Annual Report
2002 - 2003

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. Soni, Director
Sh. Arun Kaul, Director
Sh. I.D. Singh, Managing Director

STATUTORY AUDITORS

Raj K. Aggarwal & Associates
Chartered Accountants
3072/41, Gola Market
Darya Ganj, New Delhi - 110 002

INTERNAL AUDITORS

Ernst & Young Pvt. Ltd.
New Delhi

BANKERS

Reserve Bank of India
Punjab National Bank

REGISTERED CUM CORPORATE OFFICE

5, Sansad Marg, New Delhi - 110 001.
Tel: 011-2332 5759/2332 5779
Fax: (011)-23325751
E-mail: pnbgilts@del2.vsnl.net.in
Website : www.pnbgilts.com

BRANCHES

PNB House, Sir P.M. Road,
Fort, Mumbai - 400 001.
Tel: 022-22691812/22693314/15
Fax No. 022-22691811/22692248

Sudershan Building,
14, Whites Road,
Chennai - 600 014.
Tel: 044-28591750/51
Fax No. 044-28591751

6A, Clive Row,
Kolkatta - 700 001.
Tele. 033-22210394/22210395
Fax No. 033-22210378

Navdeep House,
Near Income Tax Circle,
Ashram Road, Ahmedabad - 380 014.
Tel. No. 079-7582506/7
Fax No. 079-7541808

Vokkaligara Sangha Building,
Hudson Circle,
Bangalore - 560 027
Tel.: 080-212 7884
Fax: 080-212 7883

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Continuing Excellence

Letter to Shareholders

Dear Shareholders,

I feel proud to share with you that your company has registered yet another year of excellent performance. The year was indeed quite eventful. On the one hand, the yields on debt securities went down by 115 basis points as at March 31, 2003. On the other, indifferent monsoon, Indo-Pak border tension and US-Iraq war kept the market on tenterhooks. Your company once again proved its capabilities by posting a net profit before tax of Rs 150.01 crores and net profit after tax of Rs 92.51 crores. As a result, the company-which started with an equity capital of only Rs 50 crores in 1996 – has crossed the major threshold of Rs 500 crores of net owned funds and able to declare a dividend of 25% for the year.

If we look back at our performance, we find that the conducive market environment contributed to our progress. But it also made us think and devise strategies to maintain consistent growth. The management of your company is totally committed to enhance shareholder value and has taken initiatives to not only maintain the growth but also improve it. Foreseeing the competitive market scenario, major marketing initiatives have been taken to develop the mid-segment market. Vigorous efforts are being made to improve the turnover ratio without in any way diluting the very strict risk parameters which have been laid down. The company has also decided to diversify into merchant banking and other fee-based activities so that new revenue streams are also opened up. An exercise has been undertaken to draw up a medium and long range plan so that advantage can be taken of all opportunities which the fast growing debt market in India may offer. I am very pleased to share with you that these efforts have already started bearing fruit.

May I take this opportunity to assure you that your company is in the hands of a competent team of professionals. They do not treat themselves as just employees, but are a part of a cohesive family; and I feel immense happiness that this family strongly believes in continuous growth to maintain its position at the top. I am sure that with your support and guidance your company will succeed in this endeavaour.

Thank you,

S.S.Kohli
Chairman

Directors' Report

Your Directors have pleasure in presenting the Seventh Annual Report together with the audited accounts of the company for the year ended March 31, 2003.

