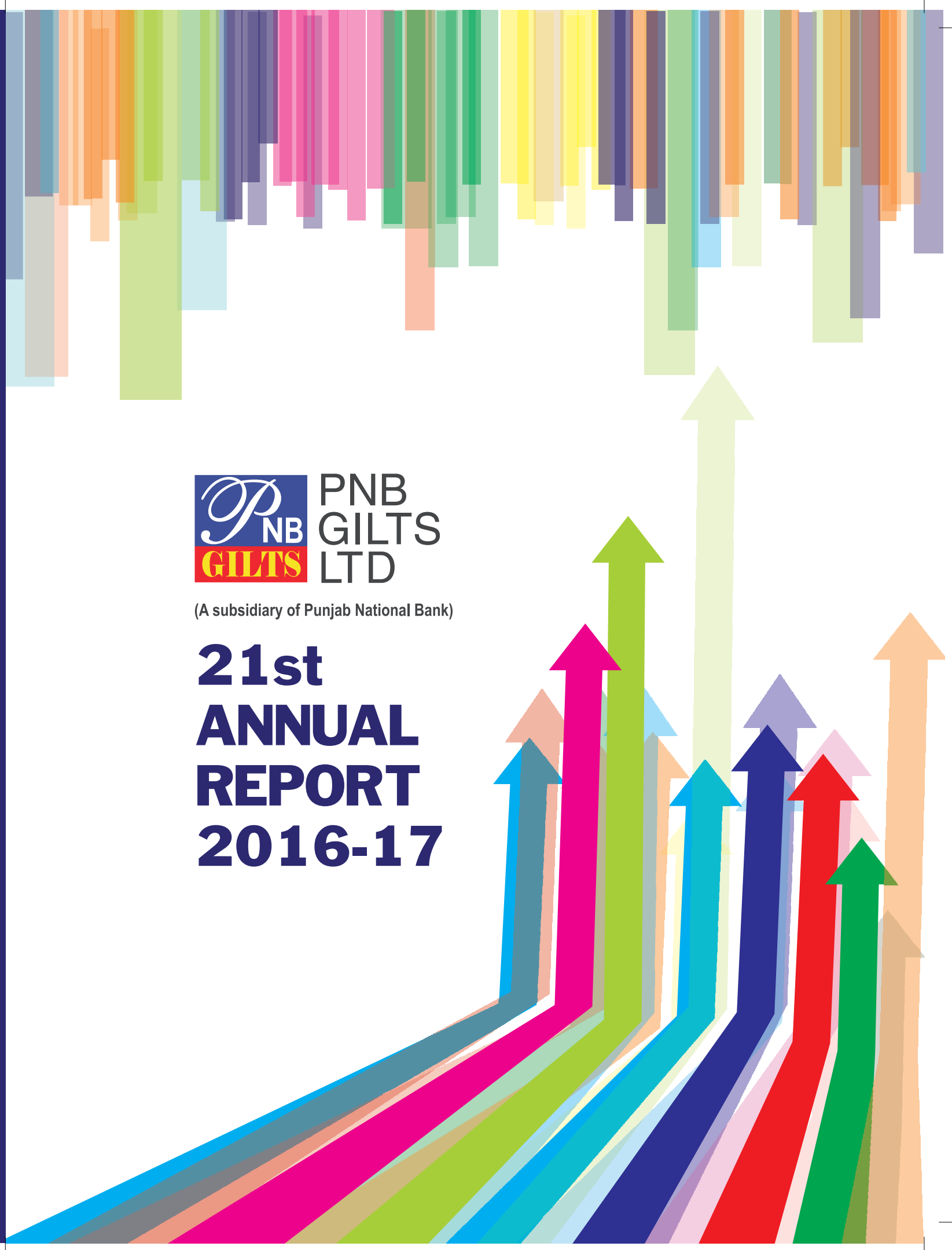




(A subsidiary of Punjab National Bank)

