

Investor *Update*

Financial Year 2002 - 03



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FINANCIAL HIGHLIGHTS

	Financial Year 2002-03	Financial Year 2001-02
Turnover (Rs. Crores)		
Relationship	21126	16534
Other (Including Primary Subscriptions)	81563	90266
Total	102689	106800
Average Cost of funds (%)	5.80	7.07
Average return on assets (%)	17.58	22.81
Average book size (Rs. Crs)	1603	1019
Average amount of borrowings (Rs. Crs)	1200	714
Number of mid-segment clients	2515	1740
Portfolio of CSGL clients (Rs. Crs)	3176	782

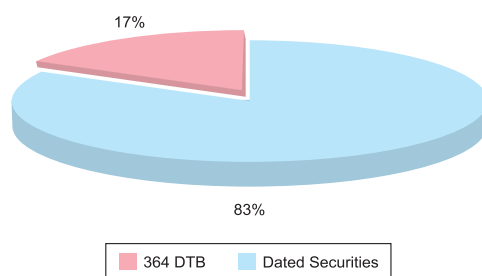
MACROECONOMIC REVIEW (2002-03)

	Mar '02	Mar '03
Inflation Rate	1.40%	6.17%
Forex Reserves (Million US \$)	54.56	75.75
10 years G Sec YTM	7.36%	6.21%
Repo Rate	6.00%	5.00%
Bank Rate	6.50%	6.25%
Cash Reserve Ratio	5.50%	4.75%

The financial year started on a positive note with favourable macroeconomic indicators like lower inflation, healthy forex inflows and ample liquidity in the system. However, in order to curb the unabated fall in yields RBI sucked out Rs. 18000 crores of liquidity through auctions and OMOs. Cooperative bank scam and worsening Indo-Pak relationships also sent jitters in the markets and yields moved upwards. Fundamentals of the economy continued to indicate lower interest rate regime due to huge forex reserves build up, low inflation and comfortable liquidity conditions. Announcement of repo rate cut and preponement of CRR cut indicated RBI's bias towards softer interest rate.

The gross borrowings of the government for the year 2002-03 was budgeted at Rs. 1,42,867 crores against which actual borrowings were Rs. 1,51,126 crores leading to increase in fiscal deficit with estimates revised from 5.6% to 5.9%. The government completed the borrowing program by issuing Rs. 125000 crores of dated securities and Rs. 26126 crores of 364 days treasury bills without any undue pressure on interest rates.

Gross Borrowings - Instrument Wise



The downward trend in yields continued after bank rate cut was announced in the monetary policy in October, 2002. The yields on the benchmark 10-year g-sec fell to historic low of 5.82% during the second week of January, 2003. US-Iraq war dampened the market sentiments and yields surged substantially. In his budget speech on 28th February, 2003, the finance minister made certain announcements that have a direct bearing on functioning of the Indian debt markets. Gross market borrowings for 2003-04 were projected at Rs 1,65,887 crores as against Rs 1,59,873 crores in 2002-03. Net market borrowings are at Rs 1,07,194 crores for the year 2003-04 as against Rs 1,12,865 crores for year 2002-03. The government also plans to swap high cost government debt with low cost debt through buy back. The small savings rate was cut by 100 bps (from 9% to 8%). Repo rate cut by 50 bps and deposit rate cut by leading nationalized banks also helped curtail the rise in yields and ten-year yield ended at 6.21% on March 31, 2003.

The spread between sovereign papers and "AAA" rated Non-SLR Papers squeezed substantially during the year from 200 bps to as low as 25 bps in January, 2003. This offered opportunity of earning profits by trading in these papers. Compulsory dematerialization of bonds helped in adding liquidity to the papers and volumes surged in this segment of debt markets.