1. FINANCIAL RESULTS

The financial results for the year ended March 31, 2003 along with comparative figures for the previous year, are given below:

(Rs in lacs)

	31.3.2003	**31.3.2002**
Total Income	23009.39	23439.40
Total Expenditure	8008.16	5813.11
Profit before tax	**15001.23**	**17626.29**
Less : Provision for Income Tax	5741.06	6354.00
Less : Adjustment for Deferred Tax	9.07	12.92
Profit after Tax	**9251.10**	**11259.37**
Add: Balance in Profit & Loss Account brought forward	6828.81	2325.32
Amount available for Appropriation	16079.91	13584.69
Proposed Appropriations		
Transfer to Statutory Reserve	1851.00	2252.00
Transfer to General Reserve	926.00	1126.00
Dividend	3375.18	3240.18
Dividend tax	259.47	137.70
Market Fluctuation reserve	2700.00	--
Balance carried forward	6968.26	6828.81

Interest rates and therefore the market values of Government Securities are subject to wide fluctuations. To reflect these market volatilities and also the changes in the monetary and external environment on the operations of the company, the Board of Directors has decided to voluntarily appropriate a suitable sum out of the net profits of the company each year to a special reserve termed as "Market Fluctuation Reserve" from the year 2002-2003 onwards (to the extent of equity capital over a period of time).

The tangible net-worth of the company as on March 31, 2003 stood at Rs.472.45 crore. Capital adequacy ratio as on March 31, 2003 stood at 18.89 per cent against the RBI stipulation of 15 per cent.

2. DIVIDEND

The company had paid an interim dividend of 10 per cent amounting to Rs 13.50 crore for the financial year 2002-03. Now, the Board of Directors has recommended a final dividend of 15 per cent for the financial year 2002-03 amounting to Rs. 20.25 crore. Thus, the total dividend for the year 2002-03 aggregates to 25 per cent totaling Rs.36.35 crore (including dividend tax).

3. OTHER MATTERS

3.1 Directors

As per Article 101 of the Articles of Association Sh. T.S. Narayanasami and Sh. S.K. Awasthi retire by rotation in the forthcoming Annual General Meeting and are eligible for re-appointment.

3.2 Directors' Responsibility Statement

Pursuant to Section 217(2AA) of the Companies (Amendment) Act 2000, the Directors confirm that in the preparation of the annual accounts:

- the applicable accounting standards have been followed.
- appropriate accounting policies have been selected and applied consistently, judgements and estimates made are reasonable and prudent so as to give true and fair view of the state of affairs of the company at the end of the financial year ended March 31, 2003 and the profit and loss account for the year ended March 31, 2003.
- Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
- The annual accounts have been prepared on a going concern basis.

3.3 Internal Control Systems & their adequacy

M/s Raj K Aggarwal and Associates, Chartered Accountants, Delhi were appointed as the Statutory Auditors of the company by the Comptroller & Auditor General of India for the financial year ended 31st March 2003. The report of the auditors is self-explanatory.

The company considers Internal Audit to be a very significant part of its corporate governance practices. For the year 2002-03, the Board appointed M/s Ernst & Young Pvt. Ltd. as the internal auditors of the company. The scope of Internal Audit included audit of treasury transactions on a monthly basis and reporting to the Audit Committee of the Board that the company has operated within the limits of various risk parameters laid down by the Board, Reserve Bank of India and other statutory authorities. Besides, they also audited other key business operations of the company on quarterly basis. All the reports of the Internal Auditors were submitted to the Audit Committee as well as Reserve Bank of India. The company is also evolving an in-house internal audit system whereby this function is performed by a senior and independent official of the company.

3.4 Human Resources

Total number of employees of the company as on March 31, 2003 is 44. The company has maintained peaceful and harmonious relations with its employees.

The information required under the Section 217 of the Companies Act , 1956 read with the companies (Particulars of Employees)(Amendment) Rules, 2002 be treated as NIL as none of the employees of the company draws remuneration in excess of Rs 2,00,000/- p.m. No employee is related to any director of the company.

3.5 Particulars required to be furnished by the Companies (Disclosure of particulars in the report of the Board of Directors/Rules , 1988).

a) Parts A & B pertaining to the conservation of energy and technology absorption are not applicable to the company.

b) Foreign Exchange earnings and outgoing :

The company has neither used nor earned any foreign exchange during the year under review.

Directors' Report ...contd.