# **21st ANNUAL REPORT 2016-17**





## Board of Directors



**Shri Sunil Mehta**  
*Chairman*



**Shri K. V. Brahmaji Rao**  
*Non-Executive Director*



**Shri S. K. Dubey**  
*Managing Director*



**Smt. Sunita Gupta**  
*Executive Director & CFO*



**Dr. Kamal Gupta**  
*Independent Director*



**Shri S. K. Soni**  
*Independent Director*



**Shri P. P. Pareek**  
*Independent Director*



**Shri R.S. Ramasubramaniam**  
*Independent Director*

## OUR MISSION AND VISION

**To be a leader in the  
Primary Dealer Business  
and  
to be known a Knowledge Based, Research Oriented  
and  
Quality Conscious Company maximising wealth for  
Shareholders**

# CONTENTS

From the Chairman's Desk .....	2
Board's Report.....	4
Management Discussion and Analysis.....	33
Report on Corporate Governance.....	38
Financial Review.....	51
Independent Auditor's Report and Comments of the C&AG of India .....	52
Balance Sheet.....	60
Statement of Profit and Loss .....	61
Significant Accounting Policies and Notes to Accounts .....	62
Cash Flow Statement .....	98
Schedule to Balance Sheet of a Non-Deposit taking Non-Banking Financial Company .....	100
Financials at a Glance .....	104
Notice of AGM .....	105
E-Communication Registration Form .....	114
NECS Mandate Form .....	115
Proxy Form .....	116



### *From the Chairman's Desk*

Dear Shareholders,

It gives me great pleasure to share with you the Annual Report of the Company for FY 17.

During 2016-17, the biggest macro economic development, that left its mark on each and every sector of the economy was “demonetization” which paved the way for digitization. The Central Government’s decision to demonetize about 86 per cent of the currency notes in circulation led to a surge in bank deposits and a fall in currency in circulation. The economy also moved a step closer to the reality of Goods and Sales Tax (GST) implementation. The GST is being looked at as the single largest indirect tax reform and is poised to push India’s economic growth forward by creating a single market, improving tax compliance and governance, from July 2017.

Despite demonetization and the resultant slowdown in consumption and investment demand, India’s GDP growth for FY’17 stands at 7.1 per cent against 7.6 per cent in the previous year. While manufacturing continued to grow at a moderate pace, some slowdown in the services sector was seen during the year. However, the growth in agriculture and allied activities accelerated, reflecting the record food grain production in second half of FY’17 on the strength of a normal monsoon after two consecutive years of near drought conditions, vigorous sowing activity and effective supply management by the Government.

Due to low inflation the RBI anchored its policy rate to achieve the domestic inflation target consistent with growth. In line with the disinflation glide path, the Central Bank reduced the repo rate twice by a total of 50 basis points till October 2016. However, post demonetization, RBI maintained status quo on monetary policy in December 2016 and changed its stance from accommodative to neutral in February 2017 on the back of stickiness in core inflation.

On the global front, the Brexit vote and US election results made the environment conducive for a debt market rally. Global commodity prices remained in control. Oil prices remained within a comfortable range despite huge production cuts by the OPEC countries. Geopolitical worries emerged as the new risk element in the global scenario and still continue. Indian markets have shown remarkable endurance to geo-political events and have swiftly priced them in.

The Government securities market, which is the core area of our operations,

exhibited strong volatility. For major part of the year, yields kept moving down, with the 10 year benchmark yield touching low of 6.14 per cent after demonetization. Yields hardened again after application of the Incremental Cash Reserve Ratio (ICRR) to absorb surplus liquidity. Status quo on monetary policy in December 2016 and change in stance of RBI from 'accommodative' to 'neutral' in February 2017 further added to hardening of yields. However, ten year benchmark closed the year at a much lower level of 6.66 percent as against previous year close of 7.46 percent.

