Annual Report
1998 - 99

PNB GILTS

PNB GILTS LTD.

Contents

Continuing

Excellence

BOARD OF DIRECTORS

Sh. Rashid Jilani, Chairman
Sh. K. R. Chabria, Director
Dr. O. P. Chawla, Director
Dr. Kamal Gupta, Director
Sh. P.K. Gupta, Director
Sh. Arun Kaul, Managing Director

STATUTORY AUDITORS

K. Chandra Gupta & Co.
Chartered Accountants
Room No. 105, 1/42, Lalita Park,
Vikas Marg, Delhi - 110 092.

INTERNAL AUDITORS

Price Waterhouse Coopers
New Delhi.

BANKERS

Reserve Bank of India
New Delhi, Mumbai, Calcutta, Chennai & Ahmedabad.

Punjab National Bank
Sansad Marg, New Delhi;
PNB House, Mumbai;
Clive Row, Calcutta;
Mount Road, Chennai;
Ambawadi, Ahmedabad.

REGISTERED CUM CORPORATE OFFICE

5, Sansad Marg, New Delhi - 110 001.
Tel. 011-332 5831/373 6585/6586.
E-mail: pnbgilts@del2.vsnl.net.in

BRANCHES

PNB House, Sir P. M. Road,
Fort, Mumbai - 400 001.
Tele. 022-2691812/2693314/15
Fax No. 022-2691811/2692248

6A, Clive Row,
Calcutta - 700 001.
Tele. 033-2210394/2210395
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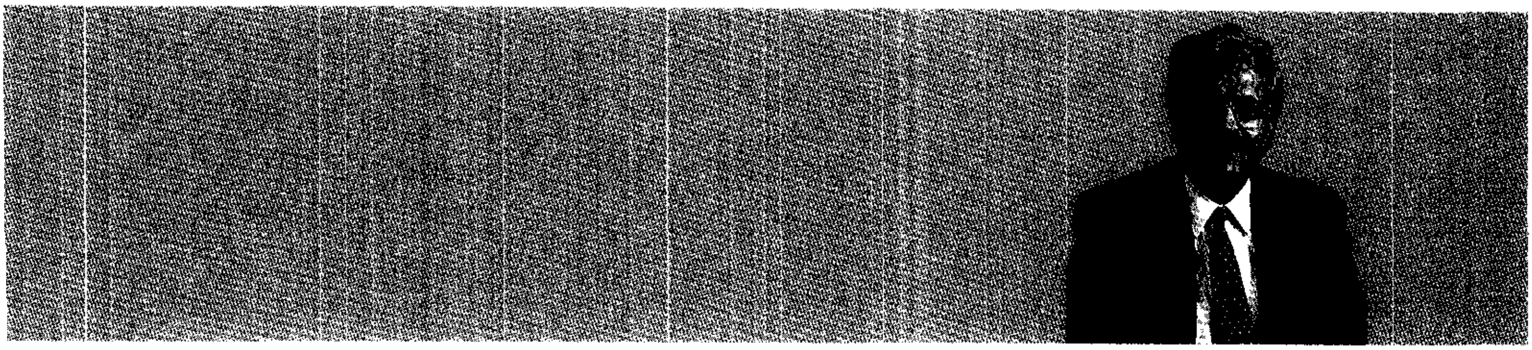
Sudershan Building
14, Whites Road,
Chennai - 600 014.
Telephone Nos. 044-8591750/51
Fax No. 044-8591751

Kumkum Building,
Near Panchwati, C. G. Road,
Ahmedabad - 380 006.
Telephone No. 079-6423037
Fax No. 079-6423106



Directors' Report

Your Directors have pleasure in presenting the Third Annual Report together with the audited accounts of the company for the year ended 31st March, 1999.