3.6 Public Deposits

During the year ended March 31, 2003, your company has not accepted any deposits from the public within the meaning of the provisions of the Non- Banking Financial Companies (Reserve Bank) Directions, 1977 and circular dated 31st January 1998.

3.7 Acknowledgement

Your directors thank Government of India, Reserve Bank of India, Punjab National Bank, Commercial, Cooperative & Regional Rural banks, Financial institutions, PF trusts, public sector undertakings and private sector corporate bodies and other valued clients for their whole- hearted support.

We acknowledge the sincere and dedicated efforts put in by employees of the company at all levels, which has enabled the company to position itself as knowledge-based, research-oriented and quality-conscious company.

Date: 12th May, 2003
Place: New Delhi

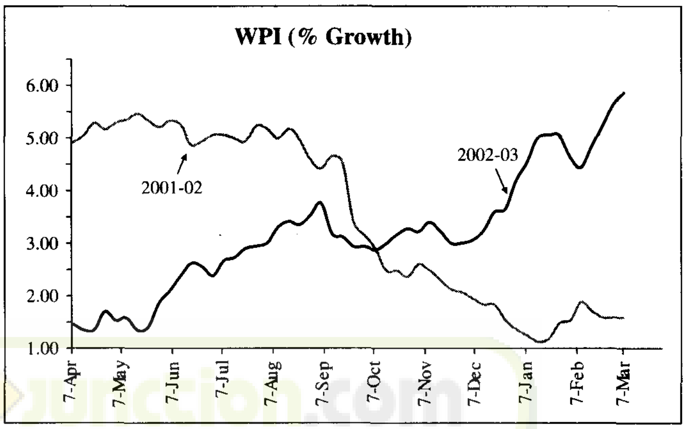
(S. S. Kohli)
Chairman

Management Discussion and Analysis

Macroeconomic Review

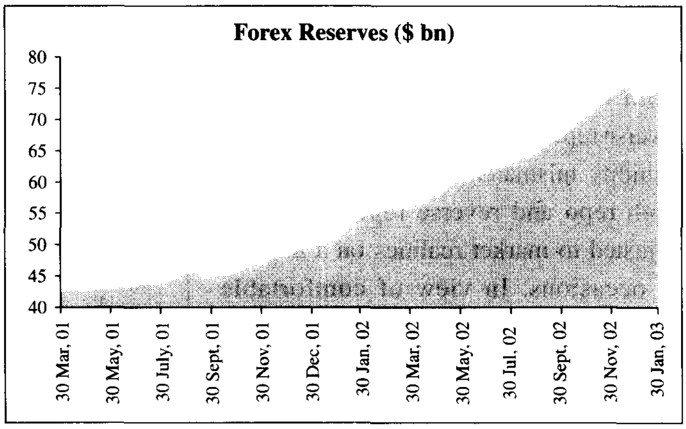
Fiscal 2002-03 was yet another difficult year for the Indian economy as poor monsoon and the consequent drought led to the economy performing much lower than potential. However, the impact of poor performance in agriculture was to some extent mitigated by a strong resurgence in the Industrial and Services sector. Real GDP is therefore estimated to grow by 4.4 per cent in 2002-03 - against 5.6 per cent achieved in 2001-02.

Monetary conditions remained stable during the year 2002-03. The annual growth in money supply, M3 (net of mergers) on point-to-point basis at 12.1 per cent during 2002-03 was marginally lower than 14.4 per cent in 2001-02. The increase in reserve money at 9.2 per cent during 2002-03 was also lower than that of 11.4 per cent in 2001-02. The increase was entirely on account of increase in net foreign exchange assets of RBI which swelled by 26.8 per cent during the year. The slowdown in expansion of reserve money was due to a 21.1 per cent decline in net RBI credit to government.



