

8th *Annual Report*
2003-04

Report  Junction.com

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GILTS **PNB**
GILTS **LTD**

AN ISO 9002 Company

BOARD OF DIRECTORS

Sh. S.S. Kohli, Chairman
 Dr. O.P. Chawla, Director
 Dr. Kamal Gupta, Director
 Sh. S.K. Soni, Director
 Sh. R.S. Lodha, Director
 Sh. Mohanjit Singh, Director
 Sh. Sunil Kant Munjal, Director
 Sh. Arun Kaul, Director
 Sh. I.D. Singh, Managing Director

STATUTORY AUDITORS

Raj K. Aggarwal & Associates
 Chartered Accountants
 3072/41, Gola Market
 Darya Gnaj, 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 : 022-22691811/22692248

Sudershan Building,
 14, Whites Road,
 Chennai - 600 014.
 Tel : 044-28591750/51
 Fax : 044-28591751

6A, Clive Row,
 Kolkatta - 700 001
 Tel.:033-22210394/22210395
 Fax : 033-22210378

Navdeep House,
 Near Income Tax Circle,
 Ashram Road, Ahmedabad-380 014.
 Tel. 079-27582506/7
 Fax : 079-27541808

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

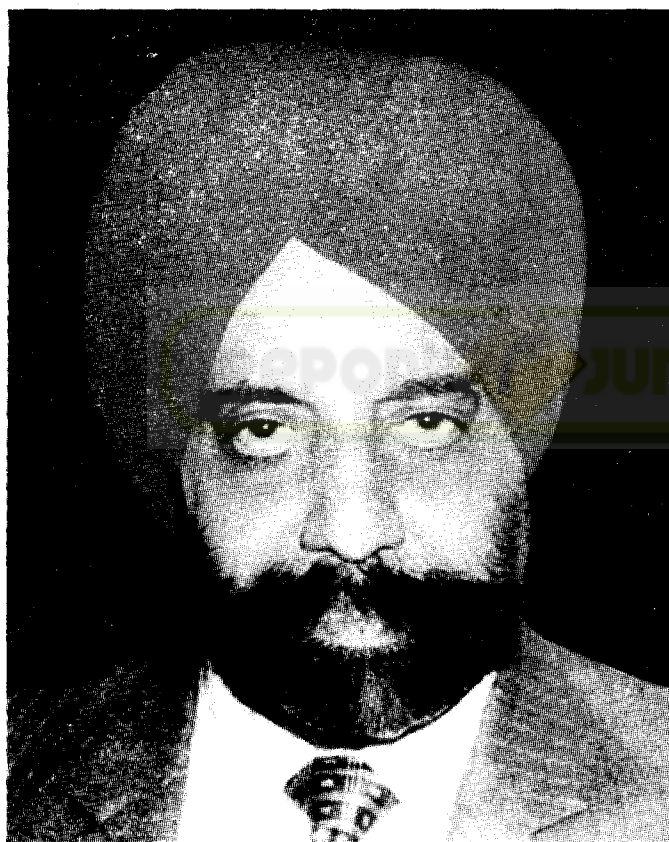
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*Continuing
Excellence*

Letter to Shareholders



Dear Shareholder,

The institution of Primary Dealers (PDs) has now been in existence for about eight years in India. In this short span of time, these institutions have grown into being a key element of the government securities market by facilitating the government in raising resources at a lower cost for a longer tenor. Besides, it is widely acknowledged that PDs have added the much needed liquidity and depth in the secondary market for gilts.

I feel proud to state that your company has consistently remained at the forefront of the PD business. During the fiscal 2003-04, the company sustained its eminence as a leading

primary dealer. The company achieved an outright turnover in excess of Rs. 1,16,000 crore while fulfilling all its pre- commitments to the Reserve Bank of India.

The interest rate environment during 2003-04 was not as conducive as in earlier years. Geopolitical concerns emanating from Iraq, hardening global interest rates, domestic economic recovery and the consequent inflationary pressures prevented any significant rally in



government security prices. Market movements were range-bound for most of 2003-04, leading to a 50 percent decline in average volatility. As a consequence, trading and profit-making opportunities were significantly reduced. Despite these challenges, your company has posted a 16 percent increase in net profit for the year.

