



PNB
GILTS
LTD

(A subsidiary of Punjab National Bank)

27th ANNUAL REPORT 2022-23



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GILTS
LTD**

(A subsidiary of Punjab National Bank)

Board of Directors*



Sh. Kalyan Kumar
Chairman
Non-Executive & Non-Independent



Shri P.P. Pareek
Independent Director



Shri S. K. Kalra
Independent Director



Dr. T. M. Bhasin
Independent Director



Smt. Neharika Vohra
Independent Director



Shri Vikas Goel
Managing Director & CEO

*as on 21-07-2023

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,

I am truly honored to be a part of PNB Gilts Ltd. with its underlying focus on achieving sustainable growth and generating value for all our stakeholders. I am pleased to communicate with you at the end of yet another fruitful year at PNB Gilts Ltd. and derive immense pleasure in presenting to you the annual report for the financial year 2022-23.

The beginning of fiscal year 2023, witnessed some challenges, chiefly on account of the Russia-Ukraine conflict, which had adverse global impact. However, the domestic economy displayed resilience, with sustained recovery in domestic activity and consumer confidence. The real GDP grew by 13.5 percent (y-o-y) in the first quarter on the back of the base effect and a healthy rebound of growth. The pace also accelerated due to realignment of supply chains and a demand pick-up in contact-intensive sectors. Towards the second half, the growth rates could not be sustained due to setbacks posed by fall in exports and shrinkage of private consumption due to inflationary concerns. Despite these challenges, India emerged as the fastest growing economy in the world with annual growth rate of 7.2% in 2022-23. The economy also crossed the \$3.75 trillion mark in 2022-23.

During the financial year 2022-23, the bond market deteriorated on account of persistent rate hikes by RBI and other global central banks to rein in inflation. As the Reserve Bank proceeded towards normalization of system liquidity and hiking of policy rates, your Company witnessed rising funding costs. Against this backdrop, the Company posted a Profit Before Tax of ₹(85.06) crore and a Profit After Tax of ₹(77.22) crore as on March 31, 2023. Company's Net Owned Fund declined by 13.16 per cent from ₹1425.64 crore as on March 31, 2022 to ₹1238.06 crore as on March 31, 2023.

Despite the challenges, I am glad to state that your Company remained adequately capitalized with a Capital Adequacy Ratio (CAR) of 31.83 per cent as on March 31, 2023 (66.41 per cent as on March 31, 2022), against RBI's minimum stipulation of 15 per cent.

I am also pleased to inform you that your Company continues to make a difference by supporting numerous social and environmental initiatives through its CSR activities. Company contributed an amount of ₹6.48 crore during financial year 2022-23 (against ₹5.57 crore during financial year 2021-22) towards various agencies and trusts working in the field of education, healthcare and environmental conservation.

I would further like to inform that the Company abides by all the laid down regulations and adheres diligently to various regulatory and Board approved norms.

Forward Guidance

FY 2023-24 has begun on a positive note owing to resilience in economic activity. All the sectors of the economy are growing at a rapid pace. The economic activity is robust due to government's thrust on capital expenditure, sustained increase in urban consumption and speedy recovery in the Services sector. The analysts, investors and economist are bullish about the Indian economy.

The inflation in the first quarter of the current financial year was within RBI's tolerance band and close to RBI's median target of 4%. The bond markets are expected to stabilize this year which bodes well for the Company's performance.

Going ahead, the aim is to generate healthy profits from the Company's core business. In addition, the endeavour will be to employ smart derivatives strategies to hedge against rising interest rates, and explore non-core business opportunities, such as the foreign exchange market, equity market, and other fee-generating business segments to create revenue diversification.

With the grant of license as an 'Authorized Dealer category III', the Company will seek new opportunities in the area of Foreign Exchange markets, which will further strengthen our non-core business. Improvement in IT infrastructure with adoption of a new software – TCS BaNCS will enable a robust operational environment as Company enters into new products and services.

I extend my heartfelt gratitude to all the stakeholders-clients, shareholders, directors and employees for their continued support, unwavering trust and tireless efforts to strengthen the position of the Company. I assure that your Company will continue with its efforts to further improve upon its performance so as to fulfil its commitment towards attaining sustainable growth and enhancing value for all the stakeholders.

A handwritten signature in black ink, appearing to read 'Kalyan Kumar'.

(Kalyan kumar)
Chairman

Date: August 8, 2023
Place: New Delhi

BOARD'S REPORT

Dear Members,

Your Directors are pleased to present the 27th Annual Report together with the Company's audited financial statements for the financial year ended March 31, 2023.

