ANNUAL REPORT 1999-2000

PNB GILTS LTD

An ISO 9002 Company

Contents

CONTINUING EXCELLENCE

BOARD OF DIRECTORS

Sh. S.S. Kohli, 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

Bhushan Bensal Jain Associates
Chartered Accountants
4648/21, Darya Ganj
New Delhi - 110 002

INTERNAL AUDITORS

Ernst & Young
New Delhi.

BANKERS

Reserve Bank of India
Punjab National Bank

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
Website : www.pnbgilts.com

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
Fax No. 033-2210378

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 fourth Annual Report together with the audited accounts of the company for the year ended 31st March 2000.

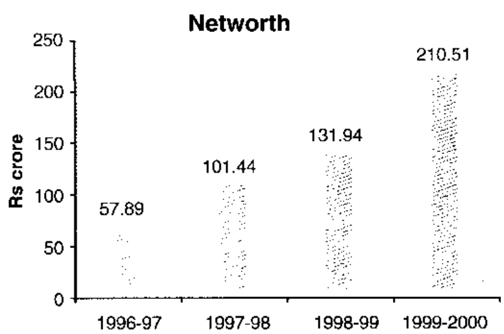
1. FINANCIAL RESULTS

The financial results for the year ended 31st March 2000 alongwith the comparative figures for the previous year are given below:

(Rs in lacs)

	31.3.2000	**31.3.99**
Total Income	26376.03	15041.33
Total Expenditure	15791.61	8900.84
Profit before tax	**10584.42**	**6140.49**
Less : Provision for Income Tax	4008.40	1881.06
Profit AfterTax	**6576.02**	**4259.43**
Add: Balance in Profit & Loss Account brought forward	67.18	69.75
Amount available for Appropriation	6643.20	4329.18
Proposed Appropriation		
Transfer to Statutory Reserves	1316.00	852.00
Transfer to General Reserves	2500.00	2200.00
Dividend	1097.24	1100.00
Income Tax on Dividend	121.69	110.00
Balance carried forward	1608.27	67.18

1.2 The company issued bonus shares in the ratio of 1:2 to the parent bank in August'99 by capitalising free reserves to the extent of Rs 25 crore. It also made a rights offer at par to PNB in the ratio of 1:3 in September 1999, thereby enhancing its paid up share capital to Rs 100 crore as at September 30, 1999. The tangible networth of the company increased to Rs 210.51 crore as at March 31, 2000, with Paid up Capital of Rs 100 crore and Reserves & Surplus of Rs 110.51 crore.



2. DIVIDEND

The company paid an interim dividend of 7.5% in December 1999 and 6.5% as on March 27, 2000 for the current financial year. The total dividend for the financial year 1999-2000 works out to14% amounting to Rs 10.97 crore (excluding dividend tax). No further dividend is being proposed. The interim dividend is proposed to be total dividend for the year.

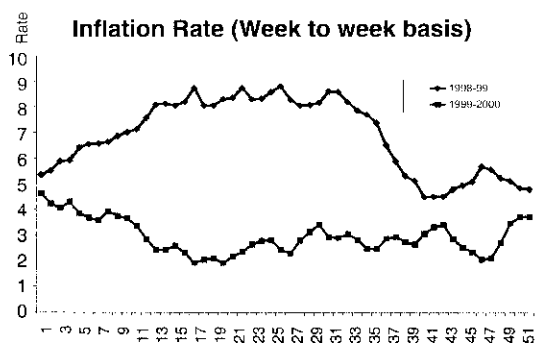
3. ECONOMIC REVIEW

3.1 The year1999-2000 was marked by a significant recovery in industrial growth, benign inflation, strong forex reserves, stable rupee, fairly easy liquidity conditions and moderate growth in money supply. The growth in real GDP during the year is estimated at around 6.4 per cent compared to 6.8 per cent in 1998-99. The deceleration is mainly on account of the slow down in the growth of agriculture and allied activities to 1.3 per cent in 1999-2000 from 7.2 per cent in 1998-99. Industry, on the other hand, has shown a definite turnaround with the overall growth at 7.5 per cent in 1999-2000 as against 3.7 per cent in 1998-99, mainly led by the manufacturing sector. The services sector is estimated to have shown a growth of 8.7 per cent, compared to 8.0 per cent in 1998-99.