The emerging macroeconomic and global environment is expected to be tumultuous for fixed income markets. There is a growing consensus amongst market participants that interest rates have bottomed-out in India - as in other major economies. Given the inverse relationship between market interest rates and prices of government securities, generating profits in a rising interest rate scenario is going to be extremely challenging.

The company has always striven to leverage its competencies developed in proprietary trading in government securities. The interest rate derivative desk has been activated. The foray into Merchant Banking activities is beginning to bear fruit with the company getting few opportunities to manage primary debt issuances. The requisite infrastructure for these fee-based activities is slowly getting in place. The contribution of these new activities to the company's bottom-line shall be felt in the coming years.

The company is surely going to face testing times in the emerging business environment. I am, however, confident that the PNB Gilts team is capable of steering through these challenges.

Thank you,

S.S. Kohli
Chairman

Directors' Report

Your Directors have pleasure in presenting the Eighth Annual Report together with the audited accounts of the company for the year ended March 31, 2004.

1. FINANCIAL RESULTS

The financial results for the year ended March 31, 2004 along with comparative figures for the previous year, are given below:

	(Rs. in lacs)	
	<u>31.3.2004</u>	<u>31.3.2003</u>
Total Income	23794.16	23006.55
Total Expenditure	6929.36	8005.32
Profit before tax	16864.80	15001.23
Less : Provision for Income Tax	6155.74	5741.06
Less : Adjustment for Deferred Tax	13.22	9.07
Profit after tax	10695.84	9251.10
Add: Balance in Profit & Loss Account brought forward	6968.26	6828.81
Amount available for Appropriation	17664.10	16079.91
<u>Proposed Appropriations</u>		
Transfer to Statutory Reserve	2410.00	1851.00
Transfer to General Reserve	1070.00	926.00
Dividend	3375.20	3375.18
Dividend tax	432.45	259.47
Market Fluctuation reserve	3600.00	2700.00
Balance carried forward	7046.45	6968.26

The net-worth of the company as on March 31, 2004 stood at Rs.541.33 crore. Capital adequacy ratio as on March 31, 2004 stood at 41.67 per cent against the RBI stipulation of 15 per cent.

2. DIVIDEND

The company had paid an interim dividend of 12 per cent amounting to Rs 16.20 crore for the financial year 2003-04. Now, the Board of Directors has recommended a final dividend of 13 per cent for the financial year 2003-04 amounting to Rs.17.55 crore. Thus, the total dividend for the year 2003-04 aggregates to 25 per cent totaling Rs.38.07 crore (including dividend tax).

3. OTHER MATTERS

3.1 Directors

Changes since last Annual General Meeting

During the year, the company broad based the Board and the following new directors were inducted since the date of last Annual General Meeting :



- Sh. Mohanjit Singh
- Sh. Sunil Kant Munjal

Other changes during the financial year 2003-2004 are as under :

Sh. Arun Kaul resigned as the Managing Director of the company on his elevation as General Manager of Punjab National Bank. Sh. Kaul however, continues to be a director on the Board of the company.

Sh. I.D. Singh has taken over as the Managing Director of the company in place of Sh. Arun Kaul.

Sh. T.S.Narayanasami has resigned from the directorship of the company on his elevation as Chairman cum Managing Director of Andhra Bank as per the notification issued by Ministry of Finance in this behalf. The Board places on record appreciation of the services rendered by Sh. Narayanasami during the tenure of his directorship.

Retirement of Directors by Rotation :

As per Article 99 of the Articles of Association of the company, Sh. S.S.Kohli, Dr. Kamal Gupta and Sh. S.K.Soni retire by rotation in the forthcoming Annual General Meeting and are eligible for reappointment.

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, 2004 and the profit and loss account for the year ended March 31, 2004.
- 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 2004. 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 2003-04, 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

Directors' Report ... contd.

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 and the monthly audit reports were submitted to Reserve Bank of India as well. The company has also evolved an in-house internal audit system whereby a senior and independent official of the company performs this function.

3.4 Human Resources

Total number of employees of the company as on March 31, 2004 is 39. 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.