Against the backdrop of these macro economic developments and volatility in interest rates, Company made an impressive trading profit of ₹ 185.50 crore. The total secondary market outright turnover stood at ₹ 6.51 lakh crore as against ₹ 3.76 lakh crore in FY16. Company's Profit Before Tax stood at ₹ 256.54 crore as against ₹ 51.47 crore in the previous year. The total Net worth of the company rose to ₹ 898.36 crore as on March 31, 2017 from ₹ 731.22 crore as on March 31, 2016. The Company is adequately capitalized with capital adequacy ratio of 54.48 per cent as on March 31, 2017, against RBI's minimum stipulation of 15 per cent.

I am equally pleased to share with you that your Company fulfilled all its obligations as a Primary Dealer by successfully achieving the stipulations laid down by the regulator. Besides, effective risk management systems kept the Company's risk profile in check throughout the year. Continued support of all our shareholders has been our driving force. We are immensely grateful to you for your understanding and cooperation.

### Looking Ahead

A range of proposals in the Union Budget 2017-18 are expected to be growth stimulating like stepping up of capital expenditure, boosting the rural economy and affordable housing and the planned roll-out of the GST. Further, the benign outlook for inflation and possibility of good monsoon augur well for the debt market. With the new fiscal year upon us and optimistic macroeconomic outlook, your Company will primarily focus on improving its profitability while confidently navigating its way through uncertainties, if any. 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. Your company's competent trading skills coupled with its effective risk management systems will ensure that the performance is strengthened in the year ahead.

I extend my gratitude to all the stakeholders-clients, shareholders, directors and employees for their persistent support, unwavering trust and tireless efforts to strengthen the market position of the Company. I assure that your Company will continue to remain committed to enhance value for all the stakeholders.

Yours Sincerely,

  
(Sunil Mehta)  
Chairman  
DIN: 07430460

Date : July 3, 2017  
Place: New Delhi

## BOARD'S REPORT

Dear Members,

Your Directors are pleased to present the Twenty First Annual Report together with the Company's audited financial statements for the financial year ended March 31, 2017.

### 1. RESULTS OF OUR OPERATIONS AND STATE OF AFFAIRS

The Company's financial performance, for the year ended March 31, 2017 is summarized below:

(₹ in lacs)

	For the year ended 31.3.2017	For the year ended 31.3.2016
Total Income	50054.47	34339.65
Less : Total Expenditure	24400.36	29195.04
Add: Prior Period Income	-	2.62
<b>Profit/(loss) Before Tax</b>	<b>25654.11</b>	<b>5147.23</b>
Less : Provision for Income Tax (including deferred tax)	8936.73	1697.58
<b>Profit /(loss) After Tax</b>	<b>16717.38</b>	<b>3449.65</b>
Add: Balance in Statement of Profit and Loss brought forward	12807.02	12786.97
Add: Prior Period Income	-	0.10
Amount available for Appropriation	29524.39	16236.72
<b>Proposed Appropriations</b>		
Transfer to Statutory Reserve	3343.48	689.93
General Reserve	-	-
Capital Reserve	2229.71	356.56
Proposed Dividend	-	1980.11
Dividend Distribution Tax	-	403.10
Balance carried forward	23951.20	12807.02

During FY 2016-17, your Company fulfilled all its obligations as a Primary Dealer in both primary and secondary market. With regard to Treasury Bills commitment, the Company exceeded the stipulated success ratio of 40 per cent, achieving 56.07 per cent in both H1 and H2. In G-sec category, Company fulfilled the underwriting commitments, thereby supporting the government borrowing program.