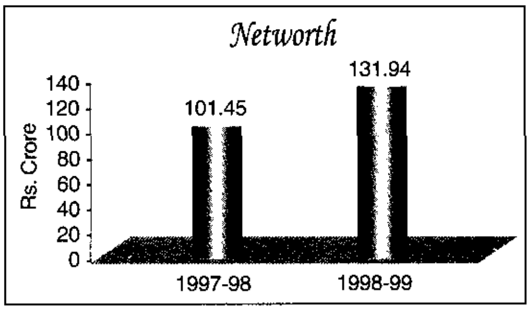
1. FINANCIAL RESULTS

The financial results for the year ended 31st March, 1999, alongwith the comparative figures for the previous year are given below:

(Rs. in lacs)

	31.3.99	31.3.98
Total Income	15041.33	12536.34
Total Expenditure	8900.84	4349.51
Profit Before Tax	***6140.49***	***8186.83***
Less : Provision for Income Tax	1881.06	2676.29
Profit After Tax	***4259.43***	***5510.54***
Add : Balance in Profit & Loss Account brought forward	69.75	39.21
Amount available for appropriation	4329.18	5549.75
Proposed Appropriation		
Transfer to Statutory Reserves	852.00	1125.00
Transfer to General Reserves	2200.00	3200.00
Dividend	1100.00	1050.00
Income Tax on Dividend	110.00	105.00
Balance carried forward	67.18	69.75

1.2 The tangible networth of the company increased to Rs. 131.94 crore with Paid up Capital of Rs. 50 crore and Reserves & Surpluses of Rs. 81.94 crore. The pretax return on networth works out to 46.54% and on Paid up Capital 122.80%. The Earning per Share is Rs. 8.52.



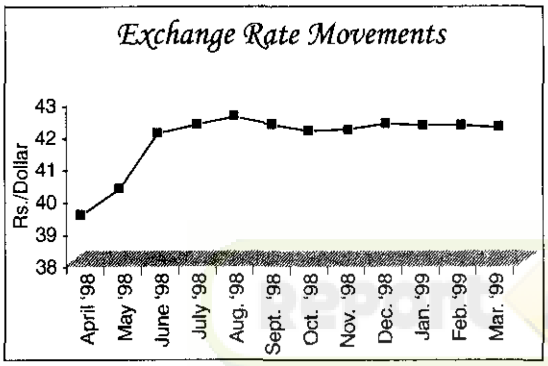
2. DIVIDEND

The company had paid an interim dividend of 20% on 30th December, 1998 for the current financial year. It is proposed that final dividend of 2% be recommended for approval by the shareholders at the Annual General Meeting. The total dividend for the financial year 1998-99 works out to 22% compared to 21% in the previous year. The dividend will absorb an amount of Rs. 1210 lacs including dividend tax of Rs. 110 lacs.

3. ECONOMIC REVIEW

3.1 During 1998-99, the economy achieved GDP growth of about 6% compared with a growth of 5% in 1997-98. The increase in growth rate is largely due to the turnaround in the output from agriculture and allied activities from a decline of 1% to an increase of 7.6% in 1998-99 and to the continued good performance of the services sector. The manufacturing sector is estimated to have registered only a modest growth. The index of industrial production is estimated to show an increase of about 4% as compared with the growth of 6.6% in 1997-98.

3.2 The external sector continued to remain under pressure. The South East Asian crisis, while showing some signs of abatement continued to be a matter of concern and had global repercussions. Moreover, after the Pokhran Nuclear test last year, India was also confronted with certain other developments, like, the economic sanctions imposed by several industrialised countries, the suspension of fresh multilateral lending, the downgrading by international rating agencies and reduction in investment by Foreign Institutional Investors. Consequently, Rupee came under sustained pressure during the first half of the year. Faced with these unfavourable developments, Reserve Bank had to, from time to time, take recourse to monetary and other measures in order to bring about orderliness in the foreign exchange market. These measures had been quite successful and Rupee moved in a range of 42.40/$ and 42.60/$.



3.3 Exports in dollar terms at $33.6 billion registered a decline of 4% compared with the growth of 4.6% in 1997-98 mainly due to sluggish growth in world trade. Imports on the other hand at $41.8 billion grew by 0.8% compared with 6% growth in the previous year. As a result, trade deficit surged to $8.2 billion in 1998-99 from $6.5 billion in 1997-98. However, inspite of these unfavourable developments, movements in exchange rate of the rupee and Foreign Exchange Reserves have been quite satisfactory. As on 31.3.99, Foreign Exchange Reserves stood at US$29.5 billion compared to US$25.9 billion by the end of 1997-88. Current account deficit during 1998-99 is estimated at 1% of GDP compared to 1.3% in 1997-98.

