



(A subsidiary of Punjab National Bank)

23rd

ANNUAL REPORT

2018-19

Board of Directors



Shri Sunil Mehta
Chairman



Shri Vikas Goel
Managing Director & CEO



Smt. Sunita Gupta
Executive Director & CFO



Shri P.P. Pareek
Independent Director



Shri S. K. Kalra
Independent Director



Smt. Uma Ajay Relan
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**

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Chairman's Letter to Shareholders

Dear Shareholders,

I have immense pleasure in presenting the Annual Report of your Company for the FY'19.

The year 2018 was difficult for the global economy, with the world output growth falling from 3.8 per cent in 2017 to 3.6 per cent in 2018. The slowdown in the Emerging Market and Developing Economies (EMDEs) followed the escalation of US China trade tensions, tighter credit policies in China, and financial tightening alongside the normalization of monetary policy in the larger advanced economies. For Indian economy, the growth moderated in FY 2018-19 at 6.8 per cent, slightly lower than 7.2 per cent in FY 2017-18. This moderation in growth momentum is mainly on account of lower growth in 'Agriculture & allied', 'Trade, hotel, transport, storage, communication and services related to broadcasting' and 'Public administration & defence' sectors. Despite deceleration, India continues to be the fastest growing major economy in the world. India maintained its macroeconomic stability by containing inflation within 4 per cent and by maintaining a manageable current account deficit to GDP ratio. The current account deficit to GDP was higher in FY 2018-19 as compared to FY 2017-18, primarily due to higher oil prices, which were about 14 \$/bbl higher in FY 2018-19 vis-à-vis the previous year. On government finances, fiscal deficit for FY 2018-19 remained within the revised budget target of 3.4 per cent of the GDP.

In FY'19, the debt market, which is the core area of our operations, exhibited strong volatility and closely tracked the movement in oil prices, domestic liquidity and rupee exchange rate. In the first half of the FY, the bond markets rattled with higher US interest rates, risk-off sentiment in EMEs and escalation of trade wars, rising geopolitical turmoil and fear of spreading of contagion risks from specific EMEs. Depreciating rupee, sticky headline and core inflation, rising up of crude oil prices made things murkier for the Indian bond markets in H1. Concerns over GST collection and the fiscal health of the economy also worsened the situation. RBI reacted by giving 2 consecutive rate hikes in H1. By the end of H1, the yield on the 10 year benchmark had touched levels of 8.23 per cent intraday. However, H2 of FY 2018-19 witnessed a reversal in the yields. Economic activity decelerated in all major advanced and emerging market economies with rising trade tensions. Crude oil prices began to ease. On the domestic front, rupee appreciated, RBI infused durable liquidity into the

market through OMOs, inflation was lower and RBI eased its inflation and growth forecasts. By the February, 2019 policy, the RBI had not only cut rates by 25 bps but had also reverted back to its neutral stance. The announcement of USD/INR swap auctions to infuse liquidity into the system added positivity towards the end of the year.

The major challenge before the company in FY 2018-19 was migration to new accounting system Ind-AS. Under the same, valuation of securities has to be done at fair value through P&L. Accordingly, all appreciation and depreciation of assets was taken into balance sheet. Based on Ind-AS, Company posted a Profit before Tax of ₹ 83.02 crore in FY 2018-19 as against Ind-AS reinstated profit of ₹ 1.32 crore in FY 2017-18 (As per IGAAP profit before tax amounted to ₹ 55.28 crore in FY 2017-18). The Net Worth of the company stood at ₹ 885.66 crore as on March 31, 2019. The company is adequately capitalized with capital adequacy ratio of 36.59 per cent as on March 31, 2019, against RBI's minimum stipulation of 15 per cent.

The 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. Incessant support of all our shareholders has been our driving force. We are immensely grateful to you for your cooperation and support which has helped us manage the profitability against odds.