During FY 2016-17, the yields on Government Securities trended down, with the ten-year benchmark yield moving down to 6.66 per cent as on March 31, 2017 as against previous year close of 7.46 per cent. The market remained highly volatile with the yields touching low of 6.14 per cent after demonetization and policy rate cut in October, 2016 and then again moving up after application of the Incremental Cash Reserve Ratio (ICRR) to absorb surplus liquidity. Status quo on monetary policy in December, 2016 and change in stance of RBI from accommodative to neutral in February, 2017 also hardened yields. Inflation was well contained and declined to significantly low levels during November, 2016 – February, 2017. Current Account Deficit was at comfortable levels. Internationally, with strengthening of US economy, the Federal Reserve raised the target federal funds rate twice in December, 2016 and March, 2017 while ECB has kept policy rate unchanged since March, 2016.

The Central Government reduced its market borrowings in Q4 by ₹ 1800000 lacs through dated securities and ₹ 5100000 lacs through T-Bills. Average liquidity surplus in Q2 was ₹ 2930000 lacs which declined to ₹ 630000 lacs in October, 2016. However, after demonetization, currency in circulation declined drastically and this increased the liquidity in the banking system. To manage this excess liquidity RBI did open market sales of

CMBs issued under MSS and variable rate reverse repos of various tenors. The peak level of liquidity absorbed reached ₹ 79560000 lacs on January 4, 2017. The ICRR was in place for one fortnight ending December 9, 2016, which helped in draining liquidity to the extent of ₹ 40000000 lacs. ICRR was withdrawn after increase in limit on issuance of securities under MSS from ₹ 30000000 lacs to ₹ 60000000 lacs. In Q4, with re-monetization at an accelerated pace, the liquidity surplus in the system reduced to ₹ 31410000 lacs by end of March, 2017. Yields got further support by lower fiscal deficit target of 3.2 per cent and reduced government borrowing for 2017-18.

During the FY 2016-17, your Company posted a Profit Before Tax of ₹ 25654.11 lacs as against ₹ 5147.23 lacs in FY 2015-16. The net revenue from operations of your Company during FY 2016-17 stood at ₹ 50054.47 lacs as against ₹ 34339.65 lacs and Profit after Tax for FY 2016-17 stood at ₹ 16717.38 lacs vis-à-vis ₹ 3449.65 lacs in the previous fiscal.

No material changes and commitments have occurred after the close of the year till the date of this report, which affect the financial position of the Company.

### **Capital Adequacy**

Capital adequacy ratio as on March 31, 2017 stood at 54.48 per cent as against the RBI stipulation of 15 per cent.

### **Dividend**

Your Board has recommended a dividend of ₹ 2.50 (i.e. 25 per cent) per equity share (last year ₹ 1.10 per equity share) for the financial year ended March 31, 2017, subject to approval in the ensuing Annual General Meeting. The total outflow on account of said dividend shall be ₹ 5416.40 lacs (including Dividend Distribution Tax of ₹ 916.15 lacs).

### **Transfer to Reserves**

Your Company proposes to transfer ₹ 3343.48 lacs in Statutory Reserve as required under the provisions of Section 45-IC of the Reserve Bank of India Act, 1934. ₹ 2229.71 lacs is proposed to be transferred in Capital Reserve in terms of RBI guidelines for Primary Dealers. Further, in terms of the first proviso to Section 123(1) of the Companies Act, 2013, the Company proposes not to transfer any sum in General Reserve.

## **2. CORPORATE GOVERNANCE**

Corporate Governance for your 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.

We comply with the SEBI and RBI guidelines on Corporate Governance. We have documented our internal code on Corporate Governance in compliance of SEBI and RBI guidelines. The Corporate Governance practices followed by the Company are given in the Annual Report. A certificate from M/s Kapoor Tandon & Co. (Firm Reg. No. 000952C), Statutory Auditor of the Company regarding compliance of conditions of Corporate Governance as stipulated in the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 is enclosed with the 'Report on Corporate Governance' forming part of the Board's Report.

### **Number of meetings of the Board**

The Board met five times during the financial year 2016-17 to review strategic, operational, technological and financial matters besides laying down policies and procedures for operational management of the Company. The details of such meetings are given in the 'Report on Corporate Governance' that forms part of this Annual Report.