3.4 Aggregate monetary resources (M3) on point to point basis grew by 18% in 1998-99 compared to an increase of 17.6% in 1997-98. The main reason for higher growth in money supply is the Resurgent India Bonds (RIBs) inflows adding Rs. 17,945 crore to domestic liquidity. Reserve money also showed a growth of 14.6% compared to a growth of 13.1% in 1997-98.

3.5 Gross fiscal deficit of the Central Government (inclusive of small savings) was 7.03% of GDP in 1998-99 as against the budgeted figure of 5.6%. Inflationary pressures continued to be kept under control. The average rate of inflation as measured by the Wholesale Price Index (WPI) is estimated at 6.9% in 1998-99 compared to 4.8% in 1997-98.

4. DEVELOPMENTS IN THE MONEY & GOVERNMENT SECURITIES MARKET

Policy Developments

4.1 Against the backdrop of above macro economic environment, the major stance of the monetary and credit policy during the year was to strengthen the banking system so as to enable it to meet the credit requirements of productive sectors without impairing its financial health. In a significant departure from earlier policy, RBI decided to give more importance to the structural measures, while the short term credit and regulatory measures were announced at shorter notice in response to emerging developments in financial markets at home and abroad.

4.2 Recognising the existence of interlinkages among the different segments of financial market, various initiatives were taken to achieve further integration of the different sectors. With the restoration of orderly conditions in the foreign exchange market after the South East Asian crisis and also on account of comfortable liquidity position, there was a general softening of interest rates across all maturities. Accordingly, Bank rate was reduced from 10.5% to 10% on April 2, 1998 and further to 9% on April 29, 1998. It was again reduced to 8% on March 1, 1999. Furthermore, the fixed repo rate was reduced by 3 percentage points from 8% to 5% in stages by June, 1998 but in August 1998, it was increased to 8% on account of anticipated addition to liquidity via RIBs inflows. The rate was reduced to 6% on March 1, 1999. The Cash Reserve Ratio (CRR) to be maintained by Scheduled Commercial Banks was reduced to 10% w.e.f. April 11, 1998. However, to curb the scope of arbitrage provided by excess liquidity in the system on account of RIBs inflows, the CRR was raised by 1 percentage point to 11% in August, 1998 which was reduced to 10.5% in March, 1999.

4.3 In the securities market, the policy measures taken during the year sought to strengthen institutional infrastructure so as to improve transactions in the government securities including secondary market transactions. Notified amounts were introduced in the auctions of 14 and 364 days treasury bills and Uniform Price Auction method was introduced for 91 days treasury bills. Non-competitive bids were excluded from the notified amount so as to provide certainty to the amounts acceptable from the competitive bidders. Restriction on the minimum period for ready forward (repo) transactions in treasury bills of all maturities and GOI securities was withdrawn. Liquidity support, available earlier to Primary Dealers in the form of reverse repo, is now made available by way of Demand Loan against collateral of Government Securities.

4.4 With a view to provide an incentive to Primary Dealers to develop the secondary market in Government securities, the Reserve Bank of India is paying underwriting fees. The "Scheme of Payment of Underwriting Fee to Primary Dealers" was modified in August, 1998 as follows:

a) The primary dealers are offered up to a maximum of 50% of the notified amount for underwriting.

b) Dutch auction system was replaced by French auction system, wherein the successful bidders would receive the underwriting fee at the level they have bid, up to the cut-off fee, irrespective of the cut-off level.

