 in 2010-11. Life insurance penetration in 2010-11 was 4.40 whereas the non-life insurance penetration has increased from 0.60 in 2009-10 to 0.71 in 2010-11 *(Source: IBEF).*

As far as the conventional plans of Life Insurance policies are concerned, a growth of 11% in policies and 22% in premiums was witnessed as on February 29, 2012, according to the Ministry of State for Finance. The Indian health insurance market accounted for 3.2% of the overall insurance industry in 2011 *(Source: IBEF).*

JRG provides insurance services through its subsidiary JRG Insurance Broking (P) Limited, registered with the IRDA as a direct insurance broker to distribute life and non-life products of all insurance companies in India. The Company leverages its distribution strength to cross-sell products across five states (Kerala, Karnataka, Tamil Nadu, Maharashtra and Andhra Pradesh). The product offerings include life insurance, general insurance, pension and health insurance.

Highlights, 2011-12

- Over 1,186 insurance clients (as on March 31, 2012)
- Income from insurance broking declined to Rs. 0.089 cr
- Enjoys four IRDA-certified branches
- Premium from life insurance increased in the last two quarters with the acquisition of 170 clients
- Initiated Inditrade Financial Planning Fellowship Programme-1 aimed to build the base for financial planning approach for the promotion of 3rd party products.
- Developed rubber plantation insurance in association National Insurance Company Ltd.
- Got mandate from MPEDA – Marine Products Export Development Authority – CtrlS among others for GI business.

Initiatives

Inditrade Financial Planning Fellowship programme

- 120 people have joined the programme of which 80 people had attended the training.
- It was designed to support them at dealing with different categories namely Trading, Life Insurance, General Insurance and Other Investment products .
- Points were awarded to them on the basis of their contribution to the categories.

Double revenue credit contest for Bharti Axa MIP and JAIHO Contest

• While Double revenue credit contest for Bharti Axa MIP to enhance branch revenue credit by doubling revenue for each block of 30k premium collection, JAIHO Contest were initiated offering the branches opportunity to win surprising gifts on a weekly basis.

Outlook

The market size of the Indian life insurance industry is expected to touch USD 111.9 bn by 2015 from USD 66.5 bn in 2011, recording a 14.1% CAGR. The report estimates that India would emerge as the third-largest market for life insurance in the world by 2015. At present, India stands twelfth among the top global markets for life insurance. Also, the number of policies sold is expected to increase to 85.21 mn in 2015 from 53.23 mn in 2010 *(Source: IBEF)*.

A McKinsey report predicts an exponential growth for the Indian insurance industry in 2012 due to such factors as increasing household incomes, higher premiums (as a percentage of GDP) and a total market premium growth estimated to be close to USD 100 bn.

Road ahead

• Tie up with two life insurance companies as Collection Vendors

• Business through Franchisees and Remisers

New products introduced by the Company in 2011-12

- Rubber plantation insurance in GI space
- Bharti AXA Life MIP a Life Insurance Product
- Apollo Munich Optima Restore Health Insurance.
- 80 CCF Bonds/ Can Robeco Tax saver targeting tax payers
- Muthoot NCD in the fixed income segment.

MARKETING

Highlights 2011-12

• During the year, the customer acquisition model underwent a paradigm shift from the traditional model in which the client acquisition endeavour was led by the dealing team into a model where a sales team was set up with the express purpose of acquiring customers

• Initiatives were undertaken to consolidate the sales network through the closure of unprofitable branches and disengagement with non-performing business partners

Key initiatives

• Services were productised and branded with the intention of facilitating the sales process. For instance the broking services were rechristened 'IndiInvest' and the insurance broking was rechristened 'IndiProtect'

• A full-time PR agency was contracted to give voice and coverage to many of the strategic and tactical initiatives undertaken by the Company. Taking cognizance of the fact that JRG has significant retail presence in smaller urban centres, the emphasis of the PR effort was on the vernacular media

• New avenues for promoting JRG services were initiated through electronic mailers and printed material. The execution of the promotional material was conducted by a professional creative agency

• Various investor conferences were conducted in association with MCX and NSE. These seminars sensitised the prospect to various aspects on investing in commodities and currencies

• In-branch seminars were conducted extensively; JRG product teams used the Internet to interact with these prospects and respond to queries

Strengths

• A large part of JRG retail network is concentrated in the smaller urban centres. It therefore gives us the unique opportunity to not only help investors in these communities diversify their investments but also introduce new financial products