3.2 Gross domestic saving declined sharply to 22.3 per cent of GDP in 1998-99 from 24.7 per cent in 1997-98. The decline is attributed to the decline of 1.4 pps in public saving and 0.5 pps each in household and private corporate sector.

3.3 Broad money (M3) grew by 13.9 per cent during 1999-2000 as against 19.4 per cent in 1998-99. The relatively low growth of M3 was possible because of sharp deceleration in the growth of reserve money to 8.1 per cent in 1999-2000 as against 14.6 per cent in 1998-99. This primarily reflected the reduction in CRR by 1.5 percentage points and the impact of market oriented monetary policy operations of RBI ensuring lower order of monetised deficit. The net RBI credit to central government during 1999-2000 declined by Rs 5587 crore, recording monetised surplus for the first time since 1977-78. Another significant trend with regard to M3 growth during the year is that the deceleration in M3 growth was recorded only towards the end whereas on point to point basis the growth in M3 remained around 15-16 percent. On the basis of monthly averages, the growth in M3 (net of RIBs) works out to 16.6 per cent as against 18.2 per cent last year.

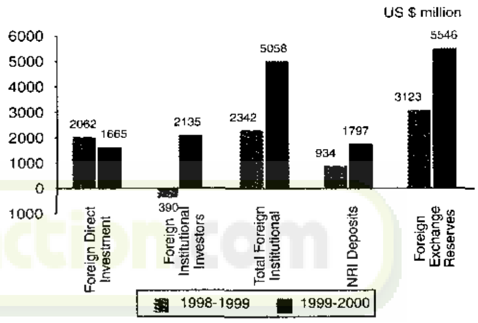
3.4 The annual rate of inflation as measured by the wholesale price index (1981-82=100) on point to point basis was 3.74 per cent as against 4.81 per cent in 1998-99. The inflation rate continued to be lower throughout the year with the lowest level of 1.95 percent achieved in July 1999 and the highest never exceeding 5 per cent. As such on the average of weeks too, the inflation rate during 1999-2000 moved down to 2.98 per cent from



6.89 per cent in 1998-99. The declining trend in annual inflation rate during 1999-2000 has been driven by the lower order of increases in prices of both primary articles and manufactured commodities by 2.8 per cent and 1.7 per cent compared to their respective increase by 11.7 per cent and 4.5 per cent in 1998-99. The fuel group, on the other hand, recorded an inflation rate of 9.5 per cent in 1999-2000 as against 4.3 per cent in 1998-99, reflecting the upward revision in diesel, kerosene and LPG prices effected during the year.

3.5 On the external front, despite a number of adverse developments in the form of domestic uncertainty, border tensions and a spurt in international crude prices, the balance of payments situation remained comfortable. Exports in dollar terms at $37.6 billion recorded a growth of 13.2 per cent in sharp contrast to a decline of 5.1 per cent in 1998-99, largely on account of a recovery in manufactured goods exports. Imports, on the other hand at $47.2 billion increased by 11.4 per cent against an increase by 2.2 per cent in 1998-99, mainly due to an increase in international oil prices. The growth in non oil imports decelerated to 2.1 per cent compared to 8.0 per cent in 1998-99. The trade deficit during 1999-2000 increased to $9.6 billion compared to $9.2 billion in 1998-99. Capital flows, led by portfolio inflows and non resident deposits continue to remain strong, enabling the build up of reserves. As on March 31, 2000 total foreign exchange reserves amounted to $ 38.04 billion, an increase by $5.55 billion during the year. The current account deficit is likely to be around 1 per cent of GDP, the same level as in the previous year mainly on account of turnaround in export growth and portfolio investment.

Capital flows & Reserve accretion



3.6 The fiscal situation, however, proved to be difficult. Net revenue collections of the central government fell short of the budgeted target by Rs 3,336 crore due to unanticipated increase in defence expenditure, cyclone in Orissa, elections etc. Consequently, gross fiscal deficit increased to Rs 1,08,898 crore as against the budgeted estimates of Rs 79,955 crore. As proportion to GDP also, the same increased from 4.0 per cent in the budget estimates to 5.6 per cent in the revised estimates. As a result, the gross market borrowings exceeded the budgeted level by Rs 15,616 crore to Rs 99,630 crore.