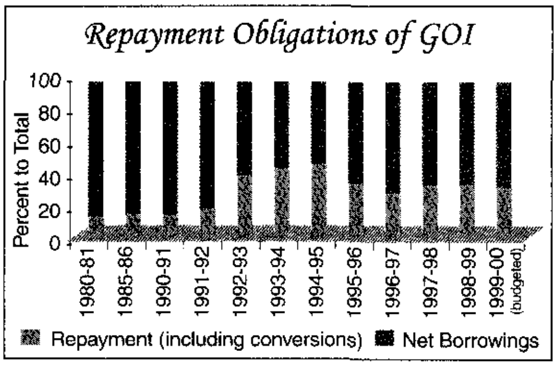
c) Devolvement on primary dealers is to the extent of underwriting amount after setting off the accepted bids in the auction.

d) Offer of underwriting by primary dealers restricted to five times of their net owned funds or balance liquidity support available from Reserve Bank of India, whichever is higher at the time of making commitment for underwriting.

e) The Scheme has since been further amended in April '99.

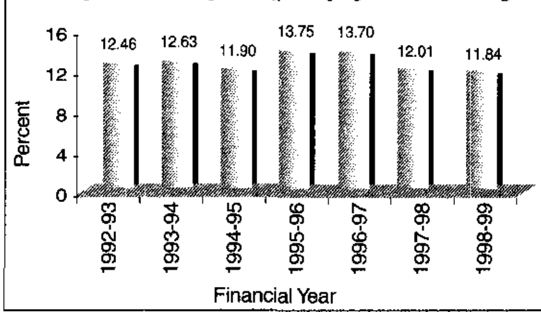
5. GOVERNMENT DATED SECURITIES

5.1 During 1998-99, the Central Government raised Rs. 93,953 crore (inclusive of 364-day treasury bills) exceeding the budgeted level of Rs. 79,376 crore by Rs. 14,577 crore. Slippage in revenue receipts was mainly responsible for the overrun of the borrowing programme during the year. The net market borrowing was Rs. 62,903 crore. Continuing large fiscal deficits year after year have led to sharp increase in repayment obligations from 11 paise out of every rupee of fresh borrowing in 1991-92 to 33 paise in 1998-99. Another consequence is the high increase in interest payment on public debt from Rs. 14,021 crore in 1991-92 to Rs. 43,712 crore in 1998-99.



5.2 Another significant development with respect to government borrowing programme was to enlarge maturity profile of new issues. Accordingly, securities with initial maturity of 11, 12, 15 and 20 years were issued. The average maturity of government securities issued during the year was 7.9 years compared to 6.6 years in 1997-98.

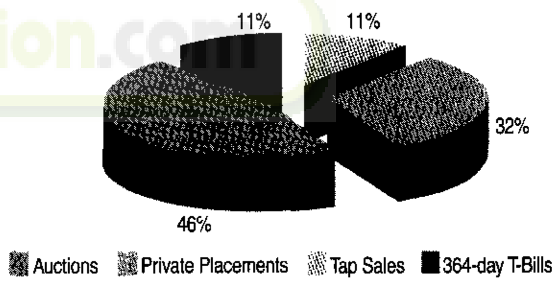
5.3 The downward movement in the interest rates on market borrowings continued during 1998-99, on account of comfortable liquidity position. Interest rates on a 10-year paper reduced from 13.05 per cent in 1997-98 to 12.0-12.25 per cent in 1998-99. On the shorter maturity of 2 years also, the rate of interest declined from 12.14 percent to 11.40 per cent. The weighted average interest rates on central government securities, thus declined from 12.01 per cent in 1997-98 to 11.84 per cent in 1998-99.



Weighted average coupon of GOI borrowing

5.4 In view of uncertainties/volatility in the financial markets, a large part of the government borrowing programme was through a fine blend of auctions, private placements and open market operations (OMOs). Of the gross borrowing of Rs. 93,953 crore during the year, Rs. 43,500 crore was raised through auction of dated securities while Rs. 30,000 crore was through private placements. Further, of the total private placements and devolvements of t-bills and dated securities of Rs. 45,595 crore, OMO sales amounted to Rs. 29,590 crore. This approach namely, of accepting private placements and combining it with OMO proved effective in meeting large borrowing requirements of government without causing undue pressure on interest rates besides containing the growth in primary liquidity. However, the above strategy did not lead to an undue expansion of Reserve Bank's credit to Central government and reserve money. During 1998-99, net RBI credit to Centre increased by 8.83%, lower than the increase of 10.7% in the previous year.