Looking Ahead

In FY 2019-20, the moderation of global growth and the weakening of investment in capital goods is expected to be countered by higher financial flow to commercial sector and rising private consumption, especially in the rural sector thereby accelerating economic momentum. RBI in its monetary policy statement of June 6, 2019 has projected a GDP growth of 7.0 per cent with risks evenly balanced. The GDP growth in the next year is expected to be supported by the continued recovery of investment, robust consumption amid a more expansionary stance of monetary policy and expected impetus from fiscal policy. Going forward, in context of the Indian Economy, there will be a judicious mix of fiscal prudence and monetary stimulus to resurrect the growth momentum. 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 strong 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

Date : July 9, 2019
Place : New Delhi

BOARD'S REPORT

Dear Members,

Your Directors are pleased to present the Twenty Third Annual Report together with the Company's audited financial statements for the financial year ended March 31, 2019.

1. RESULTS OF OUR OPERATIONS AND STATE OF AFFAIRS

Your company has prepared the financial statements for the financial year 2018-19 in accordance with the applicable Indian Accounting Standards (Ind-AS) and the corresponding figures for the previous year have been restated as per Ind-AS for the purpose of comparison.

The Company's financial performance, for the year ended March 31, 2019 is summarized below:

	For the year ended 31.3.2019	For the year ended 31.3.2018
Total Income	50801.34	40244.86
Less : Total Expenditure	42499.27	40112.98
Profit/(loss) Before Tax	8302.07	131.88
Less : Tax Expense	3016.29	(9.55)
Profit for the period	5285.78	141.43
Other Comprehensive Income	(55.43)	(3.34)
Total Comprehensive Income	5230.35	138.09
Opening Balance in Retained Earnings	18710.60	25051.51
Amount available for appropriation	23940.95	25189.60
Transfer to Other Reserve	1057.16	1062.60
Final Dividend FY 2017-18 / FY 2016-17	1800.10	4500.25
Dividend Distribution Tax of FY 2017-18 / FY 2016-17	370.03	916.15
Closing Balance in Retained Earnings	20713.66	18710.60

Debt market started the year 2018-19 on a bearish note on back of inflation concerns, elevated crude prices and absence of demand of government securities by investors. This was further accentuated by two repo rate hikes of 25 basis points each by RBI from 6.00 per cent to 6.50 per cent. Reflecting the above, the yield of government securities remained volatile with an upward bias. However, with fall in crude prices and rupee appreciation alongwith lower inflation, announcement of OMO purchase by RBI and repo rate cut of 25 basis points in February, 2019 RBI policy, there was moderation of government bond yields during second half of the financial year. The yield on old 10 year benchmark paper touched a high of 8.23 per cent as against 7.40 per cent on March 31, 2018 and closing yield as on March 31, 2019 was 7.49 per cent. The yield on new 10 year benchmark, issued on January 11, 2019, increased from 7.26 per cent to 7.35 per cent as on March 31, 2019.

Despite the heightened volatility, Company managed to post a Profit before Tax of ₹ 8302.07 lacs in FY'19 against the Ind-AS restated Profit before Tax of ₹ 131.88 lacs in FY'18. Additionally, the 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 41.16 per cent and 40.40 per cent in H1 and H2 respectively. In G-sec category, Company fulfilled the underwriting commitments, thereby supporting the government borrowing program. Company's total turnover ratio (secondary market) stands at 179 times for treasury bills and 303 times for government-dated securities as on March 31, 2019 against the minimum RBI stipulation of 10 times and 5 times respectively.

Material Changes and Commitments

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

Capital Adequacy

Capital adequacy ratio as on March 31, 2019 stood at 36.59 per cent as against the RBI stipulation of 15 per cent.

Dividend

Your Board has recommended a dividend of ₹ 1.40 (i.e. 14 per cent) per equity share (last year ₹ 1 per equity share) for the financial year ended March 31, 2019, subject to approval in the ensuing Annual General Meeting. The total outflow on account of said dividend shall be ₹ 3038.16 lacs (including Dividend Distribution Tax of ₹ 518.02 lacs).

Transfer to Reserves

Your Company proposes to transfer ₹ 1057.16 lacs in Statutory Reserve as required under the provisions of Section 45-IC of the Reserve Bank of India Act, 1934. 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 Pranav Kumar & Associates, Company Secretaries regarding compliance of conditions of Corporate Governance as stipulated in the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("the Listing Regulations") is enclosed with the 'Report on Corporate Governance' forming part of the Board's Report.

Number of meetings of the Board

The Board met seven times during the financial year 2018-19 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 Board's Report.