HIGHLIGHTS OF FINANCIAL PERFORMANCE

Results for the Financial Year Ended 31.03.2003

Income

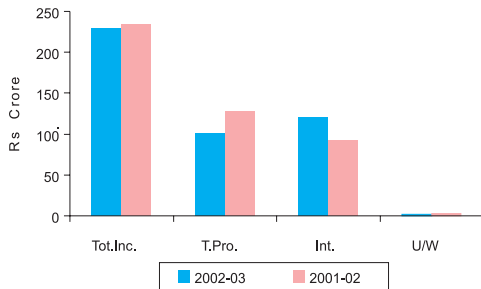
Total income of the company for the year decreased marginally from Rs 234.39 crores in the last year to Rs. 230.09 crores in current year. Interest income rose by 30 % to Rs. 119.77 crores from Rs. 92.34 crores and trading profit during the same period was Rs. 101.78 crores as against Rs. 128.04 crores during last fiscal.

Break up of Income

(Rs. Cr.)

Break up of Income	2002-03	2001-02
Total Income	230.09	234.39
Trading Profit	101.78	128.04
Interest Income	119.77	92.34
Underwriting Fees	1.90	2.33

Components of Income



There is decline in Total Income and Trading Profit as compared to last year because of year-end diminution in market value of securities on account adverse market situation. The interest income has increased during the current financial year as the company maintained larger portfolio so as to maximize returns in falling interest rate scenario. The decrease in underwriting fee earnings can be attributed to decline in underwriting commissions declared by RBI on auctions.

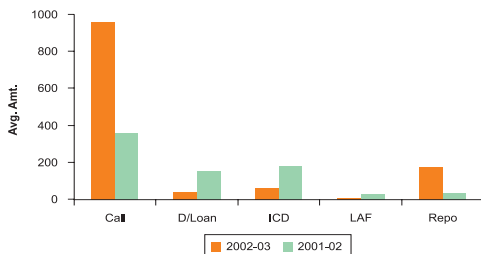
Expenditure

Total expenditure of the company increased by 38% from Rs. 57.50 crores during last year to Rs. 79.14 crores in 2002-03. The increase is mainly on account of increased interest cost of Rs. 70.69 crores from Rs. 50.64 crores in last year, due to larger book size maintained by the company. Moreover borrowings were maintained at higher level to rationalize leverage and trade actively.

Sources of Funds	2002-03		2001-02	
	Avg. Amt. (Rs. Cr.)	Avg. Rate (%)	Avg. Amt. (Rs. Cr.)	Avg. Rate (%)
Call/Notice Money	937	5.88	353	7.09
Demand Loan	38	6.45	147	6.84
Inter-corporate Deposit	61	5.76	178	7.15
LAF	3	7.17	13	8.56
Repo	161	5.75	23	6.72
Total	1200	5.80	714	7.07

The borrowing in call/notice money has increased by 165% as compared to last year. Similarly Repo borrowings have also registered an increase of 6 times. However dependence on Demand Loan and LAF has declined on

Sources of Funds



account of comfortable liquidity conditions. This also resulted in lower borrowing cost as money was easily available in call and repo borrowings. The borrowings in Inter Corporate Deposits have declined due to restrictions on amount of borrowing and minimum lock in period of seven days imposed by RBI.

Operating Profits

The operating profits of the company during financial year 2002-03 were Rs. 186.86 crores, up from Rs. 169.51 crores in the last year. Despite 115 basis point fall in 10-year yields in 2002-03 as compared to 272 basis point fall in year 2001-02, the company managed to increase its operating profits by 10% through active trading.

Profit before Tax and Profit after Tax

Profit before tax has declined by 15% from Rs. 176.26 crores during last year to Rs. 150.01 crores in 2002-03. Similarly the Profit After Tax has come down from Rs. 112.59 crores in 2001-02 to Rs. 92.51 crores in 2002-03. This was mainly on account of diminution in market prices of securities at year-end on account of war between US and Iraq. Fundamentals being strong, it is expected that diminution shall be recouped as soon as normalcy returns to Iraq.

Turnover

(Rs. Cr.)

	2002-03	2001-02
Total Turnover		
Relationship Based	21126	16534
Others	81563	90266
Total	102689	106800

The relationship-based turnover constitutes 21% of the total turnover and 39% of the total deals struck by company. The mid-segment has been providing exit to the company in adverse market situations as comparatively better rates than inter-bank rates.

