



PNB  
GILTS  
LTD

(A subsidiary of Punjab National Bank)

# Silver Jubilee Year



# 25th

# ANNUAL REPORT

# 2020-21

## Board of Directors\*



**Shri S. K. Saha**  
Chairman  
(Non-Executive & Non-Independent)



**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 Ashutosh Choudhury**  
Non-Executive &  
Non-Independent Director



**Shri Vikas Goel**  
Managing Director & CEO

## 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

Chairman's Letter to Shareholders.....	2
Board's Report.....	4
Management Discussion and Analysis.....	24
Report on Corporate Governance .....	32
Annual Business Responsibility Report.....	51
Financial Review .....	59
Independent Auditor's Report and Comments of the C&AG of India .....	60
Balance Sheet .....	73
Statement of Profit and Loss .....	75
Statement of Changes in Equity .....	77
Statement of Cash Flows .....	79
Notes to Financial Statements.....	81
Schedule to Balance Sheet of a Non-Deposit taking Non-Banking Financial Company .....	144
Financials at a Glance .....	148
Notice of AGM .....	149
E-Communication Registration form.....	164

### 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. and I feel honored to accept the responsibility to Chair the Board. I have immense pleasure in presenting the Annual Report of your Company for Financial Year 2020-21.

The year 2020-21 saw one of the worst in terms of humanitarian as well as an economic crisis, which reverberated across geographies. The first half of the year was especially painful as the world struggled with an unabated rise in COVID infections, which resulted in disruption of economic activities, purging supplies and demand simultaneously. The first quarter GDP figures reflected the damage to the global economy with India registering a sharp contraction of 24.4 per cent. After a much painful first half of the year, the second half brought some hope on breakthrough in vaccine and launch of vaccination process in some countries by end of December 2020. The opening up of the economies is depended upon pace of vaccination and advanced economies led the way, vaccinating their population rapidly, which helped in consumer demand to return to the fore. Though developing economies were initially slow in vaccine procurement and vaccination drive, however, with vaccination programmes gaining momentum across the globe, economic activity is expected to return to normalcy. All throughout the period, the central banks and governments remained in battle ready mode, taking unprecedented measures to mitigate the impact of the crisis and in absence of these measures, the impact of the crisis would have been far worse.

On the domestic front, the Indian economy witnessed contraction of 7.3 per cent during FY 2020-21 as private consumption and investment activity sank significantly. During FY 2020-21, Private Final Consumption Expenditure contracted by 9.14 per cent y-o-y, while Gross Fixed Capital Formation contracted by 10.78 per cent. Government Final consumption Expenditure, however acted as cushioning factor to the decimated economic activity, playing its much-required counter cyclical role.

Throughout the year, RBI remained attuned with its primary goal of reviving economic growth and undertook several pre-emptive and growth supportive measures. RBI reduced repo rate by 115 bps to 4 per cent during March to May 2020, taking the cumulative easing in the current easing cycle (beginning from February 2019) to 250 bps. Besides, RBI also undertook several conventional



and unconventional policy measures to ensure normal functioning of the financial system and markets. RBI resorted to open market operations and provided explicit time based guidance in its monetary policy reviews, which helped in smooth conduct of the government-borrowing program during the year.

I am pleased to say that your Company posted a much improved performance results for FY 2020-21, despite the uncertain and challenging economic scenario in which it operated. In the midst of a raging pandemic, your Company ensured that all necessary and proactive steps were taken to prevent any disruption in its operation. Profit before Tax (PBT) of your Company witnessed a substantial increase with PBT of ₹ 614.35 Crore in FY 2020-21 as against ₹ 249.81 Crore in FY 2019-20. The record profitability during the year was driven by a robust rise in its core income. The NOF of the Company strengthened to ₹1305.69 Crore as on March 31, 2021 as against ₹ 1002.19 Crore as on March 31, 2020. I am pleased to state that your Company has declared the highest dividend of ₹10 per share for FY2020-21. The Company remained adequately capitalized during the entire year and capital adequacy ratio as on March 31, 2021 stood at 45.58 per cent against RBI's minimum stipulation of 15 per cent. I am glad to inform you that your Company continues to make a difference by contributing towards various social causes. Company undertook several CSR projects contributing ₹ 2.08 Crore towards health care, education, defence services, environmental conservation etc.

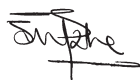
The company fulfilled all its obligations as a Primary Dealer by successfully adhering to the stipulations laid down by the Regulator(s). Besides, effective risk management systems kept the Company's risk profile in check throughout the year. Continuous support of all our shareholders has been our driving force year by year. We are immensely grateful to you for your cooperation and support which has helped us deliver in these challenging times.

