



(A subsidiary of Punjab National Bank)

# **24th**

# **ANNUAL REPORT**

# **2019-20**

## Board of Directors\*



**Shri P.P. Pareek**  
(Independent Director)



**Shri S. K. Kalra**  
(Independent Director)



**Smt. Uma Ajay Relan**  
(Independent Director)



**Dr. T. M. Bhasin**  
(Independent Director)



**Shri V. K. Srivastava**  
(Non – Executive &  
Non–Independent Director)



**Shri Vikas Goel**  
Managing Director & CEO



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

## 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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### Safe Harbour Statement

*Statements in this Annual Report describing the Company's objectives, expectations or forecasts may be forward looking within the meaning of applicable laws and regulations. While these forward-looking statements exemplify our judgment and future expectations concerning the development of our business, a number of risks and uncertainties and other important factors viz. economic conditions affecting demand and supply, government regulations, natural calamities and so on, may cause actual development and results to differ materially from our expectations. The Company undertakes no obligation to publicly revise any forward-looking statements to reflect future events or circumstances.*



## *Chairman's Letter to Shareholders*

### **Dear Shareholders,**

It is my privilege to write to you as the Chairman of PNB Gilts Ltd. I am happy to present the Annual Report for Financial Year 2019-20 to you.

The year 2019-20 was an unprecedented period for the global economy as the COVID19 crisis precipitated into a full blown economic crisis of a magnitude comparable to the Great Depression of the 1929. The COVID19 health crisis resulted in worldwide lockdowns which disrupted demand and supply chains across all the global economies simultaneously. The world economy is projected to contract by 4.9 per cent in 2020 according to IMF world economic outlook.

The Indian economy witnessed significant slowdown in growth in FY 2019-20 due to falling consumer demand and private investment. During the year, real GDP growth declined from 6.1 per cent in FY 2018-19 to 4.2 per cent (provisional) in FY 2019-20. India's external position improved with the current account deficit narrowing to 0.9 per cent of GDP in FY 2019-20 from 2.1 per cent in FY 2018-19 on the back of the trade deficit which shrank to USD 157.5 billion. India's Fiscal Deficit position, however, deteriorated significantly during the year on account of sharp fall in tax and non-tax revenues and burgeoning government expenditure to counter the economic slowdown. The Fiscal Deficit for FY 2019-20 is at 4.6 per cent as against the budgeted Fiscal Deficit of 3.3 per cent of GDP.

The Financial Year 2019-20 was marked by falling interest rates and availability of surplus liquidity in the banking system, which aided demand for government bonds and other fixed income products. However, the markets also faced significant challenges in terms of rising domestic inflation and high Fiscal Deficit which resulted in sharp volatility especially during the second half of the year. With respect to the monetary policy stance, the overriding objective of RBI remained supporting economic growth as a result of which it maintained an accommodative stance throughout the year, reducing the policy rates by an unprecedented 185 bps and infusing massive liquidity in the system. During the year, RBI remained in combat mode and used both conventional and unconventional tools to ease the persisting economic strain and the additional stress caused by the COVID19 crisis later towards the end of the financial year.

Your Company navigated through the exceptionally challenging time and leveraged the available opportunities efficiently to post excellent results for FY



2019-20. During the year, Company strengthened its core business strategies and scaled up the Balance Sheet size significantly which resulted in augmenting the core income. Company also enhanced its retail business segment and forayed into Debt Capital Market (DCM) Business as arrangers of primary issuances of Corporate Bonds. Your Company posted a PBT of Rs. 249.81 crore in FY 2019-20, which is a 200 per cent increase from a PBT of Rs. 83.02 crore posted in FY 2018-19. The NOF of the Company increased to Rs. 1002.19 crore as on March 31, 2020 as against Rs. 885.66 crore as on March 31, 2019. The Company remained adequately capitalized during the entire year and capital adequacy ratio as on March 31, 2020 stood at 32.47 per cent against RBI's minimum stipulation of 15 per cent. I am glad to inform you that in time of crisis and otherwise as well, your Company made a difference by contributing towards various social causes. Company undertook CSR projects through various implementing agencies and also contributed Rs. 2.75 crore (Rs. 1.75 crore in FY 2019-20 and Rs. 1.00 crore in FY 2020-21) to PM-CARES Fund set up by Government of India for dealing with the ongoing COVID19 health crisis.

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 in these challenging times.