1. RESULTS OF OUR OPERATIONS AND STATE OF AFFAIRS

The Company's financial performance, for the year ended March 31, 2023 is summarized below:

(₹ in lacs)

	For the year ended 31.03.2023	For the year ended 31.03.2022
Total Income	122994.31	99063.16
Less : Total Expenditure	132285.95	78839.35
Exceptional Items	(785.03)	(791.28)
Profit/(loss) Before Tax	(8506.62)	21015.10
Less : Tax Expense	(784.38)	4443.96
Profit for the period	(7722.23)	16571.14
Other Comprehensive Income	(8.77)	(76.90)
Total Comprehensive Income	(7731.00)	16494.23
Opening Balance of Retained Earnings	58553.95	50774.29
Closing Balance of Retained Earnings	41822.45	58553.95
Earnings per share (Rs.)	(4.29)	9.21

The financial year 2022-23 was a challenging year for both global and domestic bond markets as central banks embarked upon synchronized monetary policy tightening, which turned out to be far hawkish than expected. The year witnessed a sharp upward movement in yields for most part of the year, on the back of global headwinds, volatility in crude oil prices and monetary policy tightening amid persistent inflationary pressures. In view to keep the inflation expectations anchored and bring down inflation towards the inflation target band of 2 per cent to 6 per cent, RBI changed its stance to withdrawal of accommodation and cumulatively raised the policy repo rate by 250 bps during the year. The short end of the G-sec term structure responded adversely to the steep hike in policy rates, with 1 year and 2 year yields surging by 265 bps and 200 bps respectively over March 2022 closing. Inflation moderated towards the second half of the year, following gradual normalisation of global supply chains, softening global commodity prices, targeted supply management measures by the government and successive hikes in the policy repo rate. In March 2023, the yields softened, taking cues from US yields following bank collapses, which drove investors to safe haven assets, which had a salutary impact on Indian yields as well. Overall, the term structure shifted upwards with the 10-yr yield firming up by 48 bps to close the year at 7.32 per cent as against previous year's closing of 6.84 per cent.

Against the aforementioned backdrop, Company continued to fulfill all its obligations as a Primary Dealer mandated by RBI in Primary and Secondary markets. Amidst an environment of sharp inflationary pressures and spike in interest rates, the Company posted PBT of ₹ (85.07) crore as on March 31, 2023 as against ₹ 210.15 crore as on March 31, 2022. PAT stood at ₹ (77.22) crore as on March 31, 2023 as against ₹ 165.71 crore as on March 31, 2022. Capital adequacy remains strong with Capital to Risk Weighted Assets Ratio (CRAR) at 31.83 per cent as on March 31, 2023 as against 66.41 percent as on March 31, 2022, which is well above the regulatory minimum of 15 per cent for PDs. With regard to Treasury Bills commitment, the Company exceeded the stipulated success ratio of 40 per cent, achieving 40.96 per cent and 41.21 per cent in H1 and H2 respectively. In G-sec category, Company fulfilled the underwriting commitments, thereby supporting the

government borrowing program. Company's secondary market outright turnover for FY 2022-23 stood at 2.98 per cent of the average Central Government Dated securities outright market turnover during the previous three financial years as against a mandate of 1 per cent.

Material Changes and Commitments

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

Capital Adequacy

Capital adequacy ratio as on March 31, 2023 stood at 31.83 per cent as against the RBI stipulation of 15 per cent.

Dividend

Pursuant to RBI Master Direction – Standalone Primary Dealers (Reserve Bank) Directions, 2016 restricting payment of dividend out of current year's profits only, your Board have not recommended any dividend for the year ended 31st March, 2023.

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" or "Listing Regulations") is available on the Company's website on https://www.pnbgilts.com/uploads/corporate_governance/Dividend_Distribution_Policy.pdf. During the year, the policy was amended to include the exception with respect to limit on dividend payout given in RBI Master Direction – Standalone Primary Dealers (Reserve Bank) Directions, 2016 (which prescribe the guidelines on distribution of dividend by NBFCs including the maximum dividend payout which a Standalone Primary Dealer can pay) has been included.

Transfer to Reserves

Your Directors do not propose to transfer any amount to the reserves.

