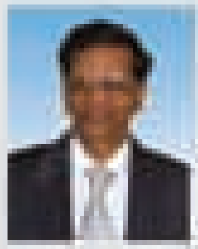
PNB GILTS LTD

14th Annual Report 2009 - 10

Board of Directors

Shri K. R. Kamath
Chairman

Shri Nagesh Pydah
Non- Executive Director



Shri D.V.S.S.V. Prasad
Managing Director

Shri S. K. Dubey
Non-Executive Director

Dr. O. P. Chawla
Independent Director

Dr. Kamal Gupta
Independent Director

Shri S. K. Soni
Independent Director

Shri A. S. Agarwal
Independent Director

Shri M. S. Aftab
Independent Director

Shri P. P. Pareek
Independent Director

OUR MISSION

To be a leader in the
Primary Dealer Business
and
to be known as a Knowledge Based Research Oriented
&
Quality Conscience company maximising wealth for
Shareholders

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Chairman's Letter to Shareholders

Dear Shareholders,

It gives me immense pleasure to state that your company has completed 14 successful years of existence during which it made significant contribution towards the development and enrichment of government securities market. Since inception, the company has consistently been a pioneer in the industry and is known for setting standards year after year.

During the FY 2009-10, the Indian economy shrugged off the slowdown and witnessed gradual and broad based recovery supported by huge fiscal sops offered by the government and benign interest rates prevalent during the period. After remaining subdued in the first quarter, industrial activity picked up considerably registering double- digit growth figures and on back of the same GDP growth for FY 2009-10 is estimated at 7.4% as against 6.7% in FY 2008-09. The WPI inflation rate remained subdued and turned negative on account of high base of the previous year in the first half of FY 2009-10. However, in the second half, inflationary pressures rose considerably on account of spiraling food prices and recovery in crude oil prices.

During the year, RBI followed an extremely accommodative and easy monetary stance to shore up the recovery process. The central bank reduced the repo and reverse repo rates by 25 bps each in April 2009 to 4.75% and 3.25% respectively. After keeping rates at historic lows for almost a year, RBI was one of the first Central Banks to commence with normalization of policy rates, hiking the CRR by 75 bps to 5.75% on January 29, 2010. Repo and reverse repo rates were also hiked by 25 bps each to 5% and 3.5% respectively on March 19, 2010 as part of the calibrated exit from easy monetary stance.

The year was characterized by huge Government borrowing to the tune of Rs. 4,51,000 crore which placed constant upward pressure on G-sec yields. Though the borrowing program was supported by OMO buy backs by RBI and de-sequestering of MSS bonds to the tune of Rs. 28,000 crore, yields continued to harden. Yield on 10-yr benchmark paper firmed up by 84 bps to close the year at 7.85% as against 7.01% as on 31st March 2009.

Despite persistent rise in yields, our company registered a 47% jump in Profit Before tax to Rs. 56.03 crore as against Rs. 38.12 crore in the previous financial year. Resultantly, the net worth of the company has risen by 3.7% to Rs. 557.76 crore as on March 31, 2010. Income from non-core activities also surged significantly to Rs. 8.27 crore from Rs. 4.40 crore in FY 2008-09. The total turnover rose to Rs. 63,726 crore as against Rs. 62,187 crore in the previous year.

With the introduction of various structural changes and new instruments, the debt market has become highly dynamic and liquid. Trading volumes have risen manifold in past few years increasing interest of players in the market. In the coming year, company will lay higher emphasis on core area of operations and will strive to maximize the shareholder value by trading prudently and capture the volatility efficiently. I am confident that your company would scale new heights with your continued support.

With regards,
Yours Sincerely,

(K. R. Kamath)
Chairman

Date : June 12, 2010

DIRECTORS' REPORT

Your Directors have pleasure in presenting the Fourteenth Annual Report together with the audited accounts of the company for the year ended March 31, 2010.

