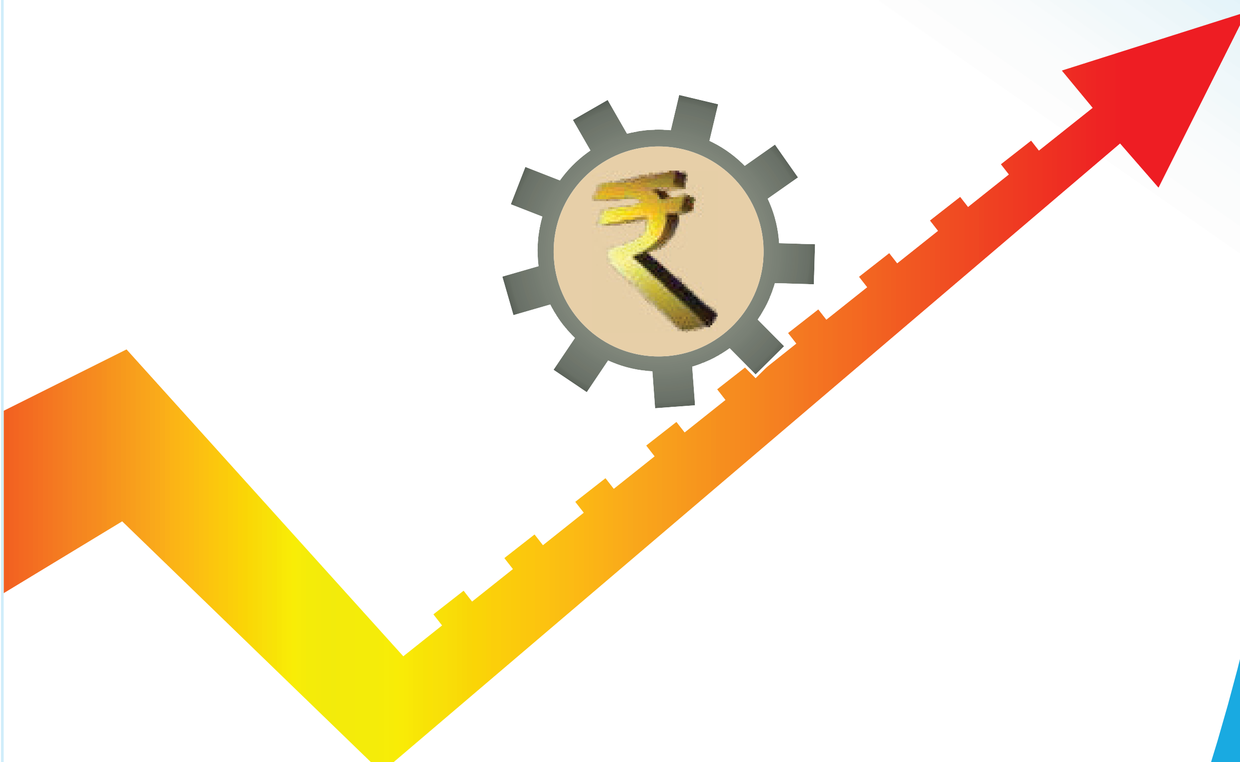
17th Annual Report

2012-13



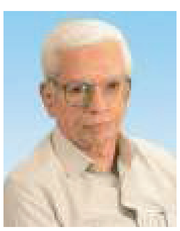
PNB GILTS LTD

(A subsidiary of Punjab National Bank)

Shri K. R. Kamath
Chairman

Shri S. R. Bansal
Non-Executive Director

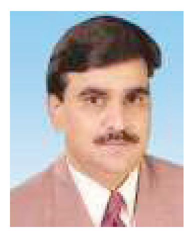
Shri S. K. Dubey
Managing Director



Dr. O. P. Chawla
Independent Director

Dr. Kamal Gupta
Independent Director

Shri S. K. Soni
Independent Director



Shri P. P. Pareek
Independent Director

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

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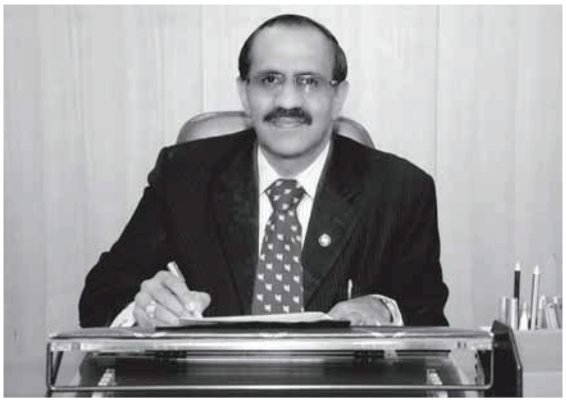


