



# Kotak Mahindra Inc.

ANNUAL REPORT 2006-2007

## Directors' Report

The Directors have pleasure in presenting their Annual Report together with the audited accounts of your Company for the year ended 31st March, 2007.

### 1. OPERATIONS

The company is a broker-dealer registered with the NASD.

### 2. FINANCIAL RESULTS AND DIVIDEND

The Company's profit for the financial year ended 31st March, 2007 amounted to Rs. 79,356,717 (Rs. 10,942,859). The Directors do not recommend any dividend for the year under review.

### 3. DIRECTOR'S RESPONSIBILITY STATEMENT

The Directors state as an averment of their responsibility that:

- (a) the Company has, in the preparation of the annual accounts for the year ended 31st March, 2007, followed the applicable accounting standards along with proper explanations relating to material departures, if any;
- (b) the Directors have selected such accounting policies and applied them consistently and made judgement and estimates that are

reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2007 and of the profit/loss of the Company for the financial year ended 31st March, 2007;

- (c) 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 the Company and for preventing and detecting fraud and other irregularities; and
- (d) the Directors have prepared the annual accounts on a going concern basis.

For and on behalf of the Board of Directors

Shyam Kumar  
Director

Ravi Lochan Pola  
Director

Mumbai, 4th May, 2007

## Auditors' Report

To the Members of  
**KOTAK MAHINDRA, INC.**

The financial statements of Kotak Mahindra, Inc. as at 31st March, 2007, being a company registered in the United States of America, are audited by Rothstein Kass & Company, P.C., Certified Public Accountants, New Jersey, and we have been furnished with their audit report dated 24th April, 2007.

We are presented with the accounts in Indian Rupees prepared on the basis of aforesaid accounts to comply with requirements of Section 212 of Companies Act, 1956. We give our report hereunder:

1. We have audited the attached Balance Sheet of Kotak Mahindra Inc. as at 31st March, 2007, the Profit and Loss account and also 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 the 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 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 the 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 the 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 written representations received from the directors, we report that none of the directors is disqualified as on 31st March, 2007 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, on the basis of information and explanations given to us and relying upon the above referred financial statements and auditor's report thereon, the accounts read with the notes thereon 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, 2007;
  - (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 the date.

For V. C. Shah & Co.  
Chartered Accountants

A. N. Shah  
Partner  
Membership No.: 42649

Place : Mumbai  
Date : 4th May, 2007

## Annexure to Auditors' Report

Annexure referred to in paragraph 3 of the Auditors' Report of even date to the members of Kotak Mahindra, Inc. on the financial statements for the year ended 31st March, 2007.

- (1) (a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets;
- (b) The fixed assets of the Company have been physically verified by the management at reasonable intervals and no material discrepancies were noticed on such verification;
- (c) The Company has not disposed off any fixed assets during the year under report.
- (2) (a) The Company has not granted any loans, secured or unsecured to fellow subsidiaries and hence sub-clause (a), (b), (c) and (d) are not applicable.
- (b) The Company had taken unsecured loans from a fellow subsidiary company. The year end balance of such amount is Nil. The maximum amount involved during the year is Rs. 20,074,500.
- (c) The rate of interest and other terms and conditions on which these loans have been taken from the said company are not, prima facie, prejudicial to the interest of the Company;
- (d) The Company is regular in repaying the principal amount as stipulated and there is no overdue amount.
- (3) In our opinion and according to the information and explanations given to us, there are adequate internal control systems commensurate with the size of the Company and the nature of its business, for purchase of fixed assets and for services. There are no purchase of inventory and sale of goods.
- (4) As informed to us, the Company does not have an internal audit system.
- (5) According to information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year under report.
- (6) The Company is a foreign company rendering services. In our opinion Clauses (ii), (v), (vi), (viii), (ix), (x), (xi), (xii), (xiii), (xiv), (xv), (xvi), (xvii), (xviii), (xix), (xx) of the order are not applicable to the company for the year ended under report.