Road ahead

• Continue to strengthen marketing initiatives

• Augment brand salience

• Envisage that the new customer acquisition model will mature during the year and place us in the pole position to take advantage of the upturn when it arrives

OPERATIONS

Highlights 2011-12

• Added 8,459 new clients

• Opened 5,442 accounts in the capital segment

Initiatives

Redesigned business processes through the following initiatives:

• Mapped the 'as-is' process where all processes in the existing condition were assessed and critical ones identified

• Identified and integrated processes identical for each product segment (for example, KYC for each product segment was consolidated into one entity resulting in higher accuracy and lower cost)

• Defined turn-around-time (TAT) for each process and measured the response and the resolution time. The result was 99% compliance of the defined TAT for all processes

• Started taking feedback from customers on calls made to the call centre through a quality assurance agency and received 100% satisfaction feedback

Technology support

Identified technologies required for rolling out new processes, installed new software for back office operations and strengthened ERP and client interface.

Rationalising cost

• Created cross-domain flexible manpower to save costs

• Started in-sourcing KYC without adding manpower, which resulted in savings of Rs. 25 lakhs. Besides, also enhanced information accuracy with almost nil errors (substantiated by the concurrent audit done in 2011-12)

• Localisation of mailing room executed from Chennai to Cochin resulting in cost savings and better mailing efficiencies

Network consolidation

JRG undertook network consolidation and selected two vendors (from eight previously) for voice and data usage in order to rationalise costs. Around 33% of the branches have already been integrated in the network and it is expected that 100% integration will be completed by the end of 2012-13.

Road ahead

• Embrace 100% digitisation of all documents to facilitate data security and superior data management

• In the process of creating automated financial asset register system for recording and tracking all assets under the JRG Group; every asset more than Rs. 2,000 will be physically bar coded and identified for better utilisation and tracking

HUMAN RESOURCE MANAGEMENT

Highlights 2011-12

• Inducted new dealers and relationship managers

• Maintained attrition below the prevailing industry rates

Key initiatives

• Formulated key strategies for recruitment of dealers and relationship managers

• Continued to undertake specific performance appraisal through the balance score card method and drew out the strategy of compensation package review

• Started a unique training initiative where the branch managers and assistant managers were called to assess interactions with clients and employees. Based on the observations, they were given feedback and training

• All training programs were uploaded on the Company's Intranet for widening accessibility

• The HR team created checklists for every employee and uploaded it on the Company's intranet. The checklist comprised the JD, key required product knowledge and Company knowledge and client interaction skills. The employees were assessed regularly and provided training if any gap was identified.

Road ahead

• The Company is contemplating flexible remuneration package for better employee engagement. It is also working out a plan to introduce flexible working hours for better employee productivity

• It is rolling out a unique incentive plan where the incentive cheque is sent to respective employees in advance and can only be encashed at the end of the set time period and achieving the desired target. This is expected to inspire employees to work harder. Employees will also be awarded foreign tours if they achieve higher than the set target

• The Company is also contemplating longevity bonuses where a particular employee is working in the Company for a certain period of time and performing consistently

• It is also creating more designation levels to create better career progression path

INFORMATION TECHNOLOGY

Highlights 2011-12

• Replaced the back office software with Synergy, which can be accessed by all Company branches

• Implemented the ERP software integrating sales and marketing, accounts and human resources

• Installed expense management system across branches to monitor expenses

• Shifted data centre to Mumbai as a disaster recovery site

• Completed firewall upgradation of the Mumbai data centre

• Implemented Kaseya for inventory management and endpoint security to enable USB blocking, application protection, system inventory and system change information

Infrastructure

The new data centre in Mumbai is a four-tier centre with six zones of protection. All business applications are hosted in the new data centre with uptime of 99.95% and are completely on private cloud on Vmware. The server and storage consolidation has already been achieved. The shift has enabled the following savings:

• Reduction of servers from 78 (Cochin) to 10 (Mumbai)

• Lower AMC cost

• Lower electricity bills

• Superior infrastructure maintenance

• Better space utilisation

• Lower manpower dependency

The system enjoys a scheduled auto backup facility ensuring data safety.

