

Annual Report 2000-2001



**PNB
GILTS
LTD**

An ISO 9002 Company

BOARD OF DIRECTORS

Sh. S.S. Kohli, Chairman
Sh. T.S. Narayanasami, Director
Dr. O.P. Chawla, Director
Dr. Kamal Gupta, Director
Sh. S.K. Awasthi, 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 5759/332 5779
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,
Kolkatta - 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

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NOTICE

NOTICE is hereby given that the Fifth Annual General Meeting of the Members of PNB GILTS LIMITED will be held at FICCI Auditorium, Federation House, Tansen Marg, New Delhi 110 001 on Thursday 16th August 2001 at 3.30 p.m. to transact the following business :

ORDINARY BUSINESS

1. To receive, consider and adopt the Balance Sheet as at 31st March, 2001 and Profit and Loss Account for the year ended on that date and the Reports of the Directors and Auditors thereon.
2. To declare dividend on Equity Shares for the year ended 31st March, 2001.
3. To appoint a Director in place of Shri S.S.Kohli, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint a Director in place of Dr. Kamal Gupta, who retires by rotation and being eligible, offers himself for reappointment.
5. To appoint Auditors for the year 2001-02 and fix their remuneration.

SPECIAL BUSINESS

6. To consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution :-

"RESOLVED THAT Sh. T.S.Narayanasami, Executive Director of Punjab National Bank, who has been co-opted as Director of the company and who in terms of Section 260 of the Companies Act, 1956 holds office as Additional Director until this Annual General Meeting, and for the appointment of whom the company has received a notice under Section 257 of the Companies Act, 1956 from a member proposing his candidature for the office of the Director, be and is hereby appointed as Director of the Company whose period of office will be liable to determination by retirement by rotation."

7. To consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution :-

"RESOLVED THAT Sh. S.K. Awasthi, General Manager of Punjab National Bank, who has been co-opted as Director of the company and who in terms of Section 260 of the Companies Act, 1956 holds office as Additional Director until this Annual General Meeting, and for the appointment of whom the company has received a notice under Section 257 of the Companies Act, 1956 from a member proposing his candidature for the office of the Director, be and is hereby appointed as Director of the Company whose period of office will be liable to determination by retirement by rotation."

BY ORDER OF THE BOARD

Place : New Delhi
Date : July 11, 2001

(Monika Kalia)
Company Secretary





NOTES FOR MEMBER'S ATTENTION :

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER.
2. THE INSTRUMENT APPOINTING PROXY SHOULD, HOWEVER, BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN FORTY EIGHT HOURS BEFORE THE COMMENCEMENT OF THE MEETING.
3. An Explanatory Statement pursuant to Section 173 of the Companies Act, 1956, relating to Special Business to be transacted at the meeting, is annexed hereto.
4. The Register of Members and Share Transfer Books of the company will remain closed from Wednesday 18th July, 2001 to Wednesday 25th July, 2001 (both days inclusive) for the purpose of payment of dividend.
5. The dividend, as recommended by the Board, if sanctioned at the meeting, will be paid on or after 16th August, 2001 to those members or their mandates whose names stand registered on the Company's Register of Members :-
 - a) As Beneficial Owners as at the end of the business on 17th July, 2001, as per the lists to be furnished by National Securities Depository Limited and Central Depository Services (India) Limited in respect of the shares held in electronic form, and
 - b) As Members in the Register of Members of the company after giving effect to valid share transfers in physical form lodged with the company on or before 17th July, 2001.
6. Members are requested to notify the Company change of address, if any, with pincode, quoting reference of their folio number.
In case the mailing address mentioned on this Annual Report is without the PINCODE, members are requested to kindly inform their PINCODE immediately.
7. The members holding shares in the dematerialised mode are requested to intimate all changes with respect to their bank details, mandate, nomination, power of attorney, etc. to their depository participant (DP). These changes will be automatically reflected in the Company's records which will help the company to provide efficient and better service to members.
8. Under the provisions of Section 109A and 109B of the Companies Act, 1956, every individual member is entitled to nominate in the prescribed manner, a person to whom his/her shares in the Company, shall vest in the event of his/her death. Members who are interested in availing this nomination facility are requested to write to the company.
9. Details under Clause 49 of the Listing Agreement with the Stock Exchanges in respect of Directors seeking appointment/reappointment at the Annual General Meeting, is contained in the Explanatory Statement for the item of Special Business and is separately annexed hereto for the item of Ordinary Business.
10. The Company's shares are listed on the Stock Exchanges at Delhi, Mumbai and National Stock Exchange. The listing fees of these Exchanges have been paid in time.