For V. C. Shah & Co.  
Chartered Accountants

A. N. Shah  
Partner  
Membership No.: 42649

Place : Mumbai  
Date : 4th May, 2007

## Balance Sheet as at 31st March, 2007

	Schedule	31st March, 2007 Rupees	31st March, 2006 Rupees
<b>Sources of Funds</b>			
<b>Shareholders' Funds :</b>			
Share Capital	1	698,645	343,775
Reserves and Surplus	2	108,549,293	35,578,186
<b>Loan Funds :</b>			
Unsecured Loans	3	—	20,074,500
<b>Total</b>		<b>109,247,938</b>	<b>55,996,461</b>
<b>Application of Funds</b>			
<b>Fixed Assets :</b>			
Gross Block	4	2,745,757	2,076,236
Less : Depreciation		1,511,890	1,191,833
Net Block		1,233,866	884,403
Investments	5	6,539	6,563
Deferred Tax Asset		—	579,930
<b>Current Assets, Loans and Advances :</b>			
Sundry Debtors	6	39,264,233	14,908,836
Cash and Bank Balances	7	128,584,400	59,384,311
Loans and Advances	8	1,993,015	4,800,863
		169,841,648	79,094,010
Less :			
<b>Current Liabilities and Provisions :</b>			
Liabilities & Provisions	9	61,834,115	27,313,454
<b>Net Current Assets</b>		<b>108,007,533</b>	<b>51,780,556</b>
Profit and Loss Account		—	2,745,009
<b>Total</b>		<b>109,247,938</b>	<b>55,996,461</b>
Significant Accounting Policies and Notes to Financial Statements	14		

In terms of our report of even date  
For V. C. Shah and Co.  
Chartered Accountants

A. N. Shah  
Partner

Mumbai  
Dated: 4th May, 2007

For and on behalf of the Board of Directors

S. Shyam Kumar  
Director

Ravi Lochan Pola  
Director

## Profit and Loss Account for the year ended 31st March, 2007

	Schedule	For the year ended 31st March, 2007 Rupees	For the year ended 31st March, 2006 Rupees
<b>Income</b>			
Income from Services	10	240,171,333	103,267,315
Other Income	11	2,071,071	209,283
<b>Total Income</b>		<b>242,242,404</b>	<b>103,476,598</b>
<b>Expenditure</b>			
Personnel	12	77,704,153	61,378,277
Establishment and Other Expenses	13	32,110,672	31,241,777
<b>Total Expenditure</b>		<b>109,814,826</b>	<b>92,620,054</b>
Profit before Depreciation and Taxation		132,427,578	10,856,544
Depreciation		320,058	420,831
<b>Profit/(Loss) before Taxation</b>		<b>132,107,520</b>	<b>10,435,713</b>
Provision for Taxation			
Current Tax		(52,750,803)	—
Prior Period Taxes		—	(72,785)
Deferred Tax		—	579,931
<b>Profit/(Loss) after Taxation</b>		<b>79,356,717</b>	<b>10,942,859</b>
Add: Balance brought forward from Previous Year		(2,745,009)	(13,687,868)
<b>Profit/(Loss) Carried to Balance Sheet</b>		<b>76,611,708</b>	<b>(2,745,009)</b>
Significant Accounting Policies and Notes to Financial Statements	14		

In terms of our report of even date  
For V. C. Shah and Co.  
Chartered Accountants