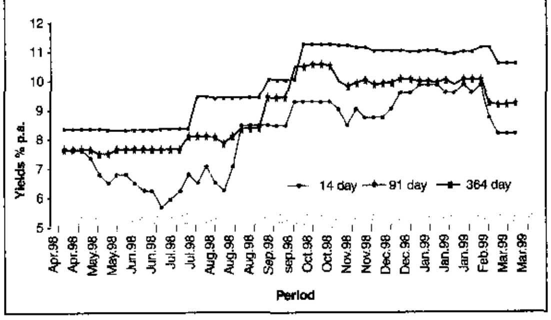
GOI Borrowings by Source



5.5 Secondary market remained sluggish during most part of the year with occasional short period spurts. Total SGL trading during the financial year amounted to Rs. 1,39,355 crore as compared to Rs.140,700 crore in the previous year. The traded volumes were low during June, 1998, September, 1998 and October, 1998.

6. TREASURY BILLS

6.1 The government raised an amount of Rs. 18,150 crore and Rs. 16,696 crore from 14 days and 91 days treasury bills respectively. The cut-off yield rates ranged from 5.49% to 9.42% for 14 days treasury bills and 9.19% to 10.07% for 91 days treasury bills indicating the volatile nature of the market.

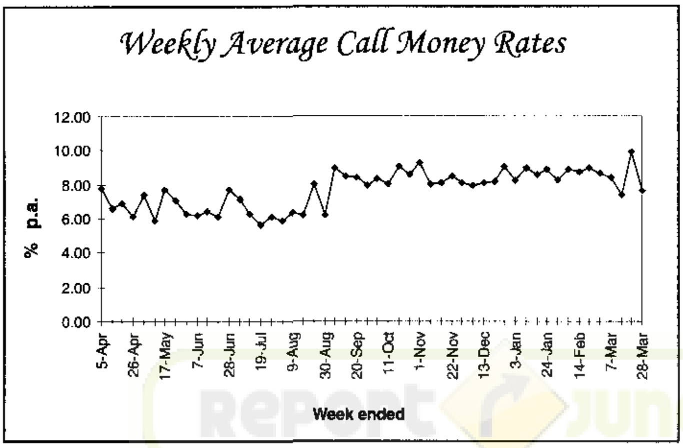


T-Bill Yields Movements

6.2 In alignment with these trends, cut-off yield for 364 days treasury bills fluctuated from 8% in the beginning of the year and reached 10.75% in October, 1998 and declined to 10.10% by the end of the year.

7. CALL MONEY MARKET

7.1 The call money rates were stable during the period from April to mid of August, 1998 due to comfortable liquidity situation. During this period the weighted average call money rates ranged from 6.23% to 7.85%. In August, 1998 the hike in CRR from 10% to 11% and repo rate from 5% to 8% siphoned off excess liquidity from the system, thereby curbed the arbitrage between different segments of financial markets. It also affected call money rates which went up sharply during the second half of August, 1998 till the beginning of September, 1998. Thereafter, the rates stabilised at around 8% till second fortnight of January, 1999 when the rates again shot up. However, the rates stabilised at around 8% from February, 1999 onwards.



7.2 The market for other money market instruments like Commercial Paper (CP) remained lacklustre throughout the financial year. The average CP floatation per month was around Rs. 800 crore with discount rate ranging from 7.25% to 13.50%.

8. COMPANY'S PERFORMANCE

8.1 During 1998-99, inspite of adverse market conditions, like higher interest rates, higher call money rates, lower underwriting commission, large private placements and tap issues by RBI and aggressive open market operations at lower than market rates, your company achieved excellent results. The total number of transactions increased from 1452 in 1997-98 to 2120 in 1998-99 mainly due to aggressive marketing efforts of the company for retailing government securities. The total turnover in securities transactions increased from Rs. 10,109 crore to Rs. 11,505 crore. The company did exceedingly well in complying with the parameters laid down by RBI for primary dealers. It achieved an outright turnover of 89 times and 13 times of the average month-end stock in respect of treasury bills and GOI dated securities as against the minimum stipulation of 6 and 3 times respectively. The overall turnover ratio was 101