



NIFT DIRECTORS' REPORT

Your Directors are pleased to present the Annual Report and the Audited Financial Statements of the Company for the year ended June 30th, 2021 together with the Auditors' report thereon.

Profit and Loss Appropriations

The Directors propose following appropriations out of the profit for the current year:

	2020 - 21	2019 - 20
	<i>Rupees</i>	
Profit Before Tax	218,451,012	276,812,746
Taxation	83,523,629	110,370,939
Profit After Taxation	134,927,383	166,441,807
Un-appropriated Profit as at July 1st, 2020 / 2019	323,524,821	319,583,014
	458,452,204	486,024,821
Appropriations during the year		
- Final Cash Dividend for the year 2019-20 @ nil (2018-19: 30%)	-	(75,000,000)
- Interim Dividend for 2020-21 @ 125% (2019-20 : 35%)	(312,500,000)	(87,500,000)
Un-appropriated Profit as at June 30th, 2021 / 2020	145,952,204	323,524,821

Subsequent Effects

	2020 - 21	2019 - 20
The Board of Directors of the Company in their meeting held on Sept. 29 th , 2021 have recommend final dividend payment:		
- Final Cash Dividend @ 00% (2019-20 : NIL)	-	-
- Interim Cash Dividend @ 125% (2019-20 : 35%)	312,500,000	87,500,000
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Financial Results

The sales revenue of Rs.1.848 billion for the year was lower by 3.22% compared to Rs.1.909 billion of previous year, resulting in lower after tax profitability of Rs.135 million for the year as compared to Rs. 166 million for the previous year. Decrease in revenue is a combination of increased revenue in check clearing and e-pay offset by decrease in BISE printing business.

The Earnings per Share (EPS) of the Company for the year stood at Rs. 5.40 against Rs.6.66 for the year 2019-20.

Cost of Services during the year increased by 0.65% from previous year. There was increase in cost due to VSS followed by slightly higher expenses in e-pay and increase in courier cost; however, this was offset by reduced BISE cost due to substantially reduced printing activity during the year. The cost of the projects was booked as incurred while revenues were recognized based on work done.

Other Income of Rs.44 million was earned mainly on placement of term deposits, gain on sale of fixed assets and realization of deferred income pertaining to payroll financing recognized as Govt. Grant as per IAS-20.

During the year bad debts provision of Rs. 3.5 million booked on the receivables from Board of Intermediate and Secondary Education – Punjab related to printing business done in 2017, 2018 and 2020. In addition, a provision of Rs. 2.5 million is also booked at year as per IFRS-9 representing allowance for impairment on stuck up receivable from Lahore Board for 2020 exams.

Liquidity Management and Cash Flow Strategy

During the year under review, liquidity was maintained to support normal operations and support business growth initiatives. During the year, company's cash and cash equivalents were increased by Rs. 9 million as compared to last year. The funds generated by operations were mainly used for running and supporting core businesses including and capital expenditure needs. At the end of the year, the Company had a net positive position comprising cash and cash equivalent amounting to Rs.221.9 million (note 21 of the audited financial statements).

Current cash requirements are adequately financed through internal cash generation and with recourse to external financing where required. Borrowing capacity of the company is mainly linked to hypothecation of Projects related receivables.

Dividends

During the year, shareholders were paid interim cash dividend of Rs. 312.5 million (125%) based on first half review of current year's financial statements.

The Board of Directors did not recommend final cash dividend for the year under review (2019-20: nil).

Operations and Significant Events

PRINTING BUSIENESS OF BOARD OF INTERMEDIATE & SECONDARY EDUCATION-PUNJAB

BISE printing project is continuing though on reduced scale. We have had orders for 2021 and production against these orders was completed and billed. Printing revenue of Rs. 16.4 million was booked in current year as against Rs. 186 million of last year. Due to tough competition revenue target of last year not achieved.

In 2017, arbitration award was given on NIFT's petition for the settlement of stuck up amounts against results tabulation business. Relevant court of law was approached for the registration of award so that it can be challenged in the higher court. Despite many hearing, court decision is still pending until filing of this report. As a matter of prudence, bad debt provision had been booked in earlier years for the disputed amounts.