Directors and Key Managerial Personnel

During 2018-19, Sh. R.S. Ramasubramaniam (DIN:00008937), Independent Director, resigned from directorship of the Company w.e.f. July 3, 2018 due to his personal reasons. He has confirmed there are no other material reasons other than those provided. Your Board places on record its appreciation for the valuable contribution made by him during his tenure as director.

Further, during the year 2018-19 the nomination of Sh. K.V. Brahmaji Rao (DIN: 06861202), Non-Executive & Non-Independent Director, was withdrawn by PNB, parent bank w.e.f. August 10, 2018. In his place, your Board appointed Sh. A.K. Pradhan (DIN: 06777880) as an Additional Director (Non-Executive & Non-Independent) w.e.f. August 10, 2018. Thereafter, the members in their Annual General Meeting held on September 15, 2018 approved the appointment of Sh. A. K. Pradhan (DIN : 06777880), Additional Director as Director (under Non-Executive and Non-Independent category). He resigned from the Directorship of the Company w.e.f. 30.04.2019, consequent upon his appointment as Chief Vigilance Officer of the New India Assurance Co. Ltd. Your Board places on record its appreciation for the valuable contribution made by him during his tenure as director.

In the same meeting, the members approved appointment of Sh. S. K. Kalra (DIN: 01952165) as an Independent Director for a period of 5 years from September 15, 2018.

Tenure of Sh. S. K. Dubey (DIN: 01770805), Managing Director and Key Managerial Personnel was till January 31, 2019. Your Board places on record his valuable contribution as an executive member of the Board and its Committees. In his place, your Board has appointed Sh. Vikas Goel (DIN: 08322541) as an Additional Director with the designation 'Managing Director & CEO' for a period of 3 years w.e.f. February 1, 2019 subject to shareholders' approval in General Meeting. Sh. Vikas Goel has also been designated as Key Managerial Personnel in place of Sh. S.K. Dubey.

Sh. S. K. Soni (DIN: 00046856), the Independent Director and aged above 75 years ceased to be a Director of the Company w.e.f April 01, 2019 in compliance with Regulation 17 (IA) of the Listing Regulations. Your Board

places on record his valuable contribution as member of the Board and its Committees.

Pursuant to the provisions of the Companies Act, 2013 ("Act"), Sh. P. P. Pareek (DIN: 00615296) was appointed as an Independent Director to hold office for five consecutive years for a term upto August 29, 2019 by the Members of the Company in the 18th Annual General Meeting held on August 30, 2014. Sh. P. P. Pareek is eligible for re-appointment as an Independent Director for another term of five consecutive years. Pursuant to the recommendation of Nomination and Remuneration Committee and based on the report of performance evaluation, the Board recommends for the approval of the Members through a Special Resolution in the 23rd Annual General Meeting, re-appointment of Sh. P.P. Pareek as an Independent Director for another term of five consecutive years from August 30, 2019 upto August 29, 2024.

Further, based on the recommendation of Nomination and Remuneration Committee, the Board appointed Smt. Uma Ajay Relan (DIN: 07087902) as an Additional Director in the category of Independent Director on June 28, 2019 for a term of 5 consecutive years effective from June 28, 2019, subject to the shareholders approval in the ensuing Annual General Meeting. Smt. Uma Ajay Relan has submitted the required declaration of independence as required under Section 149(7) of the Companies Act, 2013. In the opinion of the Board, Smt. Uma Ajay Relan fulfills the conditions specified under the Companies Act, 2013 and Rules made thereunder and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and she is independent of the management.

Further, in accordance with the provisions of the Companies Act, 2013 and the Articles of Association of the Company, Smt. Sunita Gupta (DIN: 06902258) shall retire by rotation in the ensuing Annual General Meeting and being eligible, offers for reappointment.

Further, none of the Directors are debarred from holding the office of Director pursuant to order of SEBI or any other authority.

Dr. Kamal Gupta (DIN:00038490), Independent Director, resigned from the directorship of the Company w.e.f. June 28, 2019 due to his personal reasons. He has confirmed that there are no other material reasons other than those provided. Your Board place on record its appreciation for the significant contribution made by him during his tenure as director of the Company.