Chairman's Letter to Shareholders

Dear Shareholders,

I have immense pleasure in presenting before you the highlights of your Company's performance during the financial year 2012-13. I am pleased to report that in FY 2012-13, your Company performed exceedingly well backed by a solid performance in the core area of operations. More importantly, we continued to deliver value to you, our most important stakeholders. We have begun the new fiscal year on strong hope and belief that the current year would still be better than the previous year and there shall be no looking back in the journey that we have embarked upon.

Domestic macroeconomic environment deteriorated during the year as continued uncertainty in global economy, policy impasse, tight monetary policy and slackening investments took a toll on domestic growth. The global economic distress mainly emanating from European debt crisis and US fiscal cliff concerns had a strong cascading effect on growth in emerging economies. Slowdown in demand for exports from advanced economies severely impacted the growth in world's fastest growing developing nations.

In the milieu of aforesaid global and domestic economic environment, GDP growth as per advance estimates of Central Statistical Organisation (CSO) declined sharply to 5 per cent in FY 2012-13 as against 6.2 per cent in the preceding year. While inflation was subdued owing to tight monetary regime, the current account deficit (CAD) situation remained a cause of concern, which exerted immense pressure on the domestic currency. During the year, CAD surged to a record high of 6.7 per cent as net exports dwindled and imports remained resilient. The fiscal deficit on the other hand was kept under control as government curtailed expenditure to offset the shortfall in revenues. Government resorted to the budgeted borrowing plan envisaged in the annual budget and no additional borrowings were announced during the year.

The G-sec market, which is the main area of operation of your Company, witnessed lesser volatility as compared to the preceding financial year. Market sentiments were largely anchored by rate cut expectations, buyback purchases under Open Market Operations (OMO) conducted by RBI and fiscal prudence delivered by the government. On the other hand, there were a few negative factors such as high inflation, tight liquidity conditions, large current account deficit and unabated prices pressure at the retail level and in food items. Amid these counterbalancing factors, the 10-yr benchmark yield was seen declining from year's highs of 8.76 per cent in April, 2012 to touch a low of 7.79 per cent in February, 2013, before closing at 7.96 per cent as on March 31, 2013 as against 8.57 per cent as on March 31, 2012.

Against the above macro economic conditions and market challenges, your Company maneuvered to its best ability to deliver excellent profits during the year. The Company made some important changes internally and streamlined its risk management and trading operations and also revamped its HR practices. It is heartening to inform you that your Company had registered Profit before Tax of Rs. 88.76 crore in FY 2012-13 as against Rs. 29.64 crore in FY 2011-12. The net worth of your Company increased to Rs. 620.08 crore as on March 31, 2013 as against Rs. 574.69 crore in previous year.

I am equally pleased to share with you that your Company fulfilled all its obligations as a Primary Dealer successfully achieving the stipulations laid down by the regulator. Besides, the risk management systems kept the Company's risk profile in check throughout the year.

The current year's performance is a testimony of our capabilities and strategic orientation, the discipline of our risk management systems and the dedication of the employees. Continued support of all our shareholders has also been a motivating factor for us to improve our endeavors in delivering better results. We are immensely grateful to you for your unwavering support and cooperation which has helped us sail smoothly through all these years.

Future Opportunities

As we enter the new Financial Year, we shall remain highly focused to deliver on our priorities. We shall continue to realign our strategies and resources in order to ensure the best returns for our shareholders and sustain those returns in the long term. The unseen challenges that lie ahead of us shall be met making best use of our skills, competencies and experience. Your Company's trading skills and risk management systems will ensure that the performance is strengthened in the forthcoming year.

