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ANNUAL REPORT  
2010-11



**KOTAK MAHINDRA ASSET  
MANAGEMENT COMPANY  
LIMITED**



**BOARD OF DIRECTORS :** MR. UDAY KOTAK, MR. ROMESH C. KHANNA, MR. BIPIN SHAH, MR. C. JAYARAM, MR. SUKANT KELKAR, MR. GAURANG SHAH

# Directors' Report

To the Members of  
**KOTAK MAHINDRA ASSET MANAGEMENT COMPANY LIMITED**

The Directors present their Seventeenth Annual Report together with the audited accounts of your Company for the year ended 31st March 2011.

## FINANCIAL RESULTS

The financial results of the company for the year ended 31st March 2011 is as under :

	(₹ In Lakhs)	
	2010 - 2011	2009 - 2010
Gross income	10,811.06	17,548.26
Profit before Depreciation and Tax	1,721.87	10,108.37
Depreciation	253.84	203.18
Profit before Tax	1,468.03	9,905.19
Profit after Tax	1,062.00	6,551.45
Balance of Profit from previous years	2,570.87	1,381.96
Amount available for appropriation	3,632.87	7,933.41
<b>Appropriations</b>		
Dividend on Preference Shares	72.25	72.25
Dividend on Equity Shares	693.00	3960.00
Corporate Dividend Tax thereon	124.14	674.29
Transfer to General Reserves	106.25	656.00
<b>Surplus carried forward to the Balance Sheet</b>	<b>2,637.23</b>	2570.87

The revenue of the company reduced during the year largely on account of a 13% reduction in the average assets under management and accompanied by a reduction in the management fee charged. The management fee charged were lower largely on account of the shift in the investors preference towards FMPs, wherein the levels of management fees are generally lower and also lower fees charged on other debt products as compared to the previous year.

## DIVIDEND

Your Directors recommend a dividend on the preference shares at the coupon rate i.e. 8.5% the financial year ended on 31st March 2011. Your Directors also recommend a dividend of ₹ 3.50 per equity share. This will entail an outgo of ₹ 8,89,39,269 (including dividend distribution tax of ₹ 1,24,14,269)

## CAPITAL

The Authorized Share Capital of the Company is ₹ 35 crores, divided into 2,50,00,000 Equity Shares of ₹ 10 each and 1,00,00,000 Preference Shares of ₹ 10 each.

There was no change in the Capital Structure of the Company during the year.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Market related developments affecting the Schemes of the Mutual Fund

The financial year 2010-2011 which started well with the economy's strong growth momentum driven by strong consumption growth, saw a plethora of domestic & global events acting as hindrance to growth. Inflation raised its ugly head since the beginning of the year itself at double digits, and consequentially RBI raised policy rates regularly to tame it. However, inflation still remains a cause for concern. Governance issues at the centre also had a sentimental impact on the markets. Global factors such as political unrest in the Middle East & the tsunami in Japan also added to market worries. Nonetheless, Indian equities were able to attract net FII inflow for FY-11 to the tune of US \$ 24.29 billion.

The union budget 2011-12 focused on conducive investment climate, inclusive growth, education, good governance standards & fiscal prudence. One important change which could effect our industry is the parity in dividend distribution tax for all debt schemes for corporate investor's w.e.f 01st June 2011, bringing it in line with bank fixed deposits. Allowing FII's and foreign nationals to invest directly into Indian Mutual Funds giving it an entire new customer base was a positive step.

The financial year 2011 began on a positive note for the fixed income segment with a liquidity overhang in the money markets. In April-May 2010, short term yields such as 3 month Bank CDs, fell to a low of around 4.5%. But, the telecom auction saw outflow of over ₹ 1 lakh crores which led to liquidity tightness resulting in large scale redemption from money market schemes. This occurred when inflation too was on the upswing. The yields at the shorter end went up by 400 to 500 bps during the financial year

The debt market represented by the 10 year benchmark bond yield remained volatile throughout the year. Starting the year at 7.83%, the 10 year benchmark bond closed at 7.99% on 31st March 2011 before making an interim high of 8.25%. Similarly, the BSE Sensex also saw a high of 21004 and a low of 16022 before closing the year at 19445.

There were a few changes in the regulation pertaining to the mutual fund industry during FY-11; the highlights of such changes are as given below:

- Listing of Interval schemes – For all Interval schemes/plans, SEBI has mandated that they be compulsorily listed and no redemption will be allowed except the specified transaction period. It also stated that Investments shall be permitted only in such securities which mature on or before the opening of the immediately following specified transaction period.
- Consolidation or merger of schemes – SEBI in an attempt to consolidate similar fund mandates and reduce clutter had decided that merger or consolidation shall not be seen as change in fundamental attribute of the surviving scheme if mutual funds are able to demonstrate that the circumstances merit merger.
- Additional mode of payment through ASBA (Applications Supported by Blocked amount) in mutual funds – Through this circular, SEBI mandated mutual fund houses to provide ASBA facility to investors for all NFO's launched on or after 01st October 2010.
- Valuation of Debt & Money market instruments – with effect from 01st August 2010 SEBI mandated mutual funds to value money market & debt securities with residual maturity of over 91 (from the extant 182 days) days at the weighted average price at which they were traded on a particular day or when such securities are not traded, they shall be valued at benchmark yield / matrix of spread over risk free benchmark yield obtained from agencies entrusted for the said purpose by AMFI. This led to increased transparency in valuation of debt mutual funds.

#### **Mutual Fund Industry developments and segment wise performance:**

The total industry AUM (Assets Under Management) fell from ₹ 6,13,979 crores in March 2010 to ₹ 5,92,250 crores in March 2011, fall of 3.54% in FY-11. During the same period, AUM with Kotak Mahindra Asset Management Company increased 1.59% i.e. from ₹ 24071.19 crores in March 2010 to 24,454.93 crores in March 2011.

Equity schemes in the industry saw a net outflow of ₹ 11,795 crores for the FY-11 as markets remained volatile. With its focus on SIP Investments, Kotak Mahindra Asset Management Company saw its live SIP accounts increase from 1,01,088 in March 2010 to 1,14,592 accounts in March 2011.

Mutual funds continue to be the cheapest vehicle for accessing capital markets. The issue is about reaching the investors in a most cost effective manner. The distribution in that sense is extremely important. The distribution is also trying to realign its business models in line with the new regulatory pattern introduced with the abolition of entry loads in FY-2010. The industry on its part is undertaking all India investor awareness programs in a standard format. A total of 5817 programs were done pan India covering about 340,383 Investors. While we at Kotak have undertaken about 653 investor meets covering about 19,862 investors.

During the year under review, FMPs as an industry gained in size due to attractive interest rates from the investor point of view. AUM of Close ended Income schemes & Interval schemes (majority of which are FMPs), in the industry, increased from ₹ 56,923 crores in March 2010 to ₹ 1,38,754 crores in March 2011 forming around 23% of the total AUM in the Industry.

During the year, Kotak Flexi Debt, Kotak Liquid Institutional Premium Plan & Kotak Gilt were awarded 5 Star ranking over three years by Value Research. Also, Kotak Flexi Debt & Kotak Floater Long Term have been ranked 7 star and have been awarded the Gold Award for 'Best Performance' in the category of 'Open Ended Ultra Short Term-IP' and 'Open Ended Floating Rate Fund' respectively for one year period ending 31st December 2010.

Kotak Bond Regular has been awarded most Consistent Performer (based on the annual performance of the past 10 years) in the NDTV Profit Mutual Fund Awards 2010.

Certain statements in the 'Management Discussion and Analysis' section may be forward-looking and are stated as may be required by applicable laws and regulations. Many factors may affect the actual results, which could be different from what the Directors envisage in terms of future performance and outlook. Your Company does not undertake to update these statements.



### **New Schemes launched during 2010-2011**

Other than FMPs two new products were launched successfully in FY-11 namely Kotak Credit Opportunities Fund and Kotak Multi Asset Allocation Fund, garnering ₹ 361.19 crores and ₹ 160.89 crores respectively. Kotak Multi Asset Allocation as the name suggests is a hybrid fund with asset allocation across 3 asset classes viz. Debt, Equity & Gold, allowing investors to take exposure into all the 3 asset classes through investment in a single scheme.