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 eight times during the financial year 2022-23 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 financial year 2022-23, Sh. Swarup Kumar Saha (DIN: 08963678), Non-Executive & Non-Independent Director of the Company (as nominated by Punjab National Bank, promoter) resigned from the Directorship and Chairmanship of the Company, with effect from June 3, 2022, due to his elevation as Managing Director & CEO of Punjab and Sind Bank and cessation as an Executive Director of Punjab National Bank (PNB). In terms of Article 98(2) of Articles of Association of the Company, he acted as the Chairman of the Company. Your Directors wish to place on record their appreciation for the contribution made by Sh. Saha during his tenure as Non-Executive & Non-Independent Chairman of the Company.

In his place, upon the nomination requested received from Punjab National bank ('PNB'), the Board appointed Sh. Kalyan Kumar (DIN: 09631251), Executive Director, Punjab National Bank ('PNB'), as an Additional Director (Non-Executive & Non-Independent) of the Company with effect from July 7, 2022. The members in their Annual General Meeting held on September 2, 2022 appointed Sh. Kalyan Kumar as Director (Non-Executive & Non-Independent). In terms of Article 98(2) of Articles of Association of the Company, he is the Chairman of the Company.

Smt. Uma Ajay Relan (DIN: 07087902) resigned as an Independent Director of the Company with effect from January 24, 2023 due to her personal reasons. She has confirmed that there are no other material reasons other than those provided.

The Board of Directors had, on the recommendation of the Nomination & Remuneration Committee, at their meeting held on March 27, 2023 appointed Smt. Neharika Vohra (DIN: 06808439) as Additional Director and designated her as an Independent Director of the Company with effect from March 27, 2023 for a term of 5 consecutive years, subject to approval of the members. Subsequently, the members had, vide resolution passed through postal ballot on June 16, 2023, approved the appointment of Smt. Neharika Vohra as an Independent Director of the Company with effect from March 27, 2023, for a term of 5 consecutive years.

Sh. Ashutosh Choudhury (DIN: 09245804), PNB nominated director, resigned as Non- Executive Non-Independent Director of the Company with effect from May 3, 2023 on account of his elevation as Executive Director of Indian Bank.

Your directors wish to place on record their appreciation for the contributions made by Smt. Uma Ajay Relan and Sh. Ashutosh Choudhury during their respective associations with the Company as Directors.

Also, based on the recommendation of Nomination & Remuneration Committee, the Board reappointed Sh. Vikas Goel (DIN: 08322541), Managing Director & CEO for three years w.e.f. February 1, 2023, subject to the members' approval. Subsequently, the members had, vide resolution passed through postal ballot on January 23, 2023, approved the said reappointment.

Pursuant to the provisions of the Companies Act, 2013 ("Act"), Sh. Satish Kumar Kalra (DIN: 01952165) was appointed as an Independent Director to hold office for 5 consecutive years for a term upto September 14, 2023 by the members of Company in the 22nd Annual General Meeting held on September 15, 2018. Sh. Kalra is eligible for reappointment as an Independent Director for another term of 5 consecutive years. Based on the recommendation of the Nomination and Remuneration Committee and after taking into account the performance evaluation of his first term of 5 years and considering the knowledge, acumen, expertise, experience and the substantial contribution he brings to the Board and its Committees, your Board recommended for approval of the members through a special resolution in the ensuing Annual General Meeting, re-appointment of Sh. Satish Kumar Kalra as an Independent Director for another term of 5 consecutive years from September 15, 2023 to September 14, 2028.

Further, Dr. Tejendra Mohan Bhasin (DIN: 03091429) was appointed as an Independent Director to hold office for 5 consecutive years for a term upto July 29, 2024 by the members of Company in the 23rd Annual General Meeting held on August 28, 2019. Dr. Bhasin is eligible for reappointment as an Independent Director for another term of 5 consecutive years. Based on the recommendation of the Nomination and Remuneration Committee and after taking into account the performance evaluation of his first term of 5 years and considering the knowledge, acumen, expertise, experience and the substantial contribution he brings to the Board and its Committees, your Board recommended for approval of the members through a special resolution in the ensuing Annual General Meeting, re-appointment of Dr. Tejendra Mohan Bhasin as an Independent Director for another term of 5 consecutive years from July 30, 2024 to July 29, 2029.

Further, in accordance with the provisions of the Companies Act, 2013 and the Articles of Association of the Company, Sh. Kalyan Kumar (DIN: 09631251) shall retire by rotation in the ensuing Annual General Meeting and being eligible, offers himself for reappointment.