We value your partnership as we position the Company to lead into the future. I firmly believe that it will be an exciting journey for all of us, and I want to thank you for your on-going commitment, support, and trust.

With regards,

Yours Sincerely,

Date : May 14, 2013 **(K.R.Kamath)**
Place : New Delhi Chairman

DIRECTORS' REPORT

Your Directors have pleasure in presenting the Seventeenth Annual Report together with the audited accounts of the Company for the year ended March 31, 2013.

1. FINANCIAL RESULTS

The financial results for the year ended March 31, 2013 along with comparative figures for the previous year are given below:

(Rs. in lacs)

	For the year ended 31.3.2013	For the year ended 31.3.2012
Total Income	**28865.00**	16529.71
Total Expenditure	**19988.47**	13565.58
Profit/(loss) Before Tax	**8876.53**	2964.13
Less : Provision for Income Tax (including deferred tax)	**2751.97**	858.87
Profit /(loss) After Tax	**6124.56**	2105.26
Add: Balance in Profit & Loss Account brought forward	**6057.48**	5982.82
Amount available for Appropriation	**12182.04**	8088.08
Proposed Appropriations		
Transfer to Statutory Reserve	**1224.92**	421.05
General Reserve	**-**	-
Capital Reserve	**1106.09**	40.46
Proposed Dividend	**1350.08**	1350.08
Dividend Distribution Tax	**229.44**	219.01
Balance carried forward	**8271.51**	6057.48

During FY 2012-13, Company fulfilled all its obligations as a Primary Dealer in both primary and secondary market. With regard to Treasury Bills commitment, Company exceeded the stipulated success ratio of 40 per cent, achieving 42.28 per cent and 47.91 per cent in H1 and H2 respectively. In G-sec category, Company fulfilled the underwriting commitments, thereby supporting the government borrowing program. Company delivered good performance during the year by astutely deriving advantage from conducive G-sec market condition and judicious deployment of funds in high yielding assets. The total Profit Before Tax for FY 2012-13 stands at Rs. 88.77 crores as against Rs. 29.64 crores in FY 2011-12.

The profitability during the year was boosted by sharp surge in trading income, which stands at Rs. 40.06 crores for the fiscal. The outstanding performance in the trading segment was a result of nimble trading technique adopted by the Company and astute prognosis of market behavior. The year was markedly stable for the bond markets vis–a-vis the preceding year, which had witnessed high volatility. The market sentiments remained anchored by rate cut expectations, Open Market Operation (OMO) purchases and deteriorating growth. On the other hand, there were a few challenges such as RBI's hawkish stance towards inflation, tight liquidity conditions, record high Current Account Deficit (CAD) and persistently high retail and food inflation, which kept RBI from cutting rates for 8 months between April, 2012 to January, 2013. Amid these factors, the 10-yr benchmark yield moved from 8.76 per cent in the beginning of the year, which was also the peak point, to close at 7.95 per cent after touching a low of 7.79 per cent.

2. CAPITAL ADEQUACY

Capital adequacy ratio as on March 31, 2013 stood at 42.34 per cent as against the RBI stipulation of 15 per cent.

3. DIVIDEND

Your Board has recommended a final dividend of Re. 1.00 per share (i.e. 10 per cent) for the financial year 2012-13 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 five 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 Committee met twenty four times and Shareholders' / Investors' Grievance Committee met twelve times.

Changes during the financial year 2012-13

The following changes took place in the Board of Directors of the Company during the financial year 2012-13:

- **Sh. Rakesh Sethi**, Executive Director – Punjab National Bank has resigned from the Directorship of the Company w.e.f. January 9, 2013. In his place, the Board has appointed Sh. S. R. Bansal as an Additional Director in its meeting held on January 23, 2013.
- **Sh P. K. Chhokra**, after his retirement as General Manager – Punjab National Bank, has resigned from the Directorship of the Company w.e.f. March 31, 2013.