### **SUBSIDIARY**

Kotak Mahindra Pension Fund Limited (KMPFL), subsidiary of your Company has been selected by the Pension Fund Regulatory and Development Authority for the pension fund management business of the unorganized sector. KMPFL commenced its business on 29th April 2009. KMPFL manages 7 (Seven) schemes and the combined assets under management on 31st March 2011 was ₹ 330.09 Lakhs. The pension business is currently at a nascent stage of operations and considering this fact along with the low rates of management fees, the revenue generated for the year ended 31st March 2011 is ₹ 164. KMPFL has made a net loss of ₹ 57.25 lakhs for the financial year.

### **DIRECTORS**

During the year, six meetings of the Board of Directors were convened.

During the year, Mr. Narayan S. A., resigned as a Director of the Company. The Directors placed on record their sincere appreciation of the valuable service rendered by Mr. Narayan, during his tenure as a Director.

Mr. Gaurang Shah, had been appointed as Additional Director on the Board of the Company w.e.f. 1st May 2010. He was confirmed as a Director at the Annual General Meeting held on 10th June 2010.

Mr. Uday Kotak retires by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment.

Mr. Sukant Kelkar retires by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment.

### **AUDIT COMMITTEE**

Pursuant to Section 292A of the Companies Act, 1956, your Company has constituted an Audit Committee of the Board consisting of Mr. R. C. Khanna, Mr. Uday Kotak, Mr. B. R. Shah and Mr. Sukant Kelkar. Mr. R. C. Khanna, independent Director on the Board, is the Chairman of the Audit Committee. The committee met five times during the year to review accounts, operations and internal controls.

### **APPOINTMENT COMMITTEE**

As per the directives laid down by Reserve Bank of India (RBI), your company has constituted an Appointment Committee consisting of Mr. Sukant Kelkar, Mr. Bipin Shah and Mr. Gaurang Shah. The Scope of the Committee is to ensure 'fit & proper' status of proposed/existing Directors and Senior Management Personnel of the organization.

### **AUDITORS**

M/s. S. V. Ghatalia & Associates, Mumbai Statutory Auditors of your Company retire on the conclusion of the Seventeenth Annual General Meeting and are eligible for re-appointment on such remuneration as may be fixed by the Board of the Directors of your Company.

### **STATUTORY INFORMATION**

A statement giving the information required under Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, is annexed.

During the year under review your Company did not accept any deposits. Your Company's foreign exchange income during the year under review were ₹ 2,05,75,550 (Previous year ₹ 3,94,69,925), while the outgo was ₹ 7,27,604 (Previous year 1,31,233). The other requirements pursuant to the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, do not apply since your Company is not a manufacturing company.

### **EMPLOYEES/HUMAN RESOURCES**

At the start of the year, your Company had 304 employees on board. While your Company had some attrition, and some fresh intake, the overall headcount has reached 328 persons by the end of the year.

#### **DIRECTORS RESPONSIBILITY STATEMENT**

Based on representations from the management, the Directors state, in pursuance of Section 217 (2AA) of the Companies Act, 1956, that:

- i. Your Company has, in the preparation of the annual accounts for the year ended 31st March 2011, followed the applicable accounting standards along with proper explanations relating to material departures, if any;
- ii. The Directors have 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 your Company as at 31st March 2011 and of Profit and Loss of your Company for the financial year ended 31st March 2011;
- iii. The Directors have taken proper and sufficient care to the best of their knowledge and ability, for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of your Company and for preventing and detecting fraud and other irregularities; and
- iv. The Directors have prepared the annual accounts on a going concern basis.

#### **ACKNOWLEDGEMENT**

Your Directors would like to place on record their gratitude for the valuable guidance and support received from the Securities and Exchange Board of India, Reserve Bank of India and other Government and Regulatory agencies. Your Directors acknowledge and wish to place their appreciation of employees for their commendable efforts, teamwork and professionalism.

For and on behalf of the Board of Directors

**Uday Kotak**  
Chairman

Mumbai, 27th April 2011



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# Auditors' Report

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To the Members of

**KOTAK MAHINDRA ASSET MANAGEMENT COMPANY LIMITED**

1. We have audited the attached balance sheet of Kotak Mahindra Asset Management Company Limited ('the Company') as at 31st March 2011 and also the profit and loss account and the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 (as amended) issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to above, we report that:
  - i. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - ii. In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
  - iii. The balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
  - iv. In our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
  - v. On the basis of the written representations received from the directors, as on 31st March 2011, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March 2011 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
  - vi. In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;
    - a) in the case of the balance sheet, of the state of affairs of the Company as at 31st March 2011;
    - b) in the case of the profit and loss account, of the profit for the year ended on that date; and
    - c) in the case of the cash flow statement, of the cash flows for the year ended on that date.

For **S.V. Ghatalia & Associates**

Firm Registration Number: 103162W

Chartered Accountants

per **Amit Kabra**

Partner

Membership No.: 094533

Mumbai, 27th April 2011

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# Annexure to the Auditors' Report

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**Annexure referred to in paragraph 3 of our report of even date  
Re: Kotak Mahindra Asset Management Company Limited ('the Company')**

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) Fixed assets have been physically verified by the management during the year and no material discrepancies were identified on such verification.
- (c) There was no substantial disposal of fixed assets during the year.
- (ii) The Company is an asset management company; therefore, the provisions of clause 4(ii) of the Companies (Auditor's Report) Order, 2003 (as amended) related to inventory are not applicable.
- (iii) As informed, the Company has not granted or taken any loans, secured or unsecured to / from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.
- (iv) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business, for the purchase of fixed assets and provision of services. During the course of our audit, no major weakness has been noticed in the internal control system in respect of this area. During the course of our audit, we have not observed any continuing failure to correct major weakness in internal control system of the Company.
- (v) According to the information and explanations provided by the management, we are of the opinion that there are no transactions that need to be entered into the register maintained under section 301 of the Companies Act, 1956.
- (vi) The Company has not accepted any deposits from the public.
- (vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
- (viii) To the best of our knowledge and as explained, the Central Government has not prescribed maintenance of cost records under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956 for the products of the Company.
- (ix) (a) Undisputed statutory dues including provident fund, investor education and protection fund, or employees' state insurance, income-tax, sales-tax, wealth-tax, service tax, customs duty, excise duty, cess and other material statutory dues applicable to it have *generally* been regularly deposited with the appropriate authorities.  

Further, since the Central Government has till date not prescribed the amount of cess payable under section 441 A of the Companies Act, 1956, we are not in a position to comment upon the regularity or otherwise of the Company in depositing the same.
- (b) According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, investor education and protection fund, employees' state insurance, income-tax, wealth-tax, service tax, sales-tax, customs duty, excise duty, cess and other undisputed material statutory dues were outstanding, at the year end, for a period of more than six months from the date they became payable.
- (c) According to the information and explanation given to us, there are no dues of income tax, sales-tax, wealth tax, service tax, customs duty, excise duty and cess which have not been deposited on account of any dispute.
- (x) The Company has no accumulated losses at the end of the financial year and it has not incurred cash losses in the current and immediately preceding financial year.
- (xi) According to information and explanations given to us and based on our examination of documents and records, the Company has not taken any loans from financial institutions or banks or issued debentures.
- (xii) According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.
- (xiv) In respect of dealing/trading in shares, securities, debentures and other investments, in our opinion and according to the information and explanations given to us, proper records have been maintained of the transactions and contracts and timely entries have been made therein. The shares, securities, debentures and other investments have been held by the Company, in its own name.
- (xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial institutions.
- (xvi) The Company did not have any term loans outstanding during the year.