CHECK CLEARING OPERATIONS

For the period under reporting overall clearing revenue increased by 5.4 % as compared to last year (Rs.1.65 billion vs 1.57 billion). Absolute increase in revenue was PKR 84 million. Increase was attributable to collection and delivery revenue. Standard clearing services rates were increased from 1st July 2019 as agreed in rate review committee of SBP, PBA & NIFT to be effective for three years.

Clearing volumes in 2020-21 had registered an increase of 1.0% as compared to last year (45.5 million instruments vs 46 million instruments). This is due to higher number of days in 2020-21

Courier revenue increased by 11.4% due to increase in the coverage of bank branches in clearing grid. During the year, 693 banks-branches have been added during the reporting period.

Major Highlights

- Extensively worked on the realignment and right sizing of Operation centers. Identified the surplus resources, worked out the strategies with HR and successfully implemented the VSS without affecting the clearing operations in any center.
- Operation centers closely worked with banks-branches and ensured smooth pickup, delivery and processing of clearing instruments in the locked down and pandemic situations of Covid-19 where several Banks-Branches/CPU's shutdown their operations or shifted to other/alternate premises.
- Performed renovations/shifting of five Operation Centers and shifted then to less costly premises, resulted saving in rental cost. Also reviewed other operational expenses of all the centers and reduced expenses where possible.
- Beside BPC drills in big centers (i.e. KHI, LHR, ISB & RWP), designed the cost effective business continuity strategy and successfully performed BCP drills in further 6 centers (SKT, GUJ, SUK, LKR, QTA and MUL).

- Revised the operational manuals and SOPs and circulated/enforced them to all centers.
- Rolled out clearing operations in new satellite areas to convert several loss making centers into profit. More than 500 satellite branches have been added in the clearing grid.
- Successfully implemented the E-billing and centralized payment process to banks which has resulted in operational cost saving.
- Designed the Optima (capture/sorter application) replacement strategy by successfully implementing new solution in four big centers (KHI, LHR, ISB and RWP).
- Designed the Image Based Clearing System processes and upgraded the in-house clearing applications to make them IBCS compliant. Roll out started in centers.
- Implemented the Image based clearing system and go live with the IBCS portal. Operations along with technology worked out on the IBCS framework and processes. Developed the complete solution in-house and saved the hefty cost of acquiring an international product. Performed thorough testing, engaged all the banks for demo, orientation and training of IBCS portal and processes. Coordinated with SBP and PBA for the launch of IBCS. SBP approved the rollout from 6 Sep, 2021
- Designed the e-Cheque concept and worked out the modalities to develop the product. Besides e-Cheque, Cheque Image Capture on mobile device is being developed.

UTILITY STUBS PROCESSING

During the year contracts from KE, SNGPL, KWSB, SSGC continued.

During the year KE contract was renewed for further period of one year on same rates. Revenue contribution from this segment was 28.3 million compared to Rs. 27.3 million last year. Despite 2% volume drop, revenue was higher due to slab system of pricing. .

Contract with SNGPL was renewed in March 2021 for 3 years on higher rates. The existing average monthly volume remains between 1.4 million stubs. We are providing these services to SNGPL since August 2004. Revenue contribution in the reporting period was Rs. 38.5 million compared to Rs. 42.6 million in last year. Decline in revenue was due to reduced volume.

In SSGC, new addendum was signed for a one-year extension of the stub collection & processing and fund reconciliation project in April 2021 on higher rates. Revenue for this segment was Rs. 24.4 million compared to Rs. 21.3 million last year.

In KW&SB, three-year contract for stub processing & reconciliation was signed 2018-19. In the reporting year average monthly stubs was around 321,000. Revenue for this segment was Rs. 11.5 million compared to rs. 10.8 million last year.

PUBLIC KEY INFRASTRUCTURE (PKI)

PKI is an information security division of NIFT to provide Public Key Infrastructure (PKI) and Authentication & Information Security consultancy services to assist all types of companies and institutions conducting their business over the internet. Business in Pakistan are using digital signatures (issued by NIFTeTrust infrastructure) for B2G, C2G, B2B and C2B communication securely with the latest security standards on an insecure public network, such as the internet. Our key business areas are SSL, MPKI, eKYC (Identity stack), USB tokens, and other eKYC capturing hardware. Remote Signature (Cloud signature)

In the reporting year, revenue was increased by 39.6.% compared to last year. Increase in revenue was attributable to rise in SSL volumes.