### **Directors and Key Managerial Personnel**

During the year 2016-17, the members in their Annual General Meeting held on September 17, 2016 approved the appointment of Sh. R. S. Ramasubramaniam (DIN : 00008937) as an Independent Director for a term of 5 consecutive years effective from February 3, 2016.



Smt. Usha Ananthasubramanian (DIN: 02784580), consequent upon her appointment as Managing Director & CEO of Allahabad Bank, demitted the office of Managing Director & CEO of Punjab National Bank on May 5, 2017. Accordingly, she resigned from the Directorship and Chairpersonship of the Company w.e.f. May 5, 2017. The Board appreciate and thank her for her vision, leadership and guidance, enabling your Company to reach another standard of excellence.

In her place, on the recommendation of Nomination and Remuneration Committee, the Board of Directors appointed Sh. Sunil Mehta (DIN: 07430460), Managing Director & CEO of Punjab National Bank as an Additional Director (in the Non-Executive & Non-Independent category) effective from May 12, 2017. In terms of the Articles of Association of the Company, he will act as Chairman of the Board of your Company.

Further, in accordance with the provisions of the Companies Act, 2013 and the Articles of Association of the Company, Sh. K. V. Brahmaji Rao (DIN: 06861202) shall retire by rotation in the ensuing Annual General Meeting and is eligible for reappointment.

### Performance Evaluation

The Company has devised a policy for performance evaluation of Board of its own performance, Independent Directors, Non-Independent/Executive Directors and Board level Committees etc. as required under the provisions of the Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. The evaluation of all the Directors, the Board as a whole and its Committees was conducted based on the criteria and framework adopted by the Board. Copy of said policy, inter-alia, containing the process and criteria for evaluation is available at Company's website at the link <http://pnbgilts.com/data/governance/1461912736.pdf>.

### Familiarization programme

The details of programme for familiarization of Independent Directors with the Company, their roles, rights, responsibilities in the Company, nature of industry in which the Company operates, business model of the Company and related matters are placed at Company's website at the link <http://pnbgilts.com/data/governance/1459924857.pdf>.

Quarterly updates on relevant statutory changes are also circulated to the Directors.

### Policy on Directors' Appointment and Remuneration etc.

The policies of the Company on Directors' Appointment and Remuneration including criteria for determining qualifications, positive attributes, independence of a Director and other matters provided under Sub-section (3) of Section 178 of the Companies Act, 2013 is appended as Annexure A to the Board's Report.

### Declaration by Independent Directors

The Company has received declaration pursuant to Section 149(7) of the Companies Act, 2013 from each Independent Director confirming therein the criteria of Independence as prescribed both under the Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

## 3. OTHER DISCLOSURES –

### Audit Committee

The Audit Committee comprises of the following members –

Name of Director	Position
Dr. Kamal Gupta	Chairman
Sh. S. K. Soni	Member
Sh. P. P. Pareek	Member
Sh. R. S. Ramasubramaniam	Member

All the recommendations made by the Audit Committee during the year were accepted by the Board.



## Corporate Social Responsibility (CSR) Committee

The composition of the CSR Committee is as under –

Name of Director	Position
Sh. K. V. Brahmaji Rao	Chairman
Dr. Kamal Gupta	Member
Sh. S. K. Dubey	Member

The CSR policy of the Company, duly recommended by the CSR Committee and approved by the Board, is available at our website at the link <http://pnbgilts.com/data/governance/1461912787.pdf>. The CSR activity of the Company is carried out as per the instructions of the Committee and Board. During the year, the Company has spent 2 per cent of its average net profits of the three immediately preceding financial years on CSR activity.

The annual report on our CSR for the year 2016-17 in the prescribed format is presented at Annexure B to the Board's Report.

Other details of above said and other Committees of the Board are given in the 'Report on Corporate Governance' forming part of the Board's Report.