- (xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short-term basis have been used for long-term investment.
- (xviii) The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under section 301 of the Companies Act, 1956.
- (xix) The Company did not have any outstanding debentures during the year.
- (xx) The Company has not raised any money by public issues.
- (xxi) Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For **S. V. Ghatalia & Associates**

Firm Registration Number: 103162W

Chartered Accountants

per **Amit Kabra**

Partner

Membership No.: 094533

Mumbai, 27th April 2011

**Balance Sheet as at 31st March 2011**

(₹)

	Schedules	As at 31st March 2011	As at 31st March 2010
<b>SOURCES OF FUNDS</b>			
<b>Shareholders' Funds :</b>			
Share capital	1	283,000,000	283,000,000
Reserves and Surplus	2	385,747,464	368,486,402
<b>Total</b>		<b>668,747,464</b>	<b>651,486,402</b>
<b>APPLICATION OF FUNDS</b>			
<b>Fixed Assets</b>			
Gross Block	3	150,958,726	134,275,257
Less: Accumulated Depreciation		95,534,360	86,091,120
Net Block		55,424,366	48,184,137
Investments	4	358,000,000	108,000,000
Deferred Tax Asset		22,102,065	14,870,105
<b>Current Assets, Loans and Advances:</b>			
Sundry debtors	5	87,972,256	100,222,460
Cash and bank balances	6	348,287,186	918,843,150
Loans and advances	7	119,198,582	36,106,489
		555,458,024	1,055,172,099
<b>Less: Current Liabilities and Provisions :</b>			
(a) Liabilities	8	125,253,026	217,635,050
(b) Provisions		196,983,965	357,104,889
		322,236,991	574,739,939
Net Current Assets		233,221,033	480,432,160
<b>Total</b>		<b>668,747,464</b>	<b>651,486,402</b>
Significant Accounting Policies and Notes to the Accounts	12		

As per our report of even date

**For S. V. Ghatalia and Associates**

 Firm Reg. No. 103162W  
 Chartered Accountants

**per Amit Kabra**

 Partner  
 Membership No.:094533

Mumbai, 27th April 2011

For and on behalf of the Board of Directors

**Uday S. Kotak**  
 Chairman

**Hariharan R**  
 Manager

**R. C. Khanna**  
 Director

**Jolly Bhatt**  
 Company Secretary



## Profit and Loss Account for the year ended 31st March 2011

(₹)

	Schedule	For the Year Ended 31st March 2011	For the Year Ended 31st March 2010
<b>INCOME</b>			
Management fees (Gross)		<b>1,021,290,562</b>	1,624,634,491
(TDS ₹ 112,648,349 , Previous Year ₹ 186,099,576)			
Portfolio Advisory Services (Gross)		<b>25,000,000</b>	65,191,901
(TDS ₹ 1,150,472, Previous Year ₹ 6,101,923)			
Dividend Income		<b>27,519,717</b>	12,579,400
Other income	9	<b>7,295,882</b>	52,420,368
<b>Total</b>		<b>1,081,106,161</b>	1,754,826,160
<b>EXPENDITURE</b>			
Employee costs	10	<b>383,914,346</b>	406,408,376
Administrative and Other expenses	11	<b>525,004,933</b>	337,581,168
Depreciation		<b>25,383,511</b>	20,317,756
<b>Total</b>		<b>934,302,790</b>	764,307,300
<b>PROFIT BEFORE TAX</b>		<b>146,803,371</b>	990,518,860
<b>Provision for taxation:</b>			
Current Tax (Including Wealth Tax Provision ₹ 195,000 Previous year ₹ 150,000)		<b>(47,835,000)</b>	(335,860,000)
Deferred Tax		<b>7,231,960</b>	2,565,196
Income Tax Prior Years		—	(2,079,220)
Profit after tax		<b>106,200,331</b>	655,144,836
Profit brought forward from previous year		<b>257,086,402</b>	138,196,063
<b>Profit Available for Appropriation</b>		<b>363,286,733</b>	793,340,899
<b>Appropriations</b>			
Proposed Dividend on Preference Shares		<b>7,225,000</b>	7,225,000
Proposed Dividend on Equity Shares		<b>69,300,000</b>	277,200,000
Interim Dividend		—	118,800,000
Corporate Dividend Tax		<b>12,414,269</b>	67,429,497
Transfer to General Reserve		<b>10,625,000</b>	65,600,000
Profit carried to Balance Sheet		<b>263,722,464</b>	257,086,402
Basic and Diluted earnings per share of Face value of ₹ 10 each (in ₹)		<b>5.36</b>	33.09
(Refer Note III (G) of Schedule 12)			
Significant Accounting Policies and Notes to the Accounts	12		

As per our report of even date

### For S. V. Ghatalia and Associates

Firm Reg. No. 103162W  
Chartered Accountants

#### per Amit Kabra

Partner  
Membership No.:094533

Mumbai, 27th April 2011

For and on behalf of the Board of Directors

**Uday S. Kotak**  
Chairman

**Hariharan R**  
Manager

**R. C. Khanna**  
Director

**Jolly Bhatt**  
Company Secretary

**Cash Flow Statement for the year ended 31st March 2011**

(₹)

	For the Year Ended 31st March 2011	For the Year Ended 31st March 2010
<b>A) CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net Profit before taxation and extraordinary items	146,803,371	990,518,860
Add / (Less) Adjustments for:		
Depreciation	25,383,511	20,317,756
Provision for gratuity and Leave Encashment	10,087,126	5,407,708
Interest on Income tax refund	—	(5,922,402)
Interest / Dividend	(34,571,215)	(12,579,400)
(Profit) / Loss on sale of assets	(1,479,012)	(493,313)
<b>OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES</b>	<b>146,223,781</b>	<b>997,249,209</b>
(Increase) / Decrease in loans and advances	(6,197,987)	42,848,884
(Increase) / Decrease in Sundry Debtors	12,250,204	(5,833,327)
Increase / (Decrease) in Current liabilities	(19,957,024)	131,354,060
	<b>(13,904,807)</b>	<b>168,369,617</b>
<b>CASH GENERATED FROM OPERATIONS</b>	<b>132,318,974</b>	<b>1,165,618,826</b>
<b>Payment of Taxes (Net of refund)</b>	<b>(124,636,987)</b>	<b>(256,229,015)</b>
<b>NET CASH FLOW FROM OPERATING ACTIVITIES (A)</b>	<b>7,681,987</b>	<b>909,389,811</b>
<b>B) CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of Fixed assets (owned)	(34,195,350)	(23,852,799)
Sale of Fixed assets (owned)	3,050,621	1,659,172
Purchase of Investments	(4,681,529,996)	4,118,336,965
Sale of Investment	4,431,529,996	(4,226,336,965)
Interest received	7,051,498	—
Dividend received	27,519,717	12,579,400
<b>NET CASH FLOW FROM INVESTMENT ACTIVITIES (B)</b>	<b>(246,573,514)</b>	<b>(117,614,227)</b>
<b>C) CASH FLOW FROM FINANCING ACTIVITIES</b>		
Dividend paid	(284,425,000)	(120,482,534)
Dividend Tax paid	(47,239,437)	(20,476,007)
<b>NET CASH FLOW FROM FINANCING ACTIVITIES (C)</b>	<b>(331,664,437)</b>	<b>(140,958,541)</b>


**Cash Flow Statement for the year ended 31st March 2011 (Contd.)**

(₹)

	For the Year Ended 31st March 2011	For the Year Ended 31st March 2010
<b>NET INCREASE / (DECREASE) IN CASH &amp; CASH EQUIVALENTS (A + B + C)</b>	<b>(570,555,964)</b>	650,817,044
<b>CASH &amp; CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b>918,843,150</b>	268,026,106
<b>CASH &amp; CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>348,287,186</b>	918,843,150
<b>Note:</b>		
1. Cash and cash equivalent include :		
Bank Balances in Fixed Deposit	<b>331,000,000</b>	10,900,000
Bank Balances in Current Account	<b>17,287,186</b>	907,943,150
Total cash and cash equivalents	<b>348,287,186</b>	918,843,150

2. The Cash Flow Statement has been prepared under the 'Indirect Method' as set out in the Accounting Standard - 3 on Cash Flow Statement issued by the Institute of Chartered Accountants of India.
3. The corresponding amounts of previous year have been re-grouped, wherever necessary.