The COVID-19 situation has also slowdown the PKI business. During frequent lockdowns, the need for an online business is growing rapidly however we are still facing some uncertainty due to multiple reasons.

Considering the operating environment and continuing losses of the business segment, efforts are in place to divest the business segment and sell it to third party.

E-PAYMENT GATEWAY (NIFT e-PAY)

Financial year 2020-21 marked the first complete year of NIFT ePay's live operations under Pilot Approval. During the year, NIFT ePay continued to strengthen its offerings in order to streamline digital payments landscape in Pakistan. NIFT ePay is currently live undergoing pilot operations and awaiting approval from the State Bank of Pakistan (SBP) for the commercial launch after completing relevant prerequisites laid out in SBP's rules for PSOs and PSPs.

During the year, six (6) banks went live on NIFT ePay taking the total number of live banks on NIFT ePay to eight (8). By end of the year, NIFT ePay had additionally signed agreements with nine (9) more banks and currently in process of enabling all these banks on NIFT ePay. Discussions are ongoing with the remaining banks in Pakistan to achieve NIFT ePay's ambition to create an inclusive and interoperable payments platform.

NIFT ePay also continued to strengthen the demand side of payments including merchants enabled directly through NIFT and Merchant Aggregators. The number of NIFT's directly enabled merchants that went live in the year stood at seven (7) whereas enablement is in progress for an additional twelve (12) merchants signed directly during the year. For merchant aggregators, fourteen (14) merchant aggregating entities are added during the year. Enablement for over hundred and fifty (150) merchants through aggregators is in progress.

As a representative on the National e-Commerce Council constituted under the National e-Commerce Policy of Pakistan, NIFT ePay continued to work closely with the stakeholders to streamline digital payments in Pakistan. NIFT ePay is also working with International entities to evaluate models for facilitation of international remittances and acceptance of popular international payment methods respectively. NIFT ePay received SBP Commercial Approval on 7th September, 2021.

BATCH PRINTING BUSINESS

During the year batch printing business has continued for Lotte Kolson and Rupali Foods. The project involves printing of batch information on food packages. Batch information contains manufacturing date and time, expiry date and production batch number. 90 hi-tech printers are installed at two locations for this purpose. In the reporting year, revenue of Rs. 17.9 million was booked compared to Rs. 18.5 million last year. Decrease of revenue is due to combination of increase and decrease of batches.

RISK & COMPLIANCE

Significant events in the reporting year:

- 1) ISO/IEC 27001 Audit - Information Security Management Certification - Completed
ISO 27001 Information Security Management System (ISMS) is an international standard on how to manage information security. NIFT is set to be officially certified for this standard by UKAS. The management certification generally follows a cycle of three years. The first year of certification is followed by the two yearly cycles of Surveillance Audits.
- 2) Security information and event management (SIEM) Solution and SOC Process Engagement - In-progress. As per increased Cyber Security concerns, NIFT has decided to engage a third party / external vendor for deployment of SIEM Solution along with 24/7 Security Operations Center Services (SOC). This will proactively enable the organization to monitor any external incoming cyber related threats / attacks.
- 3) External Vulnerability Assessment and Penetration Testing (VAPT), Network Configuration and Cyber Security related services evaluation – Ongoing. One of big four Audit firms is awarded the exercise of external Vulnerability Assessment and Penetration Testing (VAPT) as well as Network Configuration. This exercise is conducted on a yearly basis. Same firm is also awarded a (one-time only) consultancy services for Cybersecurity Action Plan, Risk Assessment & Treatment Plan, Threat Management, Crisis & Incident Management were also undertaken to strengthen the overall organization / IT governance structure.