Retirement of Directors by Rotation

As per Article 99 of the Articles of Association of the Company, Dr. O. P. Chawla and Sh. P. P. Pareek 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 S. Mohan & Co., 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, 2013 and the Profit and Loss Account for the year ended March 31, 2013.
- 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 S. Mohan & Co., Chartered Accountants, Delhi were appointed as the Statutory Auditors of the Company by the Comptroller and Auditor General of India for the financial year ended March 31, 2013. 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 2012-13, the Board appointed M/s Deloitte Haskins & Sells 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, the said firm 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, 2013 was 35 (including 4 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, 2011 be treated as NIL as none of the employees of the Company draws remuneration in excess of Rs. 500000/- 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, 2013, 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., Parent 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.

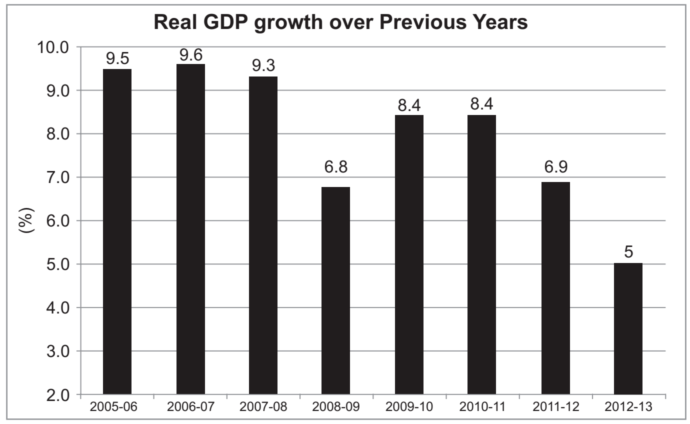
On behalf of Board of Directors

Date : May 14, 2013 **(K. R. Kamath)**
Place : New Delhi Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

MACROECONOMIC REVIEW

Gross Domestic Product (GDP)



During 2012-13, growth in GDP (April-December, 2012) declined to 5.0 per cent from 6.6 per cent a year ago. This was mainly due to the protracted weakness in industrial activity aggravated by domestic supply bottlenecks and slowdown in the services sector reflecting weak external demand. The Central Statistics Office (CSO)'s advance estimate places the GDP growth for 2012-13 at 5.0 per cent as against 6.2 per cent in FY 2011-12. The slowdown in growth was witnessed across the board, with all the sectors being affected significantly. While, Industry and Agriculture continued to decline, the Services sector which is supposedly the most resilient was also seen succumbing to the poor macro economic conditions prevalent during the year. Industry is expected to grow at 3.1 per cent, while agriculture output is expected to grow at 1.9 per cent following lower than normal rainfall in the initial phases of the monsoon season.

The expenditure side analysis suggests sharp slowdown in both private consumption (4.1 per cent in FY 2012-13 as against 8.0 per cent in FY 2011-12) and investment, especially private investment. While high inflation and high interest rates contributed towards the fall in consumption, private investment languished on account of tight monetary policy regime, lower demand for Indian merchandise and stalling of fresh projects due to policy restriction. Net exports also suffered due to weak global demand. Inelastic demand for oil imports and resilient demand for gold imports kept the overall imports high, exacerbating the trade deficit situation. The fall in private consumption, investments and net exports could not be complemented with increased government expenditure due to high fiscal deficit. The government curtailed expenditure to meet the fiscal deficit target for the financial year in order to prevent further imbalances due to capital outflows and rating downgrades.

International Trade and Debt

India's international trade situation was precariously placed during FY 2012-13, with exports registering negative growth rates throughout the year except in April, 2012. After getting bolstered by a slew of measures announced in FY 2011-12, exports fell dramatically in FY 2012-13 as global economic conditions deteriorated. Cumulatively, export growth in dollar terms was negative at 4.9 per cent (April to January, 2013) as against 21.3 per cent growth in FY 2011-12. Imports also decelerated during the year, albeit not as sharply as exports. At USD 406.9 billion imports in FY 2012-13 (April-January) registered a growth of 0.01 per cent as against 32.3 per cent in full FY 2011-12. Oil imports grew by 12.8 per cent in period April to December of FY 2012-13, while non-oil imports decelerated by 5.1 per cent, with gold and silver imports declining by 14.7 per cent during the year. The trade deficit of USD