4. INDUSTRY STRUCTURE AND DEVELOPMENTS

4.1 Against the backdrop of above macro economic developments, the major stance of the monetary policy during the year was to facilitate adequate availablity of liquidity alongwith stable medium and long term interest rates, orderly developments of financial markets and ensuring financial stability. In line with these objectives, a number of measures were taken during 1999-2000 to enhance liquidity and reduce cost of funds to the banks. These are:

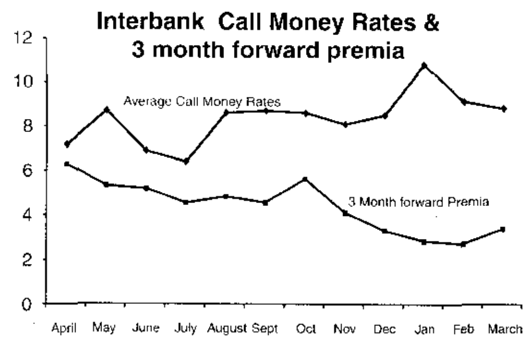
- Reduction in CRR by 1.5 percentage points.
- Withdrawal of incremental CRR of 10% on increase in liabilities under FCNR(B) scheme.
- Introduction of Liquidity Adjustment Facility (LAF) through repos and lending against collateral of Govt securities to be made operational w.e.f. June 5, 2000.
- Introduction of Interest Rate Swaps and Forward rate agreements.

4.2 In the securities market also, a number of measures were initiated so as to increase depth and liquidity in the market. More entities were allowed to operate as Primary Dealers, thereby increasing the total number of PDs to 15. Other specific measures implemented during the year include, reintroduction of 182 day treasury bills, issuing a calendar of T-bill issuances, a system of minimum bidding commitment of PDs to cover 100 per cent of the notified amount in T- bill auctions, underwriting by PDs of 100 percent of notified amounts in respect of dated securities, permission to non bank entities to borrow and lend money in the repo market and availment of special ways and means advances by State Governments against collateral of T-bills in addition to dated securities.

5. CALL MONEY MARKET

5.1 Following the above measures, the liquidity conditions in the major financial markets generally remained easy. However, the market appetite for Government securities and increased credit offtake of the commercial sector had an impact on the call money rates which averaged at 9.09 per cent compared to 8.13 per cent in 1998-99. Nevertheless, the interbank call money rates ruled steady within a narrow range except for a few bouts of volatility in the months of August, October and February. Further, the call rates were generally above the Bank rate of 8 per cent in most months of the year and moved within the informal corridor given by the bank rate and the rate of interest on Additional Collateralised Lending facility at 10 per cent.

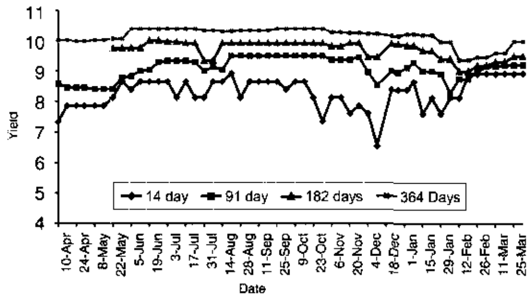
5.2 While the call money rates ruled higher in 1999-2000 than in the previous year, the average three month forward premia was lower at around 4.5 per cent during 1999-2000 compared to 7.2 per cent in 1998-99. This is mainly attributable to excess supply conditions in forex market on account of turnaround in export growth coupled with portfolio investment inflows.



6. TREASURY BILLS

6.1 The Government raised an amount of Rs 16,453 crore and Rs 8,155 crore from 14 days and 91 days treasury bills respectively. The cut off yields were higher than last year. At the shortest end, the average cut-off yield of a 14 day Treasury bill increased to 8.23 per cent in 1999-2000 compared to 7.79 per cent in 1998-99, an increase by 44 basis points. Similarly, in the case of 91 day and 364 day Treasury bills , the average cut-off yields during 1999-2000 were higher by 47 basis points and 58 basis points to 9.03 percent and 10.09 per cent respectively.

T-Bill Yield Movements



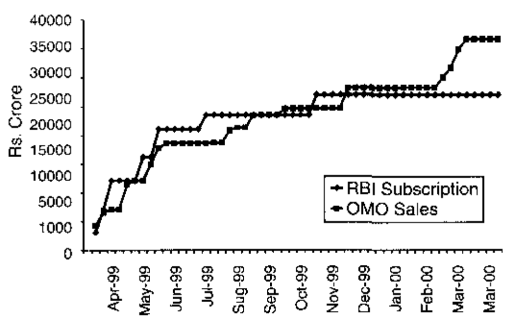
6.2 In the case of 182 day Treasury bills, the cut-off yield was largely driven by demand conditions. Between May 1999 (since its reintroduction) and end March 2000, the cut-off yield of 182 day Treasury bills declined by 24 basis points.