INFORMATION TECHNOLOGY

Following were the highlights of the IT function for the year under review:

- Upgraded data centers backbone to 10G network.
- Replaced obsolete data center production hardware for both Clearing as well as E-Pay service including DR site operations. .
- Upgraded Virtual Data Center VMWare installation to latest version of ver. 7.01
- Successfully upgraded Web Portal to new version with backend on windows 2019 and SQL server 2019.
- Replaced Core Routers with Fortigate 601E firewall in both Production as well as in DR site.
- Perform DR drill for both Clearing and E-Pay services

INTERNAL AUDIT

NIFT has an in-house Internal Audit Department comprising qualified internal audit professionals. Internal Audit team works under the approved Internal Audit Charter / Policy formulated as the provisions of the applicable Laws and Regulations and duly approved by the Board of Directors. Along with the policy, IAD carries out task as determined in the annual internal audit plan and any special assignment as directed by the BOD, Audit Committee and the CEO. IAD follows Risk-based Internal Audit Methodology under which Annual Internal Audit plan is derived from the Audit Universe after determining risk associated with each auditable entity/process/function. IAD has during the period performed multiple audits including coverage of technology related areas.

SIGNIFICANT EVENTS

COVID-19 Emergency

In order to ensure continuity of business operations under COVID emergency, elaborate operational SOPs were implemented at all data centers, management meetings, for visitors and screening at the gates to ensure safety and continuity of operations. Measures were also taken from HR and Administrative side to ensure compliance with laws and regulations.

Implementation of SOPs and strict safety regulations greatly helped the company to avoid casualties at staff level and maintained its business operations.

FBR – Tobacco Track & Trace Project

In order to prevent leakage of revenue, under-reporting of production and sales of tobacco products the FBR is mandated to license the implementation of a track and trace system; which is to be developed, operated and maintained by the licensee for tobacco products manufactured in and imported into Pakistan. NIFT participated in the bidding process along with two partners and later on challenged the decision of award of contract in superior court. Honorable court has set aside the entire bidding process and decree new bidding. NIFT again participated in the revised tender floated by FBR. Award of contract, under second tender, was challenged in the High Court result of which is awaited.

FUTURE PROSPECTS & PLANS

Image based clearing - Efforts are in place to launch the first phase of IBC from September 2021 as necessary base work has been completed including discussions and alignment with Regulator and Banks on the operating model. In parallel efforts will also continue to develop road map for the next phases to cover technology front, financial modelling and time lines of implementation plan.

E-Payment Gateway – Successfully launch and consolidate commercial operations of e-payment gateway and continue to expand and capitalize on the related business opportunities.

Divesture of PKI Business Segment - In order to tap true market potential of PKI business we are in process of collaborating with a team of technical experts who are eager to form a new company in partnership with NIFT to carry on PKI business under new brand name. Discussions are in advance stage to finalize the MoU, transaction structure and Share Purchase Agreement

Business opportunities of data entry, scanning, image archiving and high-speed printing - New opportunities are constantly explored in the areas of documentation, digitization and data entry projects at both federal and provincial level. NIFT due to its strong logistical advantage and data processing capabilities shall be better placed to indulge in those projects.

INDUSTRIAL RELATIONS

Peaceful industrial relations prevailed at all locations of the Company. 4th Charter of Demand was presented by CBA in February 2019 was successfully negotiated during the year. We managed to obtain Essential Service cover for the duration of the year. The current cover expires in Feb, 2022

DIRECTORS

Since the last Annual General Meeting held on 28th October, 2020, six new Director namely Mr. Ahmad Zuberi, Mr. Muhammad Amin, Mr. Imran Maqsood, Mr. Imran Farooqui, Mr. Kashif Ali and Mr. Kamran Zafar Muggo have joined the Board. Clearance from SBP under Fit and Proper criteria of PSO/PSP rules is pending for Mr. Kamran Muggo, Mr. Kashif Ali and Mr. Imran Farooqui. During the same period, Mr. Arshad Zuberi, Mr. Mr. Kashif Karimi, Mr. Tariq Jawed Ghumman, Mr. Wajahat Malik, Mr. Nassir Salim and Mr. Kamran Muggo had resigned from the Board.

AUDITORS

The auditors A. F. Ferguson & Company, Chartered Accountants will retire after audit of 2020-21. Being eligible, they have offered themselves for reappointment as external auditors for 2021-22. Board of Directors have recommended the name of M/s. A.F. Ferguson & Company, Chartered Accountants as auditors for the year ending June 30th, 2022.

On behalf of the Board

Chief Executive

Director