### Forward Guidance

The ongoing COVID19 crisis has been an unprecedented challenge for individuals and organizations alike. The magnitude of the crisis was unforeseen and management of the same brought to the fore measures that could well have been thought of as implausible during normal times. Your Company remained proactive and invoked its Business Continuity Plan in order to tide over the crisis without hampering the operational efficiency and compromising with the employees' welfare. Your Company is charting a growth path and we intend to make this journey strong and sustainable with the right mix of a strong team and strategies aided with technological enhancements. We are confident that with a strong Business Continuity Plan, a dynamic and proactive management and the trust of our stakeholders, your Company shall weather the crisis and chart newer heights in the years to come.

I, on behalf of our Company, 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,

Sd/-

Date : September 4, 2020

(P.P. Pareek)\*  
Chairman

\* Sh. P. P. Pareek was unanimously elected as Chairman.

## BOARD'S REPORT

**Dear Members,**

Your Directors are pleased to present the Twenty Fourth Annual Report together with the Company's audited financial statements for the financial year ended March 31, 2020.

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

The Company's financial performance, for the year ended March 31, 2020 is summarized below:

(₹ in lacs)

	For the year ended 31.03.2020	For the year ended 31.3.2019
Total Income	88259.87	50801.34
Less : Total Expenditure	55157.72	42499.27
Exception Items	8121.58	-
Profit/(loss) Before Tax	24980.57	8302.07
Less : Tax Expense	6345.11	3016.29
<b>Profit for the period</b>	<b>18635.46</b>	<b>5285.78</b>
Other Comprehensive Income	(115.19)	(55.43)
Total Comprehensive Income	18520.27	5230.35
Opening Balance of Retained Earnings	20713.66	18710.60
Closing Balance of Retained Earnings	32472.45	20713.66
Earnings per share (Rs.)	10.35	2.94

The financial year 2019-20 was a challenging year for the bond market which witnessed huge volatility. Initially, the yields fell, triggered by successive rate cuts by RBI on account of persistent growth concerns. However, reduction in corporate tax structure resulting in concerns on weak Government finances and rise in CPI inflation above RBI's target weighed on sentiments and market turned extremely cautious. Operation twist by RBI did help to improve the sentiments but it was again short lived with expectation of additional borrowing in the Union Budget weighing on market sentiments. It was only towards the close of the year, RBI took some unprecedented measures in order to mitigate the risks to the economy from the Covid crisis by slashing the repo rate by 75 basis points, Reverse Repo rate by 90 basis points & CRR by 1 per cent besides announcing a host of regulatory forbearance & massive liquidity infusion measures in order to avoid major setbacks in the financial system and freezing of credit flow. The bond markets reacted positively to these steps and the 10-yr closed the year at 6.14 per cent. Thus the 10 year bond yield which opened at 7.35 per cent, touched a high of 7.47 per cent and a low of 5.98 per cent closed the year at 6.14 per cent.

During FY'20, Company posted excellent profits with PBT at Rs. 24980.57 lacs vis-à-vis PBT of Rs. 8302.07 lacs during FY'19. The PBT achieved during the year is post complete write off of bonds of DHFL and RHFL (non-payment of principal and interest) and currently there are no default bonds in the books of the company. Additionally, Company continued to fulfill 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 41.10 per cent and 40.24 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 190 times for treasury bills and 422 times for government-dated securities as on March 31, 2020 against the minimum RBI stipulation of 10 times and 5 times respectively.

#### Impact of COVID-19

In the last month of FY 2020, the COVID-19 pandemic developed rapidly into a global crisis, forcing governments to enforce lock-down of all economic activity. Your Company, being a Primary Dealer, is in the list of essential services provider. Accordingly, the company has not faced any business stoppage / interruption on account of lockdown. Based on existing facts and circumstances, the Company does not anticipate any material uncertainties which can affect its liquidity position or its ability to continue as a going concern.

The Company has ensured the health and well-being of all its employees and continuation of its business operations as well without any disruption. From a highly centralized model consisting of work spaces set up in different locations of the country, the switch to work from home for employees through its BCP model was carried out seamlessly much before the lockdown restrictions imposed by the Government. In this model, work from home was enabled to close to 81 per cent of the employees to work remotely and securely. Remaining employees operated from different office locations without any health issues.

Under the prevailing most challenging conditions, your Company, through its pro-active approach and prudent risk management practices and systems etc., has been able to run the business operations successfully. Your Company stands committed towards its employees, clients, government and the society. As a measure of CSR, your Company during the year 2019-20 has given a sum of Rs. 175.56 lacs to PM Cares Fund set up by the Govt. of India for dealing in emergent situations like Covid-19. In addition to this, the company has given Rs. 100 lacs under its CSR activity of current fiscal i.e. 2020-21.