Instrument wise Turnover (2002-03)

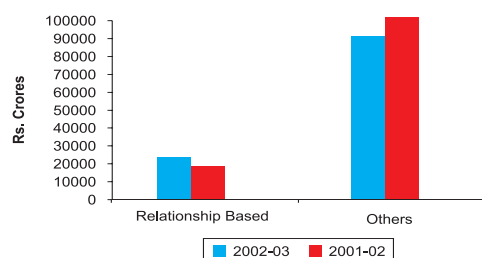
(Rs. Cr.)

	Primary	Secondary
SLR (G-Secs)	8876	91533
Non-SLR (Corporate Papers)	520	1760
Total	9396	93293

Dividends:

The company has declared dividend of 25% for the financial year 2002-03 as against 24% last year. An interim dividend of 10% was declared after third quarter results. The Board of Directors have proposed a final dividend of 15% in its meeting held on April 23, 2003.

Category Wise Total Turnover of PNB Gilts



BUSINESS REVIEW

Beginning 2002-03, the company had set itself targets for the ensuing financial year, which it has been able to achieve.

- **Increasing Relationship based turnover & expansion of Client Base** – The Company maintains its focus on relationship and captive client creation. The relationship-based turnover constitutes 21% of the total turnover and 39% of the total deals struck by company. The share of the segment in number of deals and volumes increases in depressed markets when inter-bank players are not taking positions. Hence, the segment has been able to provide exit to company in falling markets at rates better than the prevailing inter-bank rates. Over a period of two to three years the company intends to generate 50% of its business from this segment.

The target of increasing client base from 1700 to 2500 during the year has been achieved. During the year 775 clients were added in the client list. This includes cooperative banks, Provident Funds and other trusts, NBFCs, mid segment corporates etc. The company aims at increasing the client base by 25% in 2003-04. The market share of company is hovering between 25% to 30% in non wholesale segment business settled through CCIL as per its Bulletin figures in last four months.

- **Income Stream Diversification** - The Company aims at becoming a full fledged investment bank for fixed income products by the year 2005. It intends to increase its services to already established and ever growing client base in the future by increasing its product offerings. This shall establish company as one stop shop for all fixed income products for its clients and shall play an important role in retaining the client base. Shortly, the company shall start distributing mutual funds. This shall diversify the income stream and improve services provided to the clients. The company is focussing on advisory services to these clients and leverage on experience gained all these years and also venturing into debt origination, debt distribution and mutual fund distribution.

FUTURE OUTLOOK

Closure of SGL A/c at Regional PDO - The Reserve Bank of India has issued a circular asking entities having SGL A/c at their Regional PDOs to close their SGL A/cs at regional PDOs and open SGL A/c or CSGL A/c at Mumbai. Earlier these entities used to seldom trade as they held securities at regional PDOs where there is a dearth of large players and market makers. This development is likely to increase liquidity in the markets as more players shall be able to trade. This gives the company an opportunity to open more CSGL A/cs and increase its captive client base.

Increased Participation of Mid-segment Players – There has been significant increase in treasury operations of urban cooperative banks and regional rural banks. It is expected that District Central Cooperative Banks shall also commence investing in treasury bills with interest rates on their deposits with State Cooperative Banks coming under pressure. The corporate strategy aims at tapping these client segments as they can provide stable turnover due to statutory requirements.

Renewed Focus on One Stop Shop Image – The company aims at becoming one stop shop for all fixed income products. The company has progressively created an image of one stop shop for its diverse client groups and is currently offering both financial products like fixed income securities and services like advisory and consultancy on debt management.

With the merchant banking license the company proposes to increase its focus on debt segment and undertake debt origination and debt distribution activities. The company is also venturing into distribution of mutual funds. For both the activities company is targeting its client base of banks, insurance companies, corporates, cooperative banks, Regional Rural Banks and other non-wholesale players.

The company is also focusing on advisory services in debt related issues like restructuring, setting up and management of treasuries etc. With a host of players being new in the market, it is understood that expertise and technical skills possessed by the company will be harnessed for advisory services.