ANNEXURE TO NOTICE

I. EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

ITEM NO. 6

Sh. T. S. Narayanasami, Executive Director of Punjab National Bank was co-opted as an Additional Director in the Board Meeting held on April 11, 2001. Under Section 260 read with Article 101 of the Articles of Association of the company, Sh. T.S. Narayanasami vacates the office on the forthcoming Annual General Meeting.

A notice has been received from a member as required under Section 257 of the Companies Act, 1956 proposing Sh. T.S. Narayanasami as a candidate for the office of Director.

Sh. T.S.Narayanasami was formerly Field General Manager with Union Bank of India. He is also Director of PNB Capital Services, PNB Housing Finance Ltd., PNB Asset Management Company Ltd. He has a vast experience of 32 years in the field of banking.

The Board considers it desirable that the company should continue to avail services of Sh. T.S. Narayanasami as a Director and accordingly recommends this resolution for approval of members.

Sh. T.S.Narayanasami may be deemed to be interested or concerned in the Resolution at Item No. 6.

ITEM NO. 7

Sh. S.K.Awasthi, General Manager of Punjab National Bank was co-opted as an Additional Director in the Board Meeting held on December 5, 2000. Under Section 260 read with Article 101 of the Articles of Association of the company, Sh. S.K. Awasthi vacates the office on the forthcoming Annual General Meeting.

A notice has been received from a member as required under Section 257 of the Companies Act, 1956 proposing Sh. S.K. Awasthi as a candidate for the office of Director.

Sh. S.K. Awasthi is also Director of PNB Securities Limited, Patliputra Gramin Bank Ltd., Alwar Bharatpur Anchalik Gramin Bank. He has a vast experience in the field of banking.

The Board considers it desirable that the company should continue to avail services of Sh. S.K. Awasthi as a Director and accordingly recommends this resolution for approval of members.

Sh. S.K. Awasthi may be deemed to be interested or concerned in the Resolution at Item No. 7.

II DETAILS OF DIRECTORS SEEKING REAPPOINTMENT IN FIFTH ANNUAL GENERAL MEETING

ITEM NO. 3 & ITEM NO. 4

Name of Director	Sh. S.S. Kohli	Dr. Kamal Gupta
Date of Birth	10/4/45	12/2/46
Date of Appointment	24/4/2000	11/4/96
Expertise in specific functional area	Chairman and Managing Director, Punjab National Bank	Former Technical Director, The Institute of Chartered Accountants of India
Qualification	B.E. (Mech. Engg.), Associate of Indian Institute of Bankers Diploma in Industrial Finance from Indian Institute of Bankers	FCA, Ph.D.





List of outside Directorship held	Punjab National Bank PNB Housing Finance Ltd. PNB Capital Services Ltd. PNB Asset Management Co. Ltd. Indian Banks Association The Delhi Stock Exchange Association Ltd. Small Industrial Development Bank of India Ltd. The Oriental Insurance Co. Ltd.	Rajasthan Spinning and Weaving Mills Ltd. H.E.G. Ltd. Maral Overseas Ltd. Malana Power Company Ltd.
Chairman/Member of the Committee of the Board of Directors of the company	NIL	Audit Committee, Chairman
Chairman/Member of the Committees of Director of other Companies in which he is a Director		
a) Audit Committee	NIL	Rajasthan Spinning and Weaving Mills Ltd., Chairman Maral Overseas Ltd., Chairman Malana Power Company Ltd. Member H.E.G. Ltd., Member
b) Shareholders' Grievance Committee	NIL	Rajasthan Spinning and Weaving Mills Ltd.-Chairman Maral Overseas Ltd.-Chairman H.E.G. Ltd. - Chairman
c) Remuneration Committee	NIL	NIL

By order of the Board

Place : New Delhi
Date : July 11, 2001

(Monika Kalia)
Company Secretary





DIRECTORS' REPORT

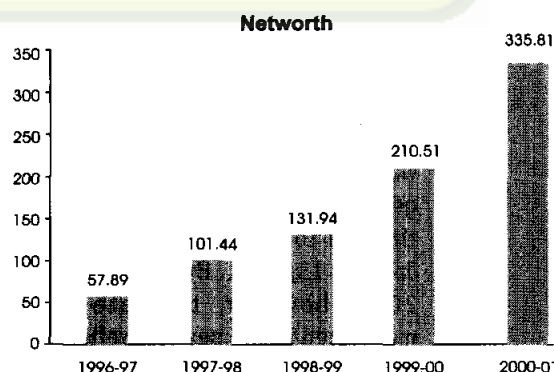
Your Directors have pleasure in presenting the Fifth Annual Report together with the audited accounts of the company for the year ended March 31, 2001.