## Whistle Blower Policy (including Vigil Mechanism)

Your Company believes in conducting its affairs in a fair and transparent manner by adopting highest standards of professionalism, honesty, integrity and ethical behaviour. Your Company is committed to develop a culture where it is safe for directors and employees to raise concerns about any wrongful conduct.

The Board of Directors has approved a Whistle Blower Policy (including Vigil Mechanism), which provides a framework to promote a responsible and secure whistle blowing. It protects employees wishing to raise a concern about serious irregularities within the Company. The Audit Committee reviews the functioning of this mechanism.

No employee / director has been denied access to the Audit Committee. During the year under review, no matter has been reported to the Audit Committee. The said policy may be accessed on the Company's website at the link <http://pnbgilts.com/data/governance/1409222609.pdf>

## Contracts and Arrangements with Related Parties

All the contracts/arrangements/transactions entered by the company are in ordinary course of business and at arm's length (except those given in form AOC-2 at Annexure C). Further during the year, the Company had not entered into any contract/arrangement/transaction with related parties, which could be considered material in accordance with the Company's Policy/Standard Operating Procedures (SOP) on Related Party Transactions. The said Policy/SOP can be accessed at the Company's website at the link <http://pnbgilts.com/data/governance/1461912704.pdf>.

Necessary disclosure in prescribed form AOC-2 is annexed at Annexure C.

## Subsidiaries

The Company, being a RBI regulated Primary Dealer, is prohibited to form any subsidiary. As such, the Company has not formulated any policy for determining 'material' subsidiaries under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Further, since the Company is not having any subsidiary or associate or joint venture, it is not required to consolidate the financial statements in terms of Section 129 of the Companies Act, 2013 read with Rule 5 of the Companies (Accounts) Rules, 2014. However, the financial statements of the Company for FY 2016-17 had already been considered by its parent bank i.e. Punjab National Bank for consolidation.

### **Directors' Responsibility Statement**

Pursuant to the requirements of Section 134(3)(c) of the Companies Act, 2013, your Directors confirm that:

- (a) in the preparation of the annual accounts for the year ended March 31, 2017, the applicable accounting standards read with the requirements set out under the Schedule III to Companies Act, 2013, have been followed and there are no material departures from the same;
- (b) the Directors had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at March 31, 2017 and of the profit and loss of the Company for the year ended on that date;
- (c) the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (d) the Directors had prepared the annual accounts on a going concern basis;
- (e) the Directors had laid down internal financial controls to be followed by the Company and that such internal financial controls are adequate and were operating effectively; and
- (f) the Directors had devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

### **Human Resource Management**

Your Company treats its human resources as one of its most important assets. To ensure good human resource management in the Company, the Company focuses on all the aspects of employee lifecycle. During their tenure in the Company, employees are motivated through various skill development and volunteering programmes. Recreational programmes are also conducted on regular basis so as to create stress-free environment. All the while, the Company also creates effective dialogues through various communication channels like face to face interactions so as to ensure that feedback reach the relevant teams. In house meetings and training sessions are also arranged to engage and develop the employees and to gather ideas around innovation.

The information required to be disclosed under Section 197(12) and Rule 5 (1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 is provided at Annexure D.

The information required to be disclosed under Rule 5(2) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 be treated as NIL as there was no employee, whether employed throughout the year 2016-17 or part thereof, who was in receipt of remuneration beyond the limits laid down in above said Rule. No employee is related to any Director of the Company.

During the year 2016-17, there were no cases filed pursuant to the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013.

### **Particulars of Loans given, investment made, guarantees given and securities provided**

The information required to be disclosed under Section 134(3)(g) of the Companies Act, 2013 may be treated as 'Nil', as the Company is exempted under Section 186(11) of the Companies Act, 2013.

### **Extract of the Annual Return**

Extract of Annual Return of the Company is annexed herewith as Annexure E to this Report.

### **Deposits**

During the year ended March 31, 2017, 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.