### Forward Guidance

The new financial year began on a somber note as the pandemic turned virulent raging across the urban and rural areas of the country. The expectations of monetary policy returning to normalization in FY2021-22, ebbed as growth concerns resurfaced, with RBI also expressing its concerns over the same. The economic environment remains uncertain as fears of multiple waves surfacing and the damage inflicted by the earlier waves on income and demand is likely to push recovery farther. In such uncertain times, your Company shall continue to remain proactive in ensuring that the operations remain smooth and disruption free. Your Company remains committed to adapt best practices in all its processes and on back of a dynamic and proactive management and carrying the trust of our stakeholders, your Company shall continue to grow well in years to come.

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

Yours Sincerely,



**(Swarup Kumar Saha)**  
Chairman

Date: August 24, 2021  
Place: New Delhi

## BOARD'S REPORT

Dear Members,

Your Directors are pleased to present the Twenty Fifth Annual Report together with the Company's audited financial statements for the financial year ended March 31, 2021.

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

The Company's financial performance, for the year ended March 31, 2021 is summarized below:

(₹ in lacs)

	For the year ended 31.03.2021	For the year ended 31.3.2020
Total Income	105227.40	88259.87
Less : Total Expenditure	42920.08	55157.72
Exceptional Items	(872.62)	(8121.58)
Profit/(loss) Before Tax	61434.70	24980.57
Less : Tax Expense	16023.02	6345.11
<b>Profit for the period</b>	<b>45411.68</b>	<b>18635.46</b>
Other Comprehensive Income	(26.49)	(115.19)
Total Comprehensive Income	45385.19	18520.27
Opening Balance of Retained Earnings	32472.45	20713.66
Closing Balance of Retained Earnings	50774.29	32472.45
Earnings per share (Rs.)	25.23	10.35

During the financial year 2020-21, debt market witnessed heightened action because of macroeconomic imbalances induced by the COVID crisis. The economy faced severe headwinds as the COVID crisis and the nationwide lockdown restricted economic activity, leading to disruption in business, an increase in unemployment, and a sharp reduction in private investment and consumption. In a synchronized move, along with other central banks of the world, RBI also changed its monetary policy stance to highly accommodative, slashing the Repo rate by 75 basis points on March 27, 2020 followed by a 40 basis points cut in Repo rate on May 22, 2020. Besides the reduction in policy rates, RBI announced liquidity infusion measures such as Cash Reserve Ratio cut, Long Term Repo Operations, and a host of regulatory forbearance measures in response to the extreme economic shock. The 10-yr yield plunged by more than 75 basis points in response to monetary policy response to the crisis from 6.50 per cent in April, 2020 to 5.73 per cent in May, 2020. The bond yields however faced upward pressure as GOI rolled out fiscal stimuli, which led to additional borrowing requirements. During the year, GOI borrowing increased to an unprecedented ₹12.60 trillion. However, active intervention by RBI through regular Open Market Operations (OMO) and Operation Twists, prevented yields from rising sharply despite heavy supplies. During the year, RBI bought ₹3.10 trillion of GOI securities on a net basis through OMOs. Inflation also remained stubbornly high owing to high food price inflation and an increase in taxes on fuel, which resulted in cost-push pressures in the economy. Global factors remained largely favorable as yields remained soft while crude oil prices also remained contained amidst weak global demand. In a year which turned out to be unprecedented for global and domestic markets, the 10-yr benchmark yield touched a high and low of 6.50 per cent and 5.73 per cent respectively, and closed at 6.18 per cent as on March 31, 2021 vis-à-vis previous year's closing of 6.14 per cent.

Against the backdrop of volatile market conditions, Company continued to fulfill all its obligations as a Primary Dealer mandated by RBI in Primary and Secondary markets. Company leveraged the favorable conditions prevalent in the market by 1) adequate stock size; 2) well-timed entry and exit; 3) emphasis on carry income in a low funding cost environment; 4) hedging the price exposure. As a result of all the above, Company posted a record Profit before Tax (PBT) of ₹ 61434.70 lacs during FY 2020-21 as against a PBT of ₹ 24980.57 lacs

during FY 2019-20. Profit after tax (PAT) for FY 2020-21 stood at ₹ 45411.68 lacs as against ₹ 18635.46 lacs during FY 2019-20. Capital adequacy remains strong with its capital to risk weighted assets ratio (CRAR) at 45.58 per cent as on March 31, 2021 (32.47 per cent as on March 31, 2020), well above the regulatory minimum of 15 per cent for Primary Dealers. With regard to Treasury Bills commitment, the Company exceeded the stipulated success ratio of 40 per cent, achieving 42.55 per cent and 41.98 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 338 times for treasury bills and 450 times for government-dated securities as on March 31, 2021 against the minimum RBI stipulation of 10 times and 5 times respectively.