Networking

• Upgraded firewall to FortiGate at Mumbai DC

• Implemented intrusion prevention and gateway level antivirus along with network usage and performance monitoring tools, which enlists network utilisation and load. It has also implemented website blocking at the RO. The Company has DC and DR, which is working in synchronised mode using Oracle data guard

All applications are virtualised by using Citrix to improve performance and device independence

Road ahead

• Redesign the website and create a new portal for trading with enriched trading application for high networth customers

• Enabling MPLS connectivity to other branches (only 33% of the branches are covered presently)

• Create a new portal for real estate business

• Shift of mobile, PRI and landline connection to a single vendor to create a single sign for opening all applications

Achievements – ERP and back office applications

Description	Status
Changes in LAS application	Completed
No limitation on branch/ franchisee modules access	Completed
Around 150 + changes are accommodated in back office application without extra cost	Completed
Franchise revenue sharing module	Completed
NBFC ageing reports – mandatory for auditors	Completed

RISK MANAGEMENT

Risk is defined as an expression of the uncertainty about events that can have a significant impact on performance and profitability.

JRG's risk management strategy

At JRG, risk management is a continuous process of identifying, assessing and evaluating risks and taking proactive measures to minimise or eliminate potential losses arising due to an exposure to particular risks. The consistent implementation of this framework is monitored through audits and reviews, resulting in an accurate understanding of JRG's competitive position. In doing so, the Company takes decisions that balance risk and reward.

Industry risk 1

Risk explanation

A sectoral slowdown can affect the Company's business prospects

Risk mitigation

• The Company focused on de-risking the business by continued diversification into strategic businesses comprising commodities and currencies broking, proprietary trading, capital market financing, mortgage financing and gold loans, among others

• It is also planning to expand its reach in Tier-II and III locations mainly through the franchisee route besides expanding its commodity broking business beyond retail

• Leveraging in-house knowledge, it also entered real estate broking in September 2011

Competition risk 2

Risk explanation

Increased competition could affect realisations and impact the Company's market share

Risk mitigation

• JRG expanded its reach through 300 owned branches and associates across South India and intends to add another 12 associates in 2012-13. This widening footprint is expected to translate into higher revenues and market share in the areas of the Company's presence

• It provides diversified products and services, de-risking itself from competition

• It enjoys a competitive edge through its twin service options: its back office is available online, wherein clients can check their complete portfolio (daily sales, purchase and ledger) while offline customers can access the same from a 24-hour customer desk

Liquidity risk 3

Risk explanation

Non-availability of adequate funds could hamper day-to-day operations

Risk mitigation

• JRG possesses an efficient margin

collections team to reinforce cash flow. It also possesses adequate credit exposure with banks for both fund-based and non fund-based limits

• The Company ensures client collaterals comprises liquid scrips and that there is adequate safety margin between collateral value and positions taken; besides, the Company monitors scrip movement so that alerts are triggered as soon as buffer limits are infringed upon

• It streamlined collection methodology through accelerated dispute resolution and hassle-free information dissemination, dispatching contract notes to clients and providing customer support through SMSes to insulate against liquidity volatility

Interest rate risk 4

Risk explanation

Increase in interest rates could affect the cash flow adversely

Risk mitigation

• JRG borrows funds at competitive rates towards low-cost funding

Regulatory risk 5

Risk explanation

Non-compliance with regulatory guidelines could enable authorities to take action against the Company

Risk mitigation

• JRG has a dedicated team which keeps a check on the compliance of all regulatory guidelines

• The compliance discipline covers client identification, transaction execution, transaction settlement and money transfer

• There have been no compliance cases registered against the Company in the past

Client default risk 6

Risk explanation

A customer default can affect the Company's profitability

Risk mitigation

• JRG is cautious in selecting clients and appraises them in detail

• It has adopted a practice of grading clients on the basis of their past records, which helps in setting funding limits. Besides, client shareholding patterns, debit balances and stock grades serve as benchmarks that influence client scoring. The system is completely automated, resulting in accurate client mapping

• The Company's automated client surveillance tracks ongoing client behaviour. This makes it possible to cap positions and promptly deactivate trading accounts when they are assumed to have crossed reasonable levels

Proprietary trading risk 7

Risk explanation

The Company's investment positions may result in losses, affecting shareholder returns

Risk mitigation

• As a rule, JRG does not trade in the financial markets. The Company has formulated an employee trading policy that prevents them from trading on their or the Company's account

• Employees require permissions to open their accounts as per policy guidelines

Technology obsolescence risk 8

Risk explanation

The dominant online nature of the Company's business model makes technology selection and management critical

Risk mitigation

• The Company's disaster recovery plan comprises the provision of 100% data and software back up

• It increased its capacity to 1 TB of annual data storage to handle growing volumes

Inditrade, its proprietary trading platform, is user-friendly and has rich features that are superior to other trading platforms