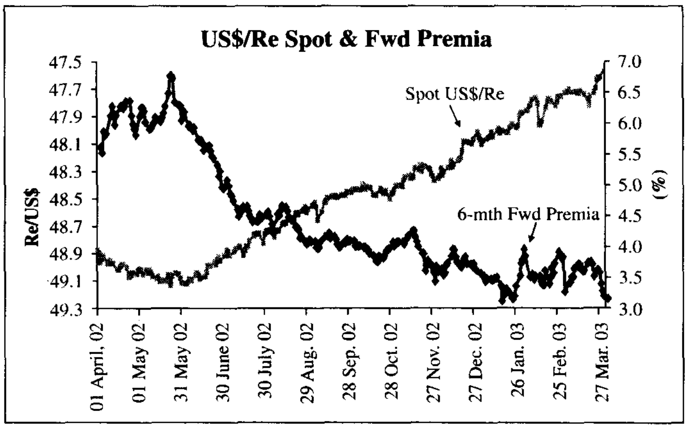
The annual rate of inflation, measured on the basis of point-to-point variations in the wholesale price index (WPI), increased from 1.4 per cent in March-end 2002 to 6.2 per cent by March-end 2003. The rise in inflation in the last quarter of 2002-03 was primarily on account of low-base effect, higher global crude prices and the drought leading to high prices of primary articles. Despite the year-end spike in inflation, on a weekly average basis, WPI inflation ebbed during the year and stood at 3.4 per cent during 2002-03 as against 3.7 per cent in 2001-02.

The foreign exchange market remained broadly stable during the year except for a brief period of uncertainty due to border tensions in May 2002. Over the remaining months, large forex inflows resulted in the strengthening of the domestic currency. The foreign exchange reserves increased by US $ 21.3 billion during 2002-03 to US $ 75.4 billion. The increase in reserves was almost entirely on account of foreign currency assets despite prepayment of the multilateral debt amounting to US $ 3.0 billion. Positive exchange rate expectations, a freer trade and payments regime, burgeoning international reserves and improving fundamentals provided a congenial environment for larger inflows.



Management Discussion and Analysis ...contd.

The exchange rate of the Rupee vis-a-vis the US dollar moved within a range of Rs.47.51-49.06 per US dollar during the year, appreciating by 2.7 per cent between April 2002 and March 2003. In the forward segment, the premia declined steadily during the year. The six-month forward premia declined to 3.5 per cent levels by March 2003.



The Union budget for 2002-03 had envisaged ongoing fiscal consolidation through higher growth in revenue (15.3 per cent) and a relatively moderate growth (12.6 per cent) in aggregate expenditure. In the revised estimates for 2002-03, all the key deficit indicators were placed higher than their budgeted levels despite a decline in aggregate expenditure. The deterioration was mainly due to shortfalls in revenue receipts and significantly lower divestment proceeds in relation to budgetary projections. As a result, the net market borrowings of the Central government amounted to Rs 1,04,118 crore against the budgeted level of Rs.95, 859 crore.

Call Money Market & LAF

Liquidity conditions remained buoyant during the major part of year propelled by large forex inflows. Call rates thus pierced the floor provided by LAF repo rate. In the initial part of the year, the spurt in call rates was a result of aggressive mobilizations by central government in the primary market coupled with the heightened geopolitical risk on account of Indo-Pak tensions. The volatility in the closing months of the year was primarily caused by huge OMO and State loan sales coupled with the heightened geopolitical risk on account of US-Iraq tensions. Despite these periods of tightness, on an average call rates at 5.84 per cent were only marginally higher than the average LAF repo rate of 5.66 per cent.

During the year, RBI used its Liquidity Adjustment Facility (LAF) with greater effect to modulate short-term liquidity conditions in the system. Both daily and fortnightly repo and reverse repo auctions were used to balance liquidity mismatches in money markets. Both repo and reverse repo rates were adjusted to market realities on a number of occasions. In view of comfortable liquidity, the repo rate was reduced by 100 basis points to 5.0 percent in three stages. While the LAF repo facility was used almost throughout the year, the need for LAF reverse repo facility arose on only a few occasions.