As per our report of even date

**For S. V. Ghatalia and Associates**

Firm Reg. No. 103162W  
Chartered Accountants

**per Amit Kabra**

Partner  
Membership No.:094533

Mumbai, 27th April 2011

For and on behalf of the Board of Directors

**Uday S. Kotak**  
Chairman

**R. C. Khanna**  
Director

**Hariharan R**  
Manager

**Jolly Bhatt**  
Company Secretary

## Schedules forming part of Balance Sheet

(₹)

	As at 31st March 2011	As at 31st March 2010
<b>Schedule 1 - Share Capital</b>		
<b>Authorised</b>		
2,50,00,000 equity shares of ₹10/- each	<b>250,000,000</b>	250,000,000
1,00,00,000 Preference shares of ₹10/- each	<b>100,000,000</b>	100,000,000
<b>Issued, subscribed and paid-up</b>		
19,800,000 (Previous Year 19,800,000) equity shares of ₹10/- each, fully paid up	<b>198,000,000</b>	198,000,000
All the above shares are held by Kotak Mahindra Bank Ltd., the holding company and its nominees.		
8,500,000(Previous Year 8,500,000) 8.5% Compulsory Convertible Preference shares of ₹10/- each, fully paid up. Conversion date 5th January 2019.	<b>85,000,000</b>	85,000,000
All the above shares are held by Kotak Securities Ltd.		
<b>Total</b>	<b>283,000,000</b>	283,000,000
<b>Schedule 2 - Reserves and Surplus</b>		
<b>Capital Redemption Reserve</b>		
Opening Balance	<b>42,000,000</b>	42,000,000
Transfer from Profit & Loss Account	—	—
Closing Balance	<b>42,000,000</b>	42,000,000
<b>General Reserve</b>		
Opening Balance	<b>69,400,000</b>	3,800,000
Transfer from Profit & Loss Account	<b>10,625,000</b>	65,600,000
Closing Balance	<b>80,025,000</b>	69,400,000
<b>Balance in Profit and Loss Account</b>	<b>263,722,464</b>	257,086,402
<b>Total</b>	<b>385,747,464</b>	368,486,402

## Schedule 3 - Fixed Assets

(₹)

Description	Gross Block				Depreciation				Net Block	
	As on 1st April 2010	Additions	'Deductions	As on 31st March 2011	As on 1st April 2010	For the year	Deductions	As on 31st March 2011	As on 31st March 2011	As on 31st March 2010
<b>A. Intangible Assets</b>										
Software	21,915,830	4,964,803	—	<b>26,880,633</b>	14,210,507	4,656,245		<b>18,866,752</b>	<b>8,013,881</b>	7,705,323
<b>B. Tangible Assets</b>										
Leasehold Improvement	29,132,943	3,346,477	6,770,786	<b>25,708,634</b>	16,593,417	4,812,350	6,392,728	<b>15,013,039</b>	<b>10,695,595</b>	12,539,526
Computers	41,309,703	7,257,403	1,362,939	<b>47,204,167</b>	33,313,124	5,990,044	1,362,938	<b>37,940,230</b>	<b>9,263,937</b>	7,996,579
Office Equipments	12,145,828	2,741,880	28,125	<b>14,859,583</b>	8,057,227	2,144,013	14,777	<b>10,186,463</b>	<b>4,673,120</b>	4,088,601
Furniture & Fixtures	5,693,961	420,047	125,676	<b>5,988,332</b>	3,019,059	1,557,183	67,777	<b>4,508,465</b>	<b>1,479,867</b>	2,674,902
Vehicles	24,076,993	15,464,740	9,224,356	<b>30,317,377</b>	10,897,786	6,223,676	8,102,051	<b>9,019,411</b>	<b>21,297,966</b>	13,179,207
<b>Total</b>	<b>134,275,258</b>	<b>34,195,350</b>	<b>17,511,882</b>	<b>150,958,726</b>	<b>86,091,120</b>	<b>25,383,511</b>	<b>15,940,271</b>	<b>95,534,360</b>	<b>55,424,366</b>	
Previous Year	120,845,870	23,852,799	10,423,410	134,275,258	75,030,916	20,317,756	9,257,551	86,091,120		48,184,138

## Schedules forming part of Balance Sheet (Contd.)

(₹)

	As at 31st March 2011	As at 31st March 2010
<b>Schedule 4 - Investments (Non-trade, unquoted, fully paid):</b>		
<b>Long Term Investments (at cost)</b>		
In Equity Shares of Subsidiary Company		
10,800,000 (Previous year 10,800,000) Equity shares of face value of ₹10/- each, of Kotak Mahindra Pension Fund Ltd.	<b>108,000,000</b>	108,000,000
In Preference Shares of Fellow Subsidiary Company		
25,000,000 (Previous Year Nil) Preference shares of face value of ₹10/- each, of Kotak Mahindra Prime Ltd	<b>250,000,000</b>	—
<b>Total</b>	<b>358,000,000</b>	108,000,000
Investments purchased and sold during the year in units:		
<b>Particulars</b>	<b>Purchase Units</b>	<b>Sold Units</b>
<i>Investment in Units of Mutual Fund</i>		
Kotak Mahindra Liquid Scheme - Institutional Premium Plan - Daily Dividend	<b>173,240,109</b>	173,240,109
	<b>(167,981,943)</b>	(167,981,943)
Kotak Mahindra Floater Short term - Daily Dividend Option	<b>89,295,983</b>	89,295,983
Kotak Mahindra Floater Long term - Daily Dividend Option	<b>142,593,732</b>	142,593,732
	<b>(214,255,994)</b>	(214,255,994)
Figures in bracket are for Previous Year		
<b>Schedule 5 - Sundry Debtors (Unsecured, considered good)</b>		
Debts outstanding for less than six months	<b>87,972,256</b>	100,222,460
	<b>87,972,256</b>	100,222,460
Note:-		
Due from Companies under the same management		
Kotak Securities Ltd.		
Outstanding	—	—
Maximum Outstanding	<b>2,297,918</b>	2,183,020
Kotak Investment Advisors Ltd		
Outstanding	—	—
Maximum Outstanding	<b>86,070</b>	137,579
Kotak Mahindra (UK) Limited		
Outstanding	<b>3,314,205</b>	1,809,026
Maximum Outstanding	<b>6,998,271</b>	2,092,160

**Schedules forming part of Balance Sheet (Contd.)**

(₹)

	As at 31st March 2011	As at 31st March 2010
<b>Schedule 6 - Cash and Bank Balances</b>		
Balances with scheduled banks in current accounts	<b>17,287,186</b>	907,943,150
Balances with scheduled banks in Fixed Deposits	<b>331,000,000</b>	10,900,000
	<b>348,287,186</b>	918,843,150
Include in above, balances with Holding Company		
Balances with scheduled banks in current accounts	<b>15,273,546</b>	906,442,248
Balances with scheduled banks in Fixed Deposits	<b>331,000,000</b>	10,900,000
<b>Schedule 7 - Loans and Advances (Unsecured, considered good)</b>		
Loans to employees	<b>2,375,861</b>	1,164,414
Advance payment of taxes and Tax deducted at source (Net of provision for taxation of ₹ 542,415,538, Previous Year ₹ 427,967,065)	<b>87,393,613</b>	10,396,625
Advances recoverable in cash or in kind or for value to be received	<b>21,909,122</b>	17,570,935
Other Deposits	<b>7,519,986</b>	6,871,633
<b>Total</b>	<b>119,198,582</b>	36,003,607
Note:-		
Due from Companies under the same management		
Kotak Mahindra Old Mutual Life Insurance Limited		
Outstanding	<b>16,341</b>	—
Maximum Outstanding	<b>16,341</b>	15,111,100
Kotak Securities Limited		
Outstanding	<b>13,611</b>	94,850
Maximum Outstanding	<b>13,611</b>	94,850
Kotak Mahindra Trustee Company Limited		
Outstanding	—	—
Maximum Outstanding	<b>4,413,981</b>	786,391

## Schedules forming part of Balance Sheet (Contd.)

(₹)