Also, upon the recommendation of the Nomination & Remuneration Committee/ Board of Directors of the Company, it is proposed to take the approval of members at the ensuing AGM for the following matters (detailed in the Notice of AGM) :

- a. To waive the recovery of excess managerial remuneration paid to Sh. Vikas Goel (DIN: 08322541), MD & CEO for the year ended March 31, 2023, in terms of Section 197 read with Schedule V of the Act in view of losses incurred for the year ended March 31, 2023; and
- b. To approve the remuneration payable to him for financial year 2023-24 in excess of the stipulated limits prescribed under Section 197 read with Schedule V to the Companies Act, 2013.

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

Performance Evaluation

In terms of the requirement of the Companies Act, 2013 and the SEBI Listing Regulations, an annual performance evaluation of the Board is undertaken where the Board formally assesses its own performance with the aim to improve the effectiveness of the Board and its Committees. The Board along with the Nomination and Remuneration Committee has laid down the criteria of performance evaluation of Board, its Committees and Individual Directors which is available on the website of the Company at https://www.pnbgilts.com/uploads/corporate_governance/Board_Evaluation_Policy.pdf. These criteria are broadly based on the Guidance note on Board Evaluation issued by the Securities and Exchange Board of India on January 5, 2017.

The Board evaluated its performance after seeking inputs from all the Directors based on criteria such as the board composition and structure, effectiveness of board processes, information and functioning, etc. The performance of the Committees was evaluated by the Board after seeking inputs from the committee members based on criteria such as the composition of committees, effectiveness of committee meetings, etc.

The NRC reviewed the performance of individual directors on the basis of criteria such as the contribution of the individual director like commitment, contribution, initiative for growth of company etc. preparedness on the issues to be discussed, meaningful and constructive contribution and inputs in meetings, etc.

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

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 evaluation process endorsed the Board's confidence in the ethics standards of the Company, cohesiveness amongst the Board members, flexibility of the Board and management in navigating the various challenges faced from time to time and openness of the management in sharing strategic information, if any, with the Board. The Committees are also functioning well.

In general, the outcome of such evaluation process was found satisfactory.

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.

During the year 2022-23, the remuneration policy was amended to keep it aligned with RBI circular no. DOR.GOV.REC.No.29/18.10.002/2022-23 dated April 29, 2022 dealing with guidelines on compensation of Key Managerial Personnel (KMP) and Senior Management of NBFCs. The amendment in the said policy include insertions of provisions on linking of variable remuneration with the risk exposure of the company, provisions on claw back of deferred variable pay and the provision that KMPs and senior management engaged in financial control, risk management, compliance and internal audit should be compensated independently of business targets and based on their Key Performance Indicators etc. There was no change in the policy related to Directors' appointment during FY 2022-23. The policies are available on the website of the Company at the link:

https://www.pnbgilts.com/uploads/corporate_governance/Eligibility_Criteria_of_Directors.pdf and https://www.pnbgilts.com/uploads/corporate_governance/Remuneration_Policy.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, skills, experience (including proficiency) and expertise and they hold highest standards of integrity and are independent of the management.

Business Responsibility and Sustainability Report

Business Responsibility and Sustainability Report for the year under review, as stipulated under Regulation 34(2) (f) of SEBI Listing Regulations, forms part of the Board's Report.

3. OTHER DISCLOSURES –

Details of Committees

The details in relation to the composition of Audit Committee, Corporate Social Responsibility Committee and other board level committees have been given in Report on Corporate Governance forming part of the Board's Report.

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

CSR

The CSR Policy was amended for the purpose of giving effect to the amended CSR Rules i.e. Companies (Corporate Social Responsibility Policy) Amendment Rules, 2022. The CSR policy of the Company is available at Company's website at the link https://www.pnbgilts.com/uploads/corporate_governance/CSR_Policy_010423.pdf. The CSR activity of the Company is carried out as per the instructions of the Committee and Board. The annual report on the CSR for the year 2022-23 in the prescribed format, inter-alia containing the brief of CSR Policy, CSR Committee along with objects and expenditure details, 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. The mechanism also provides for direct access to the Audit Committee/Chairman of 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/uploads/corporate_governance/WHISTLE_BLOWER_POLICY.pdf

Contracts and Arrangements with Related Parties

Details of all the contracts/ arrangements/ transactions entered by the company which are (i) in ordinary course of business and not at arm's length; and (ii) those which are material in nature are 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/uploads/corporate_governance/SOP-Policy_on_Related_Party_Transactions_w e f_01_04_2023.pdf