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, SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and also Guidance Note on Board Evaluation as prescribed by SEBI. The performance of all the Directors, the Board as a whole and its Committees was evaluated after seeking inputs from the directors based on the criteria and framework adopted by the Board. The evaluation criteria are based on the Guidance Note on Board Evaluation issued by the Securities and Exchange Board of India on January 5, 2017.

In a separate meeting of independent directors, performance of non-independent directors, the board as a whole and the Chairman of the Company was evaluated, taking into account the views of executive directors and non-executive directors.

The Board and the Nomination and Remuneration Committee reviewed the performance of individual directors on the basis of criteria such as the contribution of the individual director to the board and committee meetings like preparedness on the issues to be discussed, meaningful and constructive contribution and inputs in meetings, etc.

In the board meeting and meeting of Nomination and Remuneration Committee, the performance of the board, its committees, and individual directors was also discussed. Performance evaluation of independent directors was done by the entire board, excluding the independent director being evaluated.

Copy of said policy, inter-alia, containing the process and criteria for evaluation is available at Company's website at the link <https://pnbgilts.com/data/governance/1523278049.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 <https://www.pnbgilts.com/data/governance/1554113675.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 formulates the criteria for determining qualifications, competencies, positive attributes and independence of a Director and other matters like remuneration of directors, key managerial personnel, senior management and other employees. The policies are appended as Annexure A to the Board's Report. These policies were amended in line with the requirements of SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2018. Key changes include, inter alia addition of key skills/competencies etc. matrix for Board of Directors.

Declaration by Independent Directors

The Company has received declarations from all the Independent Directors confirming that they meet the criteria of independence as prescribed under the provisions of Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. In terms of Regulation 25(8) of the Listing Regulations, the Independent Directors have confirmed that they are not aware of any circumstance or situation, which exist or may be reasonably anticipated, that could impair or impact their ability to discharge their duties.

3. OTHER DISCLOSURES –

Audit Committee

The composition of Audit Committee during FY 2018-19 was as under–

Name of Director	Position
Dr. Kamal Gupta ¹	Chairman
Sh. S. K. Soni ²	Member
Sh. P. P. Pareek ³	Member
Sh. R. S. Ramasubramaniam ⁴	Member
Sh. S. K. Kalra ⁵	Member

¹ Chairman of Audit Committee till March 29, 2019 and thereafter, he is member of this Committee.

² Member of Audit Committee till March 29, 2019.

³ Chairman of Audit Committee w.e.f. March 30, 2019. Prior to this, he was member of this Committee.

⁴ Relinquished the position of Independent Director and consequently ceased to be a member of this Committee w.e.f. July 3, 2018.

⁵ Member of the Audit Committee w.e.f. September 15, 2018.

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 during FY 2018-19 was as under –

Name of Director	Position
Sh. K. V. Brahmaji Rao ¹	Chairman
Dr. Kamal Gupta ²	Chairman
Sh. S. K. Kalra ³	Chairman
Sh. P. P. Pareek ⁴	Member
Sh. A. K. Pradhan ⁵	Member
Sh. S. K. Dubey ⁶	Member
Sh. Vikas Goel ⁷	Member

¹ Nomination withdrawn by the parent bank w.e.f. August 10, 2018 and consequently ceased to be a member of this Committee w.e.f. August 10, 2018.

² Dr. Kamal Gupta, who was member of this Committee was made Chairman of the Committee w.e.f. August 10, 2018. W.e.f. March 30, 2019, he is member of this Committee.

³ Inducted as Chairman of Committee w.e.f. March 30, 2019.

⁴ Inducted as Member of Committee w.e.f. August 10, 2018.

⁵ His tenure of membership of this Committee is from August 10, 2018 to March 29, 2019.

⁶ Tenure as Managing Director was till January 31, 2019, thus ceased to be a member of this Committee w.e.f. February 1, 2019.

⁷ Appointed as Member w.e.f. February 1, 2019.

The CSR policy of the Company, duly recommended by the CSR Committee and approved by the Board, is available at Company's website at the link <http://pnbgilts.com/data/governance/1523278002.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 the CSR for the year 2018-19 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 such 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/1523277954.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 2018-19 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, 2019, 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 judgments 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, 2019 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