	As at 31st March 2011	As at 31st March 2010
<b>Schedule 8 - Current Liabilities and Provisions</b>		
<b>Current liabilities</b>		
Sundry creditors		
a) total outstanding dues of micro enterprises and small enterprises; and (Refer Note III (N) of Schedule 12)	—	
b) total outstanding dues of creditors other than micro enterprises and small enterprises	<b>112,657,125</b>	
	<b>112,657,125</b>	89,005,325
Other liabilities	<b>12,595,901</b>	8,629,725
	<b>125,253,026</b>	97,635,050
<b>Provisions</b>		
Gratuity	<b>19,877,558</b>	12,304,397
Accumulated Compensated Leave Balances	<b>15,069,964</b>	12,555,999
Other Provisions	<b>72,425,000</b>	120,000,000
Wealth Tax	<b>672,174</b>	477,174
Proposed Dividend on Equity share	<b>69,300,000</b>	277,200,000
Proposed Dividend on Preference share	<b>7,225,000</b>	7,225,000
Tax on Dividend	<b>12,414,269</b>	47,239,437
	<b>196,983,965</b>	477,002,007
<b>Total</b>	<b>322,236,991</b>	574,637,057

## Schedules forming part of Profit and Loss Account

(₹)

	For the Year ended 31st March 2011	For the Year ended 31st March 2010
<b>Schedule 9 - Other Income</b>		
Interest on Deposits (Gross) (TDS ₹ 651,369, Previous Year Nil)	6,513,699	—
Interest on Bank Deposits (Gross):- (TDS ₹ 39,309, Previous Year ₹ 2,736,937)	393,087	19,272,070
Interest on loans to staff	144,712	90,875
Interest on income-tax refunds	—	5,922,402
Rebate Received From Overseas Investment Manager	—	26,959,706
Miscellaneous Income	244,384	175,315
<b>Total</b>	<b>7,295,882</b>	<b>52,420,368</b>
<b>Schedule 10 - Employee Costs</b>		
Salaries and allowances (Refer Note III (J) of Schedule 12)	372,514,260	397,354,041
Contribution to provident and other funds	15,807,122	13,948,385
Staff welfare	3,076,172	2,352,069
	<b>391,397,554</b>	<b>413,654,495</b>
Less: Recovery of common establishment expenses	7,483,208	7,246,119
<b>Total</b>	<b>383,914,346</b>	<b>406,408,376</b>
<b>Schedule 11 - Administrative and Other Expenses</b>		
Rent, Society Property Expenses	52,496,502	61,931,903
Rates and taxes	1,671,981	1,211,959
Insurance	5,734,674	3,431,069
Legal and professional fees	10,607,961	8,466,498
Reimbursement of common administrative cost	21,495,247	9,478,242
Travel and conveyance	24,986,180	19,607,516
Communication expenses	16,276,456	14,185,067
Business promotion, Distribution and Mutual Fund expenses	314,337,629	160,950,512
Printing and stationery	5,406,304	3,729,848
Membership subscription	17,254,401	13,398,214
Electricity	9,737,532	7,902,387
Computer and software related expenses	9,004,724	5,779,897
Directors' sitting fees	450,000	495,000
Repairs and maintenance - Others	4,564,581	4,068,715
Recruitment Expenses	157,294	87,875
Filing Fees	4,200,500	3,154,650


**Schedules forming part of Profit and Loss Account (Contd.)**

(₹)

	For the Year ended 31st March 2011	For the Year ended 31st March 2010
Auditors' Remuneration and expenses		
Audit Fees	<b>1,150,000</b>	1,000,000
In any other manner - Certification	—	15,000
Out of pocket expenses	—	4,145
Service tax on above services	<b>118,450</b>	104,972
Service tax input credit	<b>(118,450)</b>	(104,972)
	<b>1,150,000</b>	1,019,145
Loss/(Profit) on sale of fixed assets (net)	<b>(1,479,012)</b>	(493,313)
Office upkeep expenses	<b>12,227,693</b>	9,677,528
Miscellaneous expenses	<b>15,678,046</b>	11,193,499
	<b>525,958,693</b>	339,276,212
Less: Recovery of common administrative expenses	<b>953,760</b>	1,695,044
<b>Total</b>	<b>525,004,933</b>	337,581,168

## SCHEDULES FORMING PART OF THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT

### Schedule 12 - Significant Accounting Policies and Notes to the Accounts

#### I. NATURE OF OPERATIONS:

Kotak Mahindra Asset Management Company Limited has been appointed as the Asset Management Company, to provide management and administrative services to the Trust (Kotak Mahindra Mutual Fund) and to deploy the funds raised by the Mutual Fund under the Schemes.

The company also provides portfolio advisory services.

#### II. SIGNIFICANT ACCOUNTING POLICIES:

##### A. BASIS OF ACCOUNTING

The Financial Statements have been prepared to comply in all material aspects with the Accounting Standards notified by Companies (Accounting Standards) Rules, 2006 (as amended) and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual basis.

##### B. USE OF ESTIMATES

The preparation of financial statements are in conformity with generally accepted accounting policies which requires the management to make estimates and assumptions considered in the reported amounts of assets and liabilities as of the date of the financial statements, the reported income and expenses during the reporting period and disclosure of contingent liabilities. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates and assumptions.

##### C. REVENUE RECOGNITION

- Fees from mutual fund operations  
Investment management fees are recognized net of service tax on an accrual basis as a percentage of the average daily net assets of the schemes of Kotak Mahindra Mutual Fund (excluding investments made by the Company in the schemes), such that it does not exceed the rates prescribed by the Securities and Exchange Board of India ('SEBI') (Mutual Fund) Regulations, 1996 (the 'SEBI Regulations') on an annual basis.
- Fees from rendering Portfolio Advisory Services  
Portfolio advisory fees are recognized net of service tax on an accrual basis, and are in accordance with the terms of agreement.
- Dividend income is accounted when the right to receive dividend is established.
- Purchase and sale of Investment is recorded on trade date. The profit / loss on sale of investments are recognized in the profit and loss account on the trade date, using weighted average cost method.

##### D. FIXED ASSETS AND DEPRECIATION

Fixed assets are stated at cost less accumulated depreciation. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use.

Depreciation is provided using the Straight Line Method as per the useful lives of the assets estimated by the management at rates higher than those prescribed under Schedule XIV to the Companies Act, 1956. Estimated useful lives over which assets are depreciated are as follows:

Asset	Useful life in years
Motor vehicles	4
Computers	3
Furniture and fixtures	6
Office equipment	5
Leasehold Improvements	Over the period of lease subject to a maximum of 6 years.
Intangible Assets - Software	3

Assets costing less than ₹ 5,000 are depreciated at 100% in the year of purchase.

##### E. IMPAIRMENT

- The carrying amounts of assets are reviewed at each balance sheet date if there is any indication of impairment based on internal/external factors. An impairment loss is recognized wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.
- After impairment, depreciation is provided on the revised carrying amount of the asset over its remaining useful life.

**F. INVESTMENTS**

Investments that are readily realisable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long-term investments. Current investments are carried at lower of cost and fair value determined on an individual investment basis. Long-term investments are carried at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of the investments.

**G. EMPLOYEE BENEFITS**

Defined contribution scheme

- a. The contributions as required by the statute to Government Provident Fund are charged to profit and loss account when due.
- b. The company contributes a sum equivalent to 15% of basic subject to a maximum of ₹ 1 lakh per annum per employee, of eligible employees' eligible salary to a Superannuation Fund administered by trustees and managed by a Life Insurance Company. The company recognises such contributions as an expense in the year they are incurred.

Defined Benefit Plan

- a. The company accounts for the liability for future gratuity benefits based on an actuarial valuation. The gratuity obligation is unfunded. The net present value of the company's obligation towards the same is determined based on the projected unit credit method as at the Balance Sheet date.
- b. Actuarial gains/losses are immediately recognised in the profit and loss account and are not deferred.

Other Long – term Employee Benefit

- a. The company accrues the liability for compensated absences based on the actuarial valuation as at the balance sheet date conducted by an independent actuary. The net present value of the company's obligation is determined based on the projected unit credit method as at the Balance Sheet date.

Other Employee Benefits

- a. The undiscounted amount of employee benefits expected to be paid in exchange for the services rendered by employees is recognised during the period when the employee renders the service. These benefits include performance incentives.

**H. TAXES ON INCOME**

Tax expense comprises of current and deferred tax. Current income tax is measured at the amount expected to be paid to the tax authorities in accordance with the Income-tax Act, 1961 enacted in India. Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years.

Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to the taxes on income levied by same governing taxation laws. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. In situations where the company has unabsorbed depreciation or carry forward tax losses, all deferred tax assets are recognised only if there is virtual certainty supported by convincing evidence that they can be realised against future taxable profits.