1. FINANCIAL RESULTS

The financial results for the year ended March 31, 2001 alongwith comparative figures for the previous year are given below:

	31.3.2001	(Rs in lacs) 31.3.2000
Total Income	22464.02	23635.06
Total Expenditure	14395.45	13050.64
Profit Before Tax	8068.57	10584.42
Less : Provision for Income Tax	3363.51	4008.40
Profit After Tax	4705.06	6576.02
Add: Balance in Profit & Loss Account brought forward	1608.27	67.18
Amount available for Appropriation	6313.33	6643.20
Proposed Appropriations		
Transfer to Statutory Reserve	950.00	1316.00
Transfer to General Reserve	360.00	2500.00
Dividend	2430.14	1097.24
Dividend tax	247.87	121.69
Balance carried forward	2325.32	1608.27

- 1.1** To augment long term resources, rationalise average leveraging levels and reduce dependence on external sources of funds, the company came out with an Initial Public Offer of 3.5 crore equity shares of Rs 10 each at a premium of Rs 20 per share in July 2000. The IPO was fully subscribed and with this issue, the paid-up capital of the company increased to Rs 135 crore. The shareholding of Punjab National Bank reduced to 74.07 per cent. The tangible network of the company as on March 31, 2001 stood at Rs 335.81 crore. Capital adequacy ratio as on March 31, 2001 stood at 43.42 per cent against the RBI stipulation of a minimum of 15 per cent



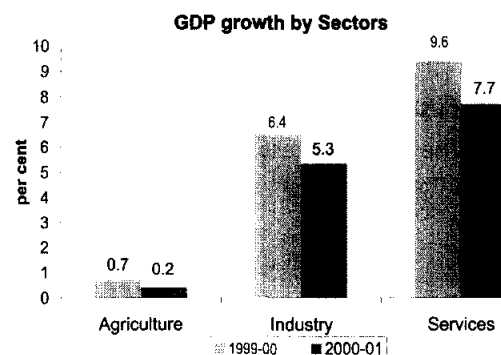
2. DIVIDEND

The company has proposed 18 per cent dividend for the financial year 2000-01 amounting to Rs 24.30 crore (excluding dividend tax).

3. ECONOMIC REVIEW

- 3.1** During 2000-01, the Indian economy faced challenges on several fronts, which had a bearing on macro economic performance. The continuing strength of the US economy, persistent hardening of international crude oil prices imparting an upward drift to inflation, volatility in the forex market and the large government borrowing programme necessitated tactical conduct of monetary policy in pursuit of a low and stable interest rate regime.

3.2 Notwithstanding these challenges, the growth in real GDP during the year is estimated at around 5.2 per cent compared to 6.4 per cent in 1999-00. The growth in agricultural sector was at 0.2 per cent during 2000-01 as against 0.7 per cent in the previous year. Industrial growth, however, after a turnaround in 1999-00 has slowed down during 2000-01 with overall industrial growth estimated at 5.3 per cent as against 6.4 per cent in 1999-00. The lower growth was mainly due to downturn in the growth of manufacturing sector. The growth of manufacturing sector decelerated to 5.6 per cent from 6.8 per cent last year. The electricity sector also showed a lower growth of 4.7 per cent against 5.2 per cent last year. The mining sector, on the other hand, showed a higher growth of 3.7 per cent against 1.7 per cent last year. The services sector is estimated to have shown a growth of 7.7 per cent in 2000-01 compared to 9.6 per cent in 1999-00.