7. GOVERNMENT DATED SECURITIES

7.1 During 1999-2000, the gross market borrowings of the central government including the fresh issue of 364 day Treasury bills amounted to Rs 99,630 crore against the budget of Rs 84,014 crore. The net market borrowing was Rs 73,077crore against the budget of Rs 57,461 crore. Of the total borrowings of Rs 99,630 crore during the year, Rs 57,500 crore was raised through auction of Dated securities, Rs 27,000 crore through private placement, Rs 2,130 crore through tap sale and Rs 13,000 crore through 364 day Treasury bill auctions

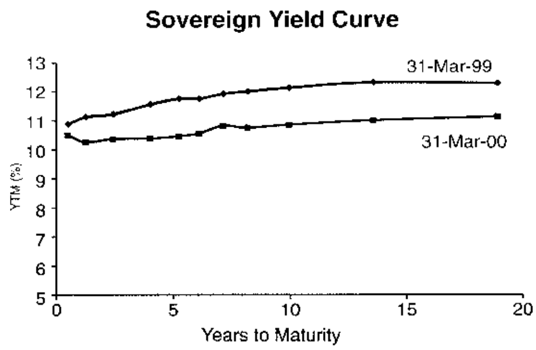
7.2 In the absence of any major domestic and international uncertainty, the market sentiments during 1999-2000 remained quite positive. There was a strong demand for government securities by banks, financial institutions and mutual funds. As such the need for initial subscription from the Reserve Bank of India through private placement and devolvement was relatively lower compared to last year. The total subscription by RBI by way of private placement of Dated securities and devolvement of 364 day Treasury bills amounted to Rs 29,267 crore as against Rs 39,777 crore in 1998-99. Further, due to favourable macro

RBI subscription vs.net OMO sales



economic environment, RBI used the open market window to release the securities from its portfolio. During the year, the net open market sale of securities amounted to Rs 30,861 crore as against Rs 29,669 crore in 1998-99. As a result of aggressive open market operations of RBI, the net monetised deficit declined by Rs 5,587 crore in contrast to an increase by Rs 11,800 crore during 1998-99 and by Rs 12,914 crore in 1997-98.

7.3 During 1999-2000, the major focus of the debt management strategy was to elongate the maturity profile of marketable debt so as to avoid bunching of redemption with consequent pressure on sustainability of gross market borrowing programme. Consequently, there was no issue of dated securities up to 5 years. Furthermore, as much as 65% (Rs 56630 crore) of the total Dated securities (Rs 86630 crore) issued during the year was above 10 year maturity. Thus the weighted average maturity of central government market borrowing increased from 7.7 years in 1998-99 to 12.64 years in 1999-2000. Notwithstanding the concentration of borrowing at the longer end of maturity, the overall borrowing cost to the government declined during 1999-2000. The cut-off yield on a 10 year security declined steadily from 12.25 per cent in December 1998 to 11.99 per cent in April 1999 and further to11.59 per cent in August 1999. The yield on a 20 year paper declined from 12.60 per cent in January 1999 to 12.42 per cent in May 1999 and to 12.05 per cent in October 1999. As a result, the weighted average cut-off yield declined to11.77 per cent in 1999-2000 from 11.86 per cent in 1998-99. In the secondary market too, the yields on 7 year and 10 year maturity were nearly 110-120 basis points lower at end March 2000 than those prevailing a year ago.



7.4 The aggregate volume of transactions in government securities (outright as well as repos) more than doubled to Rs 5,39,233 crore in 1999 - 2000 from Rs 2,27,228 crore in 1998-99. As much as 85 per cent (Rs 4,56,493 crore) of the transactions were on outright basis. In this, the contribution of mutual funds, PFs, pension funds etc. had been substantial.

8. COMPANY'S PERFORMANCE

Financial performance

8.1 During the year the company performed exceedingly well. Total income of the company increased from Rs 150.41 crore in 1998-99 to Rs 263.76 crore in 1999-2000, an increase by more than 75 per cent. Profit before tax increased from Rs 61.40 crore in