At each balance sheet date the Company re-assesses unrecognised deferred tax assets. It recognises unrecognised deferred tax assets to the extent that it has become reasonably certain or virtually certain, as the case may be that sufficient future taxable income will be available against which such deferred tax assets can be realised.

The carrying amount of deferred tax assets are reviewed at each balance sheet date. The company writes-down the carrying amount of a deferred tax asset to the extent that it is no longer reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available against which deferred tax asset can be realised. Any such write-down is reversed to the extent that it becomes reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available

**I. OPERATING LEASE**

Leases, where the lessor retains substantially all the risks and benefits of ownership of the leased item, are classified as Operating Leases. Operating lease payments are recognized as an expense in the Profit and Loss account on a straight-line basis over the lease term.

**J. BORROWING COSTS**

Borrowing costs other than those directly attributable to qualifying Fixed Assets are recognised as an expense in the period in which they are incurred.

**K. FOREIGN CURRENCY TRANSACTIONS****(A) Initial Recognition**

Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

**(B) Conversion**

Foreign currency monetary items are reported using the closing rate. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction;

and non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.

**(C) Exchange Differences**

Exchange differences arising on the settlement of monetary items not covered above, or on reporting such monetary items of company at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognized as income or as expenses in the year in which they arise.

**L. SCHEME EXPENSES**

Annual recurring expenses relating to schemes of Kotak Mahindra Mutual Fund which are in excess of internal expense limits are borne by the Company. The internal expense limits are within the overall expense limits prescribed by the SEBI.

**M. EARNINGS PER SHARE**

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders (after deducting preference dividends and attributable taxes) by the weighted average number of equity shares outstanding during the period. Partly paid equity shares are treated as a fraction of an equity share to the extent that they were entitled to participate in dividends relative to a fully paid equity share during the reporting period. The weighted average number of equity shares outstanding during the period are adjusted for events of bonus issue; bonus element in a rights issue to existing shareholders; share split; and reverse share split (consolidation of shares).

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

**N. PROVISIONS AND CONTINGENT LIABILITIES**

Provision is recognized when there is a present obligation as a result of past event, it is probable that an outflow of resources will be required to settle the obligation and in respect of which reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates. Contingent Liabilities are not recognized but are disclosed in the notes. Contingent assets are neither recognized nor disclosed in the financial statements.

**O. EMPLOYEE STOCK OPTION SCHEME**

**Cash-settled scheme:**

The cost of cash-settled scheme (stock appreciation rights) is measured initially using intrinsic value method at the grant date taking into account the terms and conditions upon which the instruments were granted. This intrinsic value is amortised on a straight-line basis over the vesting period with a recognition of corresponding liability. This liability is remeasured at each balance sheet date up to and including the settlement date with changes in intrinsic value recognised in profit and loss account in 'Employee Costs'

**P. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents for the purposes of cash flow statement comprise cash at bank and short-term investments with an original maturity of three months or less.

**III. NOTES TO THE ACCOUNTS**

**A. Contingent Liabilities not provided for**

₹

Particulars	2011	2010
Contingent Liability for Income Tax Demand	3,951,875	4,222,375
Contingent Liability for Service Tax Demand	1,690,736	1,641,184
Contingent liability towards Property Tax	14,319,398	—

**B. Capital Commitments**

Estimated amount of contracts remaining to be executed on capital account and not provided for ₹ 1,726,302 (Previous year ₹ 2,278,489).

**C. Managerial remuneration under Section 198 of the Companies Act 1956 paid to the Manager for the year:**

₹

Particulars	2011	2010
Salaries & Allowances	3,309,884	1,777,299
Contribution to provident and other funds *	243,520	217,600
Perquisites in cash or in kind	48,396	142,006
Employees Stock Option Scheme	84,739	59,108
<b>Total</b>	<b>3,686,539</b>	<b>2,196,013</b>

Note : \* The above excludes provision for gratuity benefits and accumulated compensated absences, which are based on actuarial valuation done on an overall basis for the Company.

- D. Additional information pursuant to the provisions of paragraph 4B and 4D of part II of Schedule VI to the Companies Act, 1956 to the extent applicable is given below:

Expenditure in Foreign Currency :-

- Travelling ₹ Nil (Previous year ₹ 131,233)
- Professional Charges ₹ 727,604 (Previous Year ₹ Nil)

Earnings/Receipts in Foreign Currency

- Portfolio Advisory Fees ₹ 19,000,000 (Previous Year ₹ 12,500,000).
- Rebate received ₹ NIL (Previous Year ₹ 26,959,706)
- Reimbursement for Expenses ₹ 1,730,872 (Previous Year ₹ Nil)
- Exchange Gain/(Loss) – ₹ (155,322) (Previous Year – ₹ 10,219).

- E. The year-end foreign currency exposures which have not been hedged by a derivative instrument or otherwise.

Amounts receivable in foreign currency	₹	\$
	3,314,205	74,318
Previous Year (7,227,948)		(160,337)

#### F. Employee Benefits

Reconciliation of opening and closing balance of the present value of the defined benefit obligation for gratuity benefits is given below. ₹

Particulars	2011	2010
<i>Change in Unfunded benefit obligations</i>		
Present value of unfunded benefit obligations, at the beginning of the year	<b>12,304,397</b>	9,645,941
Service cost	<b>2,596,301</b>	2,536,753
Interest cost	<b>1,109,096</b>	817,213
Actuarial (gain)/loss on obligations	<b>848,988</b>	700,469
Past Service cost	<b>5,806,815</b>	—
Liabilities assumed	<b>(637,300)</b>	(255,440)
Benefits paid	<b>(2,150,739)</b>	(1,140,539)
<b>Present value of unfunded benefit obligations as at year end</b>	<b>19,877,558</b>	12,304,397

Reconciliation of present value of the obligation and the fair value of the plan assets	2011	2010
Fair value of plan assets as at the beginning of the year	—	—
Present value of benefit obligations as at year end	<b>19,877,558</b>	12,304,397
<b>Net asset / (liability) as at year end</b>	<b>19,877,558</b>	12,304,397
<b>Cost recognised for the period</b>		
Current service cost	<b>2,596,301</b>	2,536,753
Interest cost	<b>1,109,096</b>	817,213
Expected return on plan assets	—	—
Actuarial (gain)/loss	<b>848,988</b>	700,469
Past Service cost	<b>5,806,815</b>	—
<b>Net gratuity cost</b>	<b>10,361,200</b>	4,054,435

#### Experience Adjustments for the current annual period and previous four annual periods:

Particulars	Year Ended				
	2007	2008	2009	2010	2011
Defined Benefit Obligation	4,877,877	7,700,717	9,645,941	12,304,397	<b>19,877,558</b>
Plan Assets	—	—	—	—	—
Surplus/(Deficit)	(4,877,877)	(7,700,717)	(9,645,941)	(12,304,397)	<b>(19,877,558)</b>
Experience Adjustment on Plan Liabilities	2,371,214	728,910	(477,320)	567,276	<b>1,325,502</b>
Experience Adjustment on Plan Assets	—	—	—	—	—

**Actuarial assumptions used**

Discount rate	8.26% p.a.	8.01% p.a
Expected rate of return on Plan Assets	0%	0%
Salary escalation rate	15% p.a. for first 2 years, 10% p.a. for next 2 years & 6% p.a. thereafter	15% p.a. for first 2 years, 10% p.a. for next 2 years & 6% p.a. thereafter

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors such as supply and demand in the employment market.

The above information is as certified by the actuary and relied upon by the auditors.

**G. Earnings Per Share ('EPS') – The numerators and denominators used to calculate Basic and Diluted Earnings Per Share:**

Particulars	2011	2010
(a) Nominal Value of an Equity Share (₹)	10	10
(b) Net profit available to Equity Shareholders (₹)	106,200,331	655,144,836
(c) Weighted average number of shares outstanding	19,800,000	19,800,000
(d) Basic and Diluted EPS* (₹) = (b) / (c)	5.36	33.09

\* Since conversion price of shares is not determined, convertible preference shares have not been considered for arriving at diluted earning per share.