3.6 Public Deposits

During the year ended March 31, 2004, 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 : May 28, 2004
Place: New Delhi

(S. S. Kohli)
Chairman

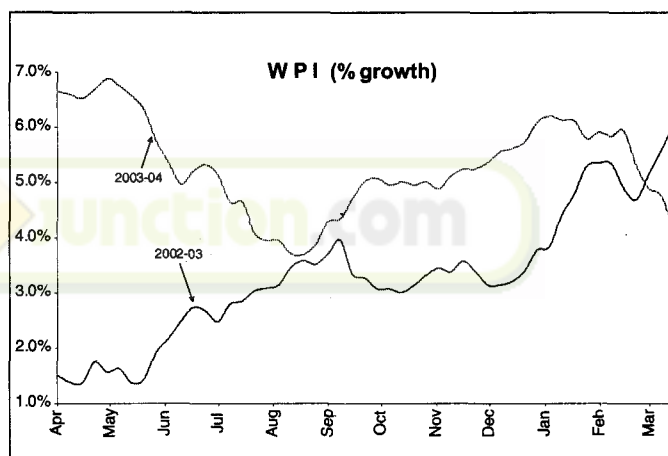
Management Discussion and Analysis

Macroeconomic Review

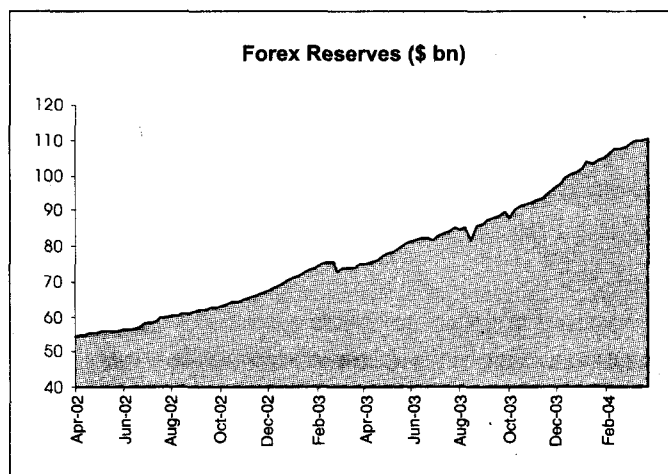
Fiscal year 2003-04 was indeed a good year for the Indian economy. The sharp upturn in the economy led the GDP to rise at a strong 8.1 percent as per Central Statistical Organisation (CSO) estimates. The buoyancy has been spread across most sectors of the economy and was not confined merely to agriculture, which still accounted for most of the rebound. The good monsoon coupled with the low base effect, produced a strong rebound in agricultural growth in 2003-04. Real GDP growth originating in 'agriculture and allied activities' is estimated at 9.1 percent in 2003-04, the highest since 1988-89. The manufacturing sector is estimated to have recorded a significant growth of 6.6 percent in 2003-04. Similarly, the growth in services sector is estimated at 8.2 percent during the fiscal.

Monetary conditions remained easy during the fiscal 2003-04. The annual growth in money supply, M3 on point-to-point basis at 15.8 percent was marginally higher than 14.8 per cent in 2002-03. The increase in reserve money at 16.5 percent during 2003-04 was also higher than that of 10.6 per cent during 2002-03. The increase mainly reflected the large capital inflows and consequent increase in RBI's net foreign currency assets that swelled by 37 percent during the year.

The annual rate of inflation, measured on a point-to-point variations in the wholesale price index (WPI), declined from 6.7 per cent in April 2003 to around 4.0 per cent in August 2003, then climbed back to 6.0 per cent in Jan 2004 and finally settled at 4.5 percent by March-end 2004. The rise in inflation rate in the third quarter of 2003-04 was primarily on account of the resurgence in industrial activity and the firming global crude oil prices. On a weekly average basis, WPI inflation stood at 5.4 per cent during 2003-04 against 3.4 per cent during 2002-03.