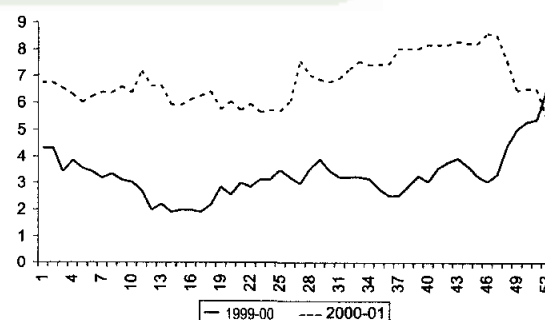


3.3 Gross Domestic Saving moved up marginally to 22.3 per cent in 1999-00 from 22.0 per cent in 1998-99, mainly on account of an improvement in the rate of household savings in physical assets. On the other hand, the rate of financial savings by households declined to 10.5 per cent in 1999-00 from 10.9 per cent in 1998-99.

3.4 The annual growth in money supply (M3) on point to point basis at 16.2 per cent during 2000-01 was higher than 14.6 per cent in 1999-00. This was mainly due to large inflows amounting to Rs 25,664 crore of India Millennium Deposits (IMDs). Net of IMD inflows, the annual growth in M3 works out to 13.9 per cent. The increase in reserve money at 8.3 per cent during 2000-01 was more or less comparable to that of 8.1 per cent in 1999-00. The expansion in reserve money largely emanated from increase in net foreign exchange assets, while the monetisation of central government deficit was Rs 9,023 crore.

3.5 The annual rate of inflation as measured by the wholesale price index on point to point basis was 7.1 per cent during 2000-01 compared to 3.3 per cent recorded in 1999-00. The rate generally ruled above 6 per cent throughout the year touching a peak of 8.8 per cent on January 13, 2001. By the first week of March 2001, however, the rate of inflation moderated to 6.5 per cent reflecting the base effect and partly the completion of pass through of administered price hikes into the general price level. As a result, the inflation rate fell sharply to 4.9 per cent by the end of March as against 6.8 per cent in 1999-00. The rise in WPI was mainly due to increase in prices of Fuel group recording, on an average basis an increase of 28.4 per cent compared to 9.0 per cent a year ago. Excluding Fuel group, the inflation rate averaged around 4 per cent.

Weekly inflation rate on point to point basis



3.6 The external sector developments during 2000-01 were significantly influenced by high international crude prices combined with successive increase in interest rates in the US and Europe and lower capital inflows. Exports in dollar terms at \$44.4 billion recorded a growth



of 20.8 per cent during 2000-01. Imports, on the other hand at \$49.7 billion declined by 0.2 per cent. With buoyant growth in exports and decline in imports, the trade deficit during 2000-01 declined to \$ 5.3 billion against \$13.0 billion during 1999-00. Current account deficit is also lower at 0.5 per cent of GDP as against 1 per cent last year. The lower deficit was despite net invisible earnings being lower at \$12.1 billion compared to \$13.1 billion last year. However, despite a robust growth of

merchandise trade, there was a decline in the country's forex assets by \$2.5 billion in the first six months of the year. Forex market also witnessed considerable instability with rupee depreciating against dollar by 5.3 per cent during the first six months of the year. The successful launch of the IMD scheme by the State Bank of India attracting deposits of US \$ 5.5 billion, led to restoration of confidence in Indian economy and there was a complete turnaround in the forex market. As a result, excluding the effect of the IMD scheme, there was actually an increase of \$1.5 billion in India's foreign currency assets during the second half of the year as against a decline of \$2.5 billion in the first half of the year.



- 3.7 The fiscal situation remained within control despite shortfall in tax collections, mainly on account of expenditure compression measures. Net revenue collections of the central government witnessed a shortfall of Rs 15,178 crore over the revised estimates on account of shortfall in both tax and non tax revenue. Expenditure reduction was effected in both plan and non plan categories. As a result, the total expenditure is lower by Rs 15,913 crore over the revised estimates. The fiscal deficit of the Central government at Rs 1,14,369 crore thus was only marginally higher than the revised estimates of Rs 1,11,972 crore. As proportion to GDP, it constituted 5.2 per cent. As a result of the containment of fiscal deficit within the budgeted levels, the market borrowing programme of the central government was put through without any pressure on interest rates.