**H. Operating Leases:**

The company has taken office and residential premises under operating lease or leave and license agreements. These are generally cancelable in nature and range between 11 months to 55 months. These leave and license agreements are generally renewable or cancelable at the option of the Company. The lease payments (net of recoveries) recognised in the profit and loss account is ₹ 18,798,012 (Previous Year ₹ 34,794,502). The future minimum lease payments under non-cancelable operating lease – Not later than one year Nil (Previous Year ₹ Nil).

**I. The Company had given a loan to a fellow subsidiary during the year in excess of the limit specified under section 372A of the Companies Act. The loan has been repaid by the fellow subsidiary during the year, and the shareholders of the Company have approved, ratified and confirmed the loan subsequently; the approval could not be obtained earlier due to exceptional circumstances.**
**J. Equity-settled options**

At the General Meetings of the holding company, Kotak Mahindra Bank Limited, the shareholders of the Bank had unanimously passed Special Resolutions on 28th July 2000, 26th July 2004 & 26th July 2005, 5th July 2007 and 21st August 2007, to grant options to the Eligible Employees of the Bank and its subsidiaries. Pursuant to these resolutions, the following four Employees Stock Option Schemes had been formulated and adopted:

- Kotak Mahindra Equity Option Scheme 2001-02
- Kotak Mahindra Equity Option Scheme 2002-03
- Kotak Mahindra Equity Option Scheme 2005
- Kotak Mahindra Equity Option Scheme 2007

In accordance with SEBI (Employees Stock Option Scheme and Employee Stock Purchase) Guidelines, 1999 and the guidance note on "Accounting for Employee Share-based Payments" issued by the Institute of Chartered Accountants of India, the excess, if any, of the market price of share preceding the date of grant of the option under ESOPs over the exercise price of option is amortised on a straight-line basis over the vesting period. The Company has reimbursed the Bank ₹ 7,606,325 (Previous year 13,579,426) during the year on account of such cost and the same is forming part of employee cost and included under the head 'Employee Costs' under schedule 10.

**Cash Settled Employee Stock Option Scheme - Stock appreciation rights (SARs):**

During the year, the management had approved (SARs) to be granted to eligible employees as and when deemed fit based on underlying shares of Holding company. The SARs are to be settled in cash and will vest in the manner as provided in the scheme / grant letters to employees.

The contractual life (which is equivalent to the vesting period) of the SARs ranges from 0.50 years to 1.50 years.



Detail of activity under SARs is summarized below:

No. of SARs

Particulars	2011*	2010*
Outstanding at the beginning of the year	Nil	Nil
Granted during the year	34,020	Nil
Exercised during the year	17,800	Nil
Expired during the year	Nil	Nil
Forfeited during the year	Nil	Nil
Outstanding at the end of the year	16,220	Nil

\* The number of SARs have been adjusted for split of the underlying equity shares from ₹ 10 paid up to ₹ 5 paid up per share. Effect of grant of SARs to employees on the profit and loss account and on its financial position

₹ in crores

Year ended 31 <sup>st</sup> March	2011	2010
Total Employee Compensation Cost pertaining to share-based payment plans	2.01	1.36
Closing balance of liability for cash-settled options	0.44	Nil

Had the company recorded the compensation cost computed on the basis of fair valuation method instead of intrinsic value method, employee compensation cost would have been higher by ₹ 21,895,967 (Previous year ₹ 23,031,829) and the profit before tax would have been lower by same amount. Consequently the basic and diluted EPS would have been lower by ₹ 0.73 (Previous year ₹ 1.16).

#### K. Deferred Income taxes

Components of net deferred tax balances are as follows:

(₹)

Particulars	2011	2010
<b>Deferred Tax Assets</b>		
Provisions for Employee Benefits	12,959,342	8,457,975
Depreciation on Fixed Assets	7,423,138	6,412,131
Lease Equalisation	1,719,585	—
<b>Net Deferred Tax Asset</b>	<b>22,102,065</b>	14,870,106

#### L. Segmental Reporting

The segmental reporting disclosure as required by Accounting Standard (AS) – 17 on "Segment Reporting", issued by the Institute of Chartered Accountants of India has not been made. The Company's operations predominantly relate to providing investment management services to the schemes floated by Kotak Mahindra Mutual Fund and advisory services to other subsidiaries of Kotak Mahindra Bank Ltd. The risks and rewards relating to both these services are similar and hence there is no reportable business / geographic segment.

**M. Related Party Disclosures**

Parties where control exist:

Holding Company	Kotak Mahindra Bank Limited holds 100% of equity share capital
	Uday S. Kotak along with relatives and entities controlled by him holds 45.56% of the equity share capital of Kotak Mahindra Bank Limited as on 31st March 2011.
Subsidiary Company	Kotak Mahindra Pension Fund Limited.
Other related parties:	
Fellow Subsidiaries	Kotak Mahindra Trustee Company Limited Kotak Mahindra Trusteeship Services Limited Kotak Mahindra Investments Limited Kotak Investment Advisors Limited Kotak Mahindra (International) Limited Kotak Mahindra (UK) Limited Kotak Securities Limited Kotak Mahindra Capital Company Limited Kotak Mahindra Prime Limited. Kotak Mahindra Old Mutual Life Insurance Ltd Kotak Mahindra, Inc. Global Investment Opportunities Fund Ltd. Kotak Mahindra Financial Services Limited
Key Management Personnel	Mr. Uday S Kotak, Chairman Mr. Sandesh Kirkire, Chief Executive Officer Mr. Hariharan R, Manager
Others:	
Enterprises over which Key Management Personnel / relatives have significant influence	Mr. Uday S Kotak Aero Agencies Ltd Komaf Financials Services Ltd Kotak Commodity Services Limited
Mutual Fund managed by the company	Kotak Mahindra Mutual Fund

Details of Transactions are attached as per Annexure A

- N.** The Company has not received any intimation from its vendors regarding their status under Micro, Small and Medium Enterprises Development Act, 2006.
- O.** Figures of the previous year have been regrouped / reclassified wherever necessary to conform to current year's presentation. Figures of previous year has been audited by Firm of Chartered Accountants other than S. V. Ghatalia & Associates.
- P.** Figures have been rounded off to the nearest rupee

**For S. V. Ghatalia and Associates**

Firm Reg. No. 103162W  
Chartered Accountants

**per Amit Kabra**

Partner  
Membership No.:094533

Mumbai, 27th April 2011

For and on behalf of the Board of Directors

**Uday S. Kotak**  
Chairman

**R. C. Khanna**  
Director

**Hariharan R**  
Manager

**Jolly Bhatt**  
Company Secretary



## Annexure A

Nature of Transaction	Holding Company	Fellow Subsidiaries	Key Management Personnel	Enterprises over which Director/relatives/Key Management Personnel have significant influence	Kotak Mahindra Mutual Fund	Kotak Mahindra Pension Fund Subsidiary
Balance in Current Account	15,273,546 (906,442,248)	—				
Subscription of Preference Shares of Company Kotak Securities Ltd.		85,000,000 (85,000,000)		—		
Komaf Financial Services Ltd		—		Nil (85,000,000)		
<b>Investments:</b>						
Subscription of Preference Shares		250,000,000				— (108,000,000)
Purchases / Subscriptions		— —			4,431,529,998 (4,238,916,365)	
Sales					4,459,049,715 (4,226,336,964)	
Dividend					27,519,717 (12,579,400)	
Investment in Fixed Deposit	331,000,000 (10,900,000)					
Fixed Deposit Placed	330,000,000 (595,900,000)					
Fixed Deposit Matured	9,900,000 (850,000,000)					
Interest on Fixed Deposit	393,087 (19,272,070)					
Interest Receivable on Fixed Deposit	388,794 (699,737)					
ICD Placed						
Kotak Investment Advisors Ltd		500,000,000 —				
ICD Matured						
Kotak Investment Advisors Ltd		500,000,000 —				
<b>Balance as on Year end</b>						
Kotak Mahindra Prime Limited:Preference Shares		250,000,000 —				
Investments of Equity Shares		—				108,000,000 (108,000,000)
Deposits—Kotak Mahindra Old Mutual Life Insurance Co.Ltd.		158,510 —				