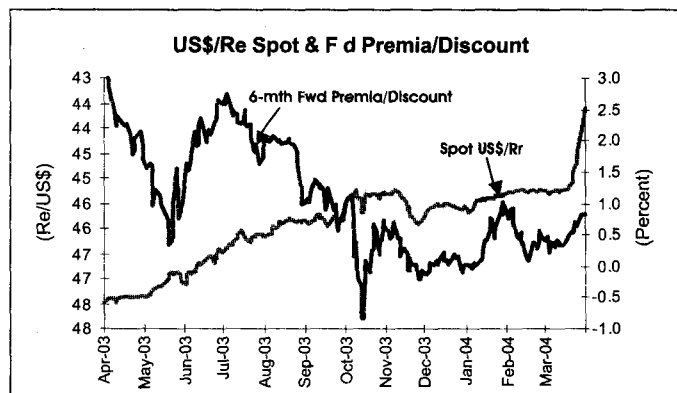


The Indian forex market generally continued to witness orderly conditions during the year. India re-emerged as a hot destination for overseas investors. While the debt FII investment ceiling of US\$ 1.5 billion was fully utilised, equities saw inflows of US\$ 9.47 billion, the largest in any year. India's forex reserves increased by 50 percent to US \$ 113 billion by March-end, 2004 from US \$ 75 billion in March-end 2003. The increase in reserves was entirely on account of strong capital inflows and a positive current account balance despite prepayment of the multilateral debt amounting to US \$ 4 billion in addition to US\$ 4.5 billion maturity of RIBs.



Management Discussion and Analysis ... contd.

With strong flows into the country, the government relaxed controls on expenditure limits for overseas travel, education and investments. In sync with the strong inflows, the exchange rate of rupee vis-a vis of the rupee moved within a wide range of 47.75-43.60 against the US dollar during the year. The rupee appreciated by 9.3 percent against the US dollar during the year. The rupee, however, depreciated against other major currencies. The strong rupee led to the forward premia



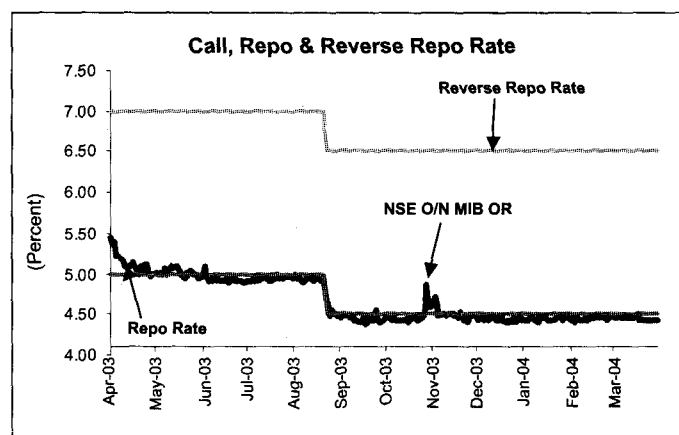
declining sharply during the year and turning into discounts on the US dollar in October-December 2003. Forward premia turned positive in January and February 2004 with the gradual easing of pressure in the cash market. In March 2004 forward premia were generally below 1 per cent across the maturity spectrum as against a range of 3.5-3.8 per cent during March 2003.

Call Money Market & LAF

Liquidity conditions remained comfortable throughout the fiscal 2003-04. Large foreign currency inflows, sizeable coupon payments/redemptions and sluggish credit off-take accounted for the bulging of liquidity in the system. As a consequence, call money rates ruled at sub-repo levels for most part of the year.

With call rates remaining below repo rate, RBI borrowed unprecedented amounts in daily LAF repo auctions. RBI's liquidity management measures such as open market sales and enhancement in the notified amount of treasury bills failed to make any dent in the surplus system liquidity.

In line with its soft interest rate stance, RBI reduced the repo rate by 50 basis points to 4.50 percent w.e.f. August 25, 2003. On an average basis, call rates at 4.67 per cent were marginally lower than the average LAF repo rate of 4.70 per cent. During the year, an attempt to achieve transparency in call money operations was made by making it mandatory to report all call money deals on the negotiated dealing system (NDS).



RBI continued to use LAF as an effective mechanism for absorbing liquidity on a day-to-day basis in a more flexible manner.

Both daily and fortnightly repo were used to suck unprecedented increase in liquidity on the back of continued forex inflows. To manage liquidity on an enduring basis, RBI conducted fixed rate 28-day repo in the month of October 2003. While the LAF repo facility was used aggressively throughout the year, the use of LAF reverse repo facility was negligible as the money markets remained flooded with abundant liquidity.