1. FINANCIAL RESULTS

The financial results for the year ended March 31, 2010 along with comparative figures for the previous year are given below:

(Rs. in lacs)

	For the year ended 31.3.2010	For the year ended 31.3.2009
Total Income	**10172.94**	11246.56
Total Expenditure	**4569.66**	7434.39
Profit/(loss) Before Tax	**5603.28**	3812.17
Less : Provision for Income Tax (including deferred tax)	**1932.83**	1362.98
Profit /(loss) After Tax	**3670.45**	2449.19
Add: Balance in Profit & Loss Account brought forward	**4147.21**	3451.64
Amount available for Appropriation	**7817.66**	5900.83
Proposed Appropriations		
Transfer to Statutory Reserve	**735.00**	490.00
General Reserve	**-**	-
Proposed Dividend	**1350.08**	1080.06
Dividend Distribution Tax	**229.44**	183.56
Balance carried forward	**5503.14**	4147.21

During FY 2009-10 yields on G-sec rose consistently indicating market concern over huge government borrowings and inflationary expectations. Nevertheless intermittent easing of yields was also witnessed on account of slow credit off take and easy liquidity conditions. During the year, trading remained highly skewed towards short and medium term papers. Yields firmed up considerably in the second quarter following announcement of revised projection of government borrowing at Rs. 451000 crore as against Rs. 362000 crore estimated in the interim budget. Yields charted up as unabated rise in food inflation and improvement in domestic economic condition weighed on market sentiment. Yields rose traded with a hardening bias during the fourth quarter, as players remained wary of government borrowings for FY 2010-11. However, yields retreated from nearly 18-months high at the close of the year on announcement of lower than expected borrowing quantum for the first half of FY 2010-11. Yield on 10-year benchmark paper firmed up by 84 basis points to close the year at 7.85 per cent as against 7.01 per cent as on March 31, 2009. The company, despite this volatility, made a profit before tax of Rs. 5603.28 lacs during the year ended March 31, 2010 due to prudent funds management and reorientation of trading strategies.

2. CAPITAL ADEQUACY

Capital adequacy ratio as on March 31, 2010 stood at 41.59 per cent as against the RBI stipulation of 15 per cent.

3. DIVIDEND

The Board has recommended a final dividend of Re. 1 per share for the FY 2009-10 amounting to Rs. 1350.08 lacs. The total outflow on account of said dividend shall be Rs. 1579.52 lacs (including Dividend Distribution Tax).

4. OTHER MATTERS

4.1. Directors

During the year, the Board of Directors met seven times to review strategic, operational, technological and financial matters besides laying down policies and procedures for operational management of the company against the required minimum of 4 meetings in a year. The Audit Committee of the Board met five times; the Share Transfer and Issue of Duplicate Shares Certificates Committee met twenty four times and Shareholders' / Investors' Grievance Committee met twelve times.

Changes since last Annual General Meeting

The following changes took place in the Board of Directors of the company since the date of last Annual General Meeting :

- **Sh. K. R. Kamath**, Chairman and Managing Director- Punjab National Bank, has been appointed as an Additional Director and Chairman by the Board in its meeting held on January 21, 2010.
- **Sh. S. Ranganathan**, General Manager - Punjab National Bank, had resigned from Directorship and Managing Directorship on April 3, 2010 due to recall of his services by the parent bank, Punjab National Bank.
- **Sh. D.V.S.S.V. Prasad**, General Manager-Punjab National Bank, has been appointed as an Additional Director and Managing Director by the Board in its meeting held on May 3, 2010, in place of Sh. S. Ranganathan.

Retirement of Directors by Rotation

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

Corporate Governance

Corporate Governance for the company means achieving high level of accountability, efficiency, responsibility and fairness in all areas of operations. Our workforce is committed towards the protection of the interest of the stakeholders including shareholders, creditors, investors, customers, employees, etc. Our policies consistently undergo improvements keeping in mind our goal i.e. maximization of value of all the stakeholders. The Corporate Governance practices followed by the company are given in the Annual Report. A certificate from M/s Bansal R. Kumar and Associates, Statutory Auditors of the company regarding compliance of conditions of Corporate Governance stipulated by stock exchanges is enclosed with the ‘Report on Corporate Governance’.

4.2. 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, 2010 and the profit and loss account for the year ended March 31, 2010.
- 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.

4.3. Audit, Internal Control Systems & their adequacy

M/s Bansal R. Kumar 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 March 31, 2010. 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 2009-10, 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 and reviewed key business processes, including IT systems 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.

4.4. Human Resources

Total number of employees of the company as on March 31, 2010 was 31 (including 7 employees on deputation from parent bank). The company has maintained peaceful and harmonious relations with its employees.

The information required under 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.

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

a) Part A pertaining to the conservation of energy are not applicable to the company.