Nature of Transaction	Holding Company	Fellow Subsidiaries	Key Management Personnel	Enterprises over which Director/relatives/Key Management Personnel have significant influence	Kotak Mahindra Mutual Fund	Kotak Mahindra Pension Fund Subsidiary
<b>Fixed Assets:</b>						
Purchase of Fixed assets						
Kotak Securities Ltd.		— (101,400)				
Sale of Fixed assets	<b>544,387</b> —					
Kotak Mahindra Old Mutual Life Insurance Limited		— (257,703)				
Kotak Securities Ltd.		— (94,850)				
<b>Other Receipts and Payments:</b>						
Recovery of common establishment expenses -						
Kotak Mahindra Trustee Company Ltd.		<b>7,483,208</b> (7,246,119)				
Recovery of common administrative expenses -						
	— (575,100)					<b>37,381</b> (275,000)
Kotak Mahindra Trustee Company Ltd.		<b>969,862</b> (844,944)				
Kotak Investment Advisors Ltd		<b>309,867</b> (124,731)				
Miscellaneous Income -						
Kotak Mahindra Trustee Company Ltd.		<b>63,801</b> (69,080)				
Interest Receipt-Kotak Investment Advisors Ltd		<b>6,513,699</b> —				
Reimbursement of Common administrative cost -	<b>21,495,247</b> (9,478,242)					
Kotak Commodity Services Ltd.				<b>108,498</b> —		
Other Expenses / Reimbursement of other expenses -	<b>40,065,094</b> (22,871,813)					
Kotak Securities Ltd.		<b>2,226,108</b> (1,677,827)				
Kotak Mahindra Capital Company Ltd.		<b>706,893</b> (816,467)				
Kotak Mahindra Old Mutual Life Insurance Limited		<b>1,785,186</b> (321,129)				
Kotak Mahindra Prime Limited		<b>12,066</b> (22,893)				



Nature of Transaction	Holding Company	Fellow Subsidiaries	Key Management Personnel	Enterprises over which Director/relatives/Key Management Personnel have significant influence	Kotak Mahindra Mutual Fund	Kotak Mahindra Pension Fund Subsidiary
Management Fees (Net of Repaid)					1,021,290,562 (1,624,634,491)	
Payments to Mutual Fund for Expenses Borne					116,745,587 (17,274,264)	
Receipts from Mutual Fund-						
Brokerage Recovered					6,288,561 (12,783,651)	
Advance paid for Scheme					42,976 —	
License Fees Paid -	25,134,990 (22,798,798)					
Kotak Mahindra Capital Company Ltd.		3,730,560 (3,419,680)				
Kotak Mahindra Prime Limited		126,600 (126,600)				
Aero Agencies Limited Cost of travel tickets purchased (Net of Discount)				3,041,997 (2,574,833)		
Remuneration to Key Management Personnel						
Sandesh Kirkire			23,815,248 (11,263,666)			
Hariharan R			3,686,539 (2,196,013)			
License Fees Received	317,664 (264,000)					
Advisory Fees						
Kotak Mahindra (UK) Limited		19,000,000 (12,499,995)				
Kotak Securities Ltd.		6,000,000 (12,499,995)				
Kotak Mahindra Old Mutual Life Insurance Limited		— (39,000,000)				
Miscellaneous Receipts	210,694 (261,806)					— (2,226,980)
Kotak Mahindra Old Mutual Life Insurance Limited		16,461 (18,229)				
Kotak Securities Ltd.		13,711 (1,126,650)				
Kotak Mahindra (UK) Limited		1,730,872 (757,141)				
Miscellaneous Payments -	13,426,337 (6,884,124)					284,686 —

Nature of Transaction	Holding Company	Fellow Subsidiaries	Key Management Personnel	Enterprises over which Director/relatives/Key Management Personnel have significant influence	Kotak Mahindra Mutual Fund	Kotak Mahindra Pension Fund Subsidiary
Dividend Paid	<b>277,200,000</b> (118,800,000)					
Dividend Paid - Komaf Financial Services Ltd				— (1,682,534)		
Dividend Paid - Kotak Securities Ltd.		<b>7,225,000</b> (7,225,000)				
Other Miscellaneous						
Kotak Mahindra Old Mutual Life Insurance Limited		<b>2,463,075</b> (602,508)				
Kotak Securities Limited		— (22,382)				
Outstandings – Receivables	<b>7,987</b> (73,040)				<b>84,606,320</b> (92,934,955)	— (272,992)
Kotak Securites Ltd.		<b>13,611</b> (94,850)				
Kotak Mahindra (UK) Ltd		<b>3,314,205</b> (1,809,026)				
Kotak Mahindra Old Mutual Life Insurance Limited		<b>16,341</b> —				
Kotak Commodity Services Ltd				<b>19,438</b>		
Outstandings — Payables	<b>4,625,183</b> (1,635,820)					
Kotak Securities Ltd.		<b>7,225,000</b> (7,225,000)				

**Note: Previous year figures are in brackets**


**W. Balance Sheet Abstract and Company's general business profile as per Part IV, Schedule VI of the Companies Act, 1956.**
**I. Registration Details**

 Registration No. 

1	1	-	8	0	0	0	9
---	---	---	---	---	---	---	---

 State Code 

1	1
---	---

 Balance Sheet Date 

3	1	3	2	0	1	1
---	---	---	---	---	---	---

**II. Capital raised during the year: (Amount in ₹ Thousand)**

Public Issue

										N	I	L
--	--	--	--	--	--	--	--	--	--	---	---	---

Rights Issue

										N	I	L
--	--	--	--	--	--	--	--	--	--	---	---	---

Bonus Issue

										N	I	L
--	--	--	--	--	--	--	--	--	--	---	---	---

Private Placement

										N	I	L
--	--	--	--	--	--	--	--	--	--	---	---	---

**III. Position of mobilisation and deployment of funds: (Amount in ₹ Thousand)**

Total Liabilities

		6	6	8	7	4	7
--	--	---	---	---	---	---	---

Total Assets

		6	6	8	7	4	7
--	--	---	---	---	---	---	---

**Source of Funds**

Paid-up Capital

		2	8	3	0	0	0
--	--	---	---	---	---	---	---

Reserves and Surplus

		3	8	5	7	4	7
--	--	---	---	---	---	---	---

Secured Loans

										N	I	L
--	--	--	--	--	--	--	--	--	--	---	---	---

Unsecured Loans

										N	I	L
--	--	--	--	--	--	--	--	--	--	---	---	---

**Application of Funds**

Net Fixed Assets

		5	5	4	2	4
--	--	---	---	---	---	---

Investments

		3	5	8	0	0	0
--	--	---	---	---	---	---	---

Deferred Tax Asset

		2	2	1	0	2
--	--	---	---	---	---	---

Net Current Assets

		2	3	3	2	2	1
--	--	---	---	---	---	---	---

Miscellaneous Expenditure

										N	I	L
--	--	--	--	--	--	--	--	--	--	---	---	---

Accumulated Losses

										N	I	L
--	--	--	--	--	--	--	--	--	--	---	---	---

**IV. Performance of Company: (Amount in ₹ Thousand)**

Turnover / Income

		1	0	8	1	1	0	6
--	--	---	---	---	---	---	---	---

Total Expenditure

		9	3	4	3	0	3
--	--	---	---	---	---	---	---

+/- Profit/(Loss) before Tax

+		1	4	6	8	0	3
---	--	---	---	---	---	---	---

+/- Profit/(Loss) after Tax

+		1	0	6	2	0	0
---	--	---	---	---	---	---	---

(Please tick appropriate box + for profit, - for loss)

Earnings per Share (in ₹)

		5	.	3	6
--	--	---	---	---	---

Dividend Rate (%)

						3	5
--	--	--	--	--	--	---	---

**V. Generic names of three principal products, services of the Company (As per monetary terms):**

 Item Code No. (ITC Code) 

N	A
---	---

 Product Description 

A	S	S	E	T	M	A	N	A	G	E	M	E	N	T
---	---	---	---	---	---	---	---	---	---	---	---	---	---	---

For and on behalf of the Board of Directors

**Uday S. Kotak**  
Chairman

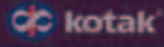
**R. C. Khanna**  
Director

**Hariharan R**  
Manager

**Jolly Bhatt**  
Company Secretary



कोटक महिंद्रा



Kotak Mahindra