### **Material Changes and Commitments**

Save as otherwise provided in this report, 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, 2020 stood at 32.47 per cent as against the RBI stipulation of 15 per cent.

### **Dividend**

Your Board has recommended a dividend of ₹ 3 (i.e. 30 per cent) per equity share (last year ₹ 1.40 per equity share) for the financial year ended March 31, 2020, subject to approval in the ensuing Annual General Meeting. The total outflow on account of said dividend shall be ₹ 5400.30 lacs.

### **Transfer to Reserves**

Your Company proposes to transfer ₹ 3727.09 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 Corporate Governance section of this 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 five times during the financial year 2019-20 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 the year 2019-20, Dr. Kamal Gupta (DIN: 00038490), Independent Director, resigned from the directorship of the Company w.e.f. June 28, 2019.

The members in their Annual General Meeting held on August 28, 2019 approved the re-appointment of

Sh. P. P. Pareek (DIN : 00615296), as an Independent Director for another term of 5 consecutive years from August 30, 2019 to August 29, 2024.

In the same meeting, the members also approved the following appointments-

- Smt. Uma Ajay Relan (DIN: 07087902) as an Independent Director for a period of 5 years from June 28, 2019 to June 27, 2024.
- Dr. T. M. Bhasin (DIN: 03091429) as an Independent Director for a period of 5 years from July 30, 2019 to July 29, 2024.
- Sh. V. K. Srivastava (DIN: 07234326), General Manager & Group Chief Risk Officer of Punjab National Bank as a Non-Executive Director.
- Sh. Vikas Goel (DIN: 08322541) as Managing Director & CEO for a period of 3 years from February 01, 2019 to January 31, 2022. Sh. Vikas Goel is also Key Managerial Personnel of the Company.

Further, consequent to completion of tenure as Managing Director & CEO of Punjab National Bank, Sh. Sunil Mehta (DIN:07430460), Chairman of the Company resigned from the Board of the Company w.e.f September 30, 2019. Your Board places on record its appreciation for the valuable contribution and guidance extended by him during his tenure as Chairman.

Further, in accordance with the provisions of the Companies Act, 2013 and the Articles of Association of the Company, Sh. Vikas Goel (DIN: 08322541) shall retire by rotation in the ensuing Annual General Meeting and being eligible, offers himself for reappointment.

The tenure of Smt. Sunita Gupta (DIN: 06902258), Whole-Time Director (designated as 'Executive Director & CFO') was upto August 31, 2020. Accordingly, she ceased from her position in Company w.e.f September 1, 2020.

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

### **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 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://www.pnbgilts.com/data/governance/1554113642.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/1576737306.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.

### 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. All the Independent Directors have got themselves registered with Indian Institute of Corporate Affairs. The Board is of the opinion that the Independent Directors of the Company possess requisite qualifications, experience and expertise and they hold highest standards of integrity.

### Business Responsibility Report

Business Responsibility Report for the year under review, as stipulated under Regulation 34(2)(f) of SEBI (LODR) Regulations, forms part of the Annual Report.

## 3. OTHER DISCLOSURES –

### Audit Committee

The composition of Audit Committee during FY 2019-20 was as under–

Name of Director	Position
Sh. P. P. Pareek	Chairman
Dr. Kamal Gupta <sup>1</sup>	Member
Sh. S. K. Kalra	Member
Smt. Uma Ajay Relan <sup>2</sup>	Member
Dr. T. M. Bhasin <sup>3</sup>	Member

1 Relinquished the position of Independent Director and consequently ceased to be a member of the Committee w.e.f. June 28, 2019.

2 Member of the Committee w.e.f. June 28, 2019.

3 Member of the Committee w.e.f. November 9, 2019.

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

### Corporate Social Responsibility (CSR) Committee

For composition of the CSR Committee during FY 2019-20, please refer the Annual Report on CSR at Annexure B.

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 <https://www.pnbgilts.com/data/governance/1589174288.pdf>. During the year 2019-20, the scope of activities that can be undertaken under CSR policy of the Company has been widened and modalities for implementation have been clarified in the Policy. The CSR activity of the Company is carried out as per the instructions of the Committee and Board. During the year 2019-20, 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 2019-20 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 and 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 <https://www.pnbgilts.com/data/governance/1554113767.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 transactions with related parties which could be considered material in accordance with the company policy / standard operating procedures (SOP) on related party transactions Company's Policy/SOP on Related party Transactions can be accessed at the Company's website at the link <https://www.pnbgilts.com/data/governance/1554113744.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 2019-20 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, 2020, 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, 2020 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