### **Impact of COVID-19**

The COVID-19 pandemic emerged as a global challenge, forcing the governments to enforce lock-down of economic activity, creating disruption across the world. 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. In this model, work from home enabled the employees to work remotely and securely. Few employees, on rotational basis, operated from different office locations without any health issues.

Under the prevailing 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 2020-21 has given a sum of ₹ 100 lacs to PM Cares Fund set up by the Govt. of India for dealing in emergent situations like Covid-19.

### **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, 2021 stood at 45.58 per cent as against the RBI stipulation of 15 per cent.

### **Dividend**

Your Directors are pleased to recommend a final Dividend of ₹ 3 (i.e. 30 per cent) per equity share of face value of ₹10/- for the year ended 31st March, 2021, subject to approval in the ensuing Annual General Meeting. The 1<sup>st</sup> Interim Dividend of ₹ 3 (i.e. 30 per cent) per equity share of face value of ₹10/- was declared on 10th November, 2020 and 2<sup>nd</sup> Interim Dividend of ₹ 4 (i.e. 40 per cent) per equity share of face value of ₹10/- was declared on 4<sup>th</sup> February, 2021. The total Dividend for the financial year ended 31st March, 2021 amounts to ₹ 10/- (i.e. 100 per cent) per equity share of face value of ₹10/- each.

The Dividend Distribution Policy, in terms of Regulation 43A of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI Listing Regulations") is available on the Company's website on <https://www.pnbgilts.com/data/governance/1624942724.pdf>.

### **Transfer to Reserves**

Your Company proposes to transfer ₹9082.34 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 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 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 ten times during the financial year 2020-21 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 2020-21, Smt. Sunita Gupta (DIN: 06902258), Whole Time Director (designated as 'Executive Director & CFO'), whose tenure was upto 31.08.2020, ceased from her position with effect from September 1, 2020.

The Board, on the recommendation of Nomination and Remuneration Committee and Audit Committee, appointed Sh. Chandra Prakash, Chief Manager, Punjab National Bank ('PNB') as Chief Financial Officer of the Company with effect from February 26, 2021.

Further, on the recommendation of Nomination and Remuneration Committee, the Board appointed Sh. Agyey Kumar Azad (DIN: 08985570), the then Executive Director, PNB, as an Additional Director (Non-Executive & Non-Independent) and consequently, Chairman of the Company with effect from December 5, 2020. On his superannuation from PNB, he resigned from the directorship of the Company effective from May 1, 2021. In his place, the Board appointed Sh. Swarup Kumar Saha (DIN: 08963678), Executive Director, PNB, as Additional Director (Non-Executive & Non-Independent) with effect from June 18, 2021. In terms of Article 98(2) of Articles of Association of the Company, he is the Chairman of the Company.

Sh. Vishesh Kumar Srivastava (DIN: 07234326), Non-Executive & Non-Independent Director, resigned from the directorship of the Company with effect from June 19, 2021 upon withdrawal of his nomination by PNB. In his place, the Board on recommendation of Nomination and Remuneration Committee has appointed Sh. Ashutosh Choudhury (DIN: 09245804), Chief General Manager and Group Chief Risk Officer of PNB, as an Additional Director (Non-Executive and Non-Independent) on the Board of the Company effective from July 19, 2021.

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.

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 Regulations 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. The outcome of such evaluation was found satisfactory.

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/1609736538.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 policy relating to the remuneration of Directors, Key Managerial Personnel and other employees is framed with the object of attracting, retaining and motivating talent which is required to run the Company successfully. There was no change in the policies during FY 2020-21. The same are available on the website of the Company at the link: <https://www.pnbgilts.com/data/governance/1554113724.pdf> and <https://www.pnbgilts.com/data/governance/1554114440.pdf>.

### **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 Regulations. 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. 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 Listing Regulations, forms part of the Annual Report.

## **3. OTHER DISCLOSURES –**

### **Details of Committees**

The details in relation to the composition of Audit Committee, Corporate Social Responsibility Committee have been given in Report on Corporate Governance forming part of Annual Report.



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

### **CSR Policy**

In line with the amendments to the Companies (CSR Policy) Amendment Rules, 2021 notified by the Ministry of Corporate Affairs in January 2021, the Company has amended its CSR policy. The CSR policy of the Company is available at Company's website at the link <https://www.pnbgilts.com/data/governance/1615288099.pdf>. The CSR activity of the Company is carried out as per the instructions of the Committee and Board. During the year 2020-21, 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 2020-21 in the prescribed format is presented at Annexure A 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://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 not at arm's length given in form AOC-2 at Annexure B). 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>.

### **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 2020-21 had already been considered by its parent bank i.e. Punjab National Bank for the purpose of 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, 2021, 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, 2021 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