With regard to Part B pertaining to technology absorption, the company has installed the integrated treasury management software and RBI's Negotiated Dealing System with the help of IDRBT and reputed IT companies. The company recognizes the growing importance of Information Technology in the emerging business environment. The company has also implemented Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) with the help of IDRBT (consultants for implementation of BCP and DRP) to identify and reduce risk exposures and proactively manage any contingencies.

b) Foreign Exchange earnings and outgoing:

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

4.6. Public Deposits

During the year ended March 31, 2010, the 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 RBI's notification no. DFC.118DG/(SPT)-98 dated January 31, 1998.

4.7. Acknowledgement

Your Directors thank Government of India, Reserve Bank of India, Securities and Exchange Board of India, National Stock Exchange Ltd., Bombay Stock Exchange Ltd., 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.

On behalf of Board of Directors

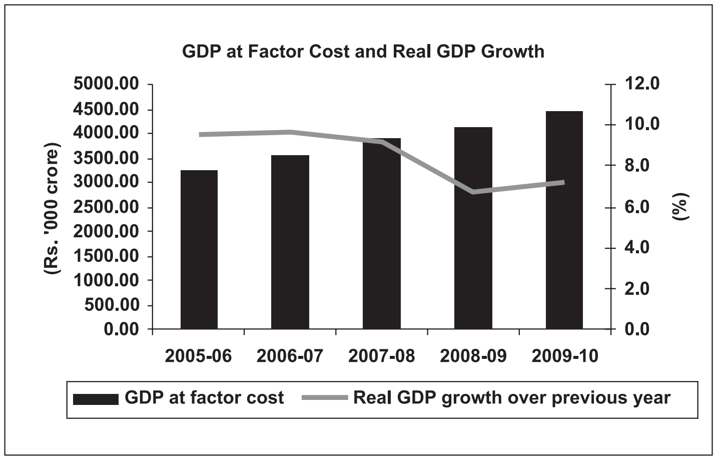
Date : June 8, 2010
Place : New Delhi

(K. R. Kamath)
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

MACROECONOMIC REVIEW

Gross Domestic Product



The Indian economic scenario transformed significantly in FY 2009-10 after witnessing a spell of slowdown in tandem with the recession in global economy in FY 2008-09. While the global economic scenario still remains uncertain, the Indian economy exhibited strong momentum in recovery supported by swift fiscal and monetary expansionary measures. The recovery remained broad based with an exception of agriculture, which suffered due to deficient monsoons. Industry and services remained the main drivers of Indian economic growth and on back of strong performances by the two sectors, GDP growth for FY 2009-10 has been estimated at 7.2 percent as against 6.7 per cent in the previous year. Inflationary pressures resurfaced again in the second half of the year after remaining subdued and turned in mid-year as food prices soared to record levels triggered by poor monsoon. Inflationary situation became even more complicated as signs of inflation percolating to non-food components and turning demand driven, became more and more evident after the third quarter.

A sharp recovery of growth during FY 2009-10 despite the worst monsoon in over 3 decades reflects the resilience of the Indian economy. On the demand side, the contribution of various components to growth in FY 2009-10 was 36 per cent for Private Consumption, 14 per cent for Government Consumption, 26 per cent for Fixed Investments and 20 per cent for Net Exports. On a disaggregated basis, agricultural sector registered a contraction of 0.2 per cent in FY 2009 -10 compared to growth of 1.6 per cent during the previous year. Drought in key agricultural areas of the country severely affected the kharif output, with output declining to 88 million tonnes from 99 million tonnes in previous year. On the other hand, industrial production, which remained the main growth driver, recovered substantially in FY 2009-10. The Index of Industrial Production (IIP) registered double-digit growth during the period October 2009-February 2010. As per the latest data release, IIP grew by 15.1 per cent in February, 2010. Under use-based classification, double digit growth rates witnessed in capital goods, intermediate goods and consumer durables indicate that the recovery has been broad-based.

International Trade and Debt

As regards Indian exports, net exports of goods and services contributed positively (20.4 per cent) to GDP growth in FY 2009-10, as against a negative contribution of around 36.2 per cent in FY 2008-09. After posting negative growth for 10 consecutive months, exports recovered significantly from November, 2009 onwards reflecting signs of recovery in external demand. Imports also turned around and exhibited an average growth of about 43.0 per cent during the period December, 2009 - February, 2010, mirroring the impact of strong recovery in economic growth. In period April, 2009 - February, 2010, exports stood at USD 152.7 billion as against imports of USD 248.4 billion which resulted in a trade deficit of USD 95.7 billion.

India's external debt increased from USD 224.60 billion at end-March, 2009 to USD 251.40 billion at end-December, 2009. The increase in external debt stock was essentially due to increase in long-term debt. Short-term debt also