4. FINANCIAL MARKETS

- 4.1 During the year, money market conditions were influenced by short term developments in the currency market and policy intervention of the Reserve Bank aimed at promoting stability in the entire financial market spectrum. Initially, on account of easy liquidity conditions buoyed by strong capital flows, the Reserve Bank of India continued to ease monetary conditions and effected reduction in
- CRR by one percentage point to 8 per cent
 - Bank rate by one percentage point to 7 per cent
 - Repo rate by one percentage point to 5 per cent
 - Saving deposit rate by 0.5 percentage point to 4.5 per cent.
- 4.2 In view of the sharp increase in oil import bill and the drying up of capital flows, the situation changed dramatically in May 2000. To contain the ensuing volatility in the exchange rate, the Reserve Bank of India announced measures to reduce volatility in the foreign exchange market. It also modulated the liquidity conditions to maintain interest levels sufficiently high to discourage speculations in the foreign exchange market and thus prevent diversion of funds from the money market to the forex market. With continuous depreciation in the exchange rate of the rupee to Rs 45.02 per US dollar on July 21, 2000, the Reserve Bank

tightened the monetary conditions through a package of measures which included:

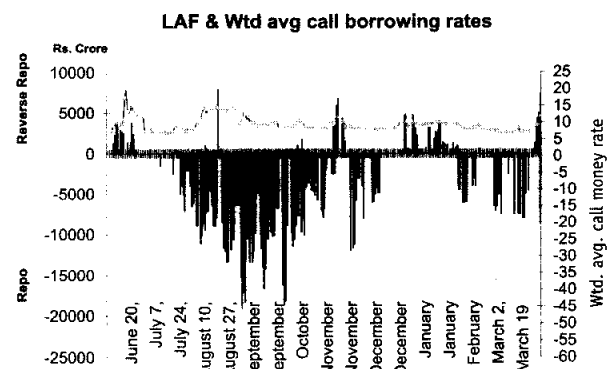
- Increase in bank rate by one percentage point to 8 percent
- Hike in CRR by 0.5 percentage point to 8.5 per cent
- Temporary reduction in all refinance limits available to banks by 50 per cent

From November 2000, the liquidity conditions eased due to inflows of US \$ 5.5 bn under the India Millennium Deposits scheme. Subsequently, RBI reversed these monetary tightening measures and reduced the bank rate and CRR to 7 per cent and 8 per cent in February 2001.

5. LIQUIDITY ADJUSTMENT FACILITY AND CALL MONEY RATES

5.1 The most significant monetary measure introduced during the year relate to the transition to a full fledged Liquidity Adjustment Facility (LAF) on June 5, 2000. The scheme operated both as a tool for liquidity management and for interest rate signalling depending upon market conditions. In the first phase of the scheme, the Additional Collateralised Liquidity Facility (ACLF) for banks and Level II liquidity support to primary dealers available at bank rate + two percentage point was replaced by

variable reverse repo auctions. Besides, the fixed rate repo was also replaced by variable repo auctions. The quantum of adjustment as well as the rates under LAF were flexible in response to the changing/emerging needs of the system. At the same time, the funds made available by RBI through this facility were designed to meet primarily the day to day liquidity mismatches in the system and not the normal financing requirements of the system. Repo/reverse repo auctions were conducted on daily basis except Saturdays, with a tenor of one day except on Fridays and days preceding the holidays. Interest rates in respect of both repo and reverse repos were decided through cut-off rates emerging from auctions conducted by RBI on uniform price basis. In August 2000, RBI also introduced special repo auctions of tenor ranging from 3 to 7 days maturity to absorb excess liquidity.



5.2 Inter bank call money rates generally remained easy during 2000-01 except for spurts in June and August. Initially on account of easy liquidity conditions, call money rates moved in a range defined by fixed rate repo (5 per cent) and slightly above the bank rate (7 per cent). In the month of June, advance tax payments and volatility in the foreign exchange market caused a spurt in call money rates to around 20%. Spot sales of US dollars and injection of liquidity by RBI through reverse repo route under its newly introduced LAF helped to ease liquidity conditions and call money rates moved in tandem with the reverse repo rates. In the beginning of August, again with pressures on foreign exchange market building up, RBI mopped up substantial liquidity under repo auctions at 14-15 per cent. This led to sharp increase in call rates to 14 per cent during most part of August 2000. Subsequent restoration of stability in forex market and improvement in liquidity conditions with IMD inflows, repo cut-off rates were progressively reduced and call rates also eased.

6. TREASURY BILLS

6.1 The government raised an amount of Rs 10,680 crore and Rs 7,605 crore from 14 days and 91 days treasury bills respectively. In the case of 364 days treasury bills, the notified amount