A. N. Shah  
Partner

Mumbai  
Dated: 4th May, 2007

For and on behalf of the Board of Directors

S. Shyam Kumar  
Director

Ravi Lochan Pola  
Director

## Cash Flow Statement for the year ended 31st March, 2007

	2006-2007 Rupees	2005-2006 Rupees
Net Profit before taxation	132,107,520	10,435,713
Adjustments for:		
– Interest	(2,071,071)	(209,283)
– Translation Reserve	(3,640,601)	481,481
– Depreciation	320,058	420,831
<b>Operating Profit before Working Capital Changes</b>	<b>126,715,906</b>	<b>11,128,742</b>
Adjustments for:		
(Increase)/Decrease in loans and advances	(22,746)	18,175,731
(Increase)/Decrease in Sundry Debtors	(24,355,397)	(11,053,280)
Increase/(Decrease) in current liabilities	11,455,666	26,845,329
<b>Cash (used in)/Generated from Operations</b>	<b>113,793,430</b>	<b>45,096,523</b>
Direct taxes paid	(26,275,285)	(2,903,379)
<b>Net Cash Flow from Operating Activities (A)</b>	<b>87,518,145</b>	<b>42,193,144</b>
<b>Cash Flow from Investing Activities</b>		
Purchase of Long Term investments	24	—
Purchase of fixed assets	(669,521)	(416,866)
Purchase of investments		
Interest	2,071,071	209,283
<b>Net Cash Flow (used in)/from Investing Activities (B)</b>	<b>1,401,575</b>	<b>(207,584)</b>
<b>Cash Flow from Financing Activities</b>		
Proceeds/(repayment) of term borrowings	(20,074,500)	387,000
Issue of Equity Shares	354,870	
<b>Net Cash Flow (used in)/from Financing Activities (C)</b>	<b>(19,719,630)</b>	<b>387,000</b>
Net Increase/(Decrease) in Cash and Cash Equivalents (A + B + C)	69,200,089	42,372,560
Cash and Cash Equivalents at the beginning of the year	59,384,311	17,011,750
Cash and Cash Equivalents at the end of the year	128,584,400	59,384,311
	69,200,089	42,372,561

1. The Cash Flow Statement has been prepared under the 'Indirect Method' as set out in the Accounting Standard-3 on Cash Flow Statements issued by the Institute of Chartered Accountants of India.
2. Figures in brackets indicate cash outflow.
3. The previous year's figures have been re-grouped, wherever necessary in order to conform to this year's presentation.

This is the Cash Flow Statement referred to in our report of even date

In terms of our report of even date  
For V. C. Shah and Co.  
Chartered Accountants

A. N. Shah  
Partner

Mumbai  
Dated: 4th May, 2007

For and on behalf of the Board of Directors

S. Shyam Kumar  
Director

Ravi Lochan Pola  
Director

## Schedules forming part of the Balance Sheet

	31st March, 2007 Rupees	31st March, 2006 Rupees
<b>Schedule 1 — Share Capital</b>		
<b>Authorised</b>		
2,000,000 Common stock, US\$ 0.01 each (Previous year 10,00,000 Common stock of US\$ 0.01 each)		
<b>Issued, Subscribed and Paid-up</b>		
	698,645	343,775
1,530,621 (Previous year 750,001 common stock of US \$ 0.01 each fully paid up) (Of the above 780,620 common stocks are held by Kotak Mahindra Bank Limited, the holding company) (Previous year 750,000 equity shares were held by Kotak Mahindra Capital Company Limited, the holding company)		
Note: During the year 780,620 shares of US \$ 0.01 each were issued at par to Kotak Mahindra Bank Limited		
	698,645	343,775

## Schedule 2 — Reserves and Surplus

<b>Share Premium Account</b>		
As per last Balance Sheet	34,033,725	34,033,725
Additions during the year	—	—
	34,033,725	34,033,725
Profit and Loss account	76,611,708	—
Translation Reserve	(2,096,140)	1,544,461
<b>Total</b>	<b>108,549,293</b>	<b>35,578,186</b>

## Schedule 3 — Unsecured Loans

Loan – Others (Refer Note 3, Schedule 14)	—	20,074,500
<b>Total</b>	<b>—</b>	<b>20,074,500</b>

## Schedule 4 — Fixed Assets (At Cost)

DESCRIPTION	GROSS BLOCK			DEPRECIATION				NET BLOCK		
	As at 1st April, 2006	Additions	Deduction	As at 31st March, 2007	As at 1st April, 2006	For the year	Withdrawn	As at 31st March, 2007	As at 31st March, 2007	As at 31st March, 2006
<b>ASSETS</b>										
Office Equipment	336,254	118,031	—	454,285	168,339	77,351	—	245,690	208,594	167,914
Furniture	621,610	—	—	621,610	398,588	57,944	—	456,532	165,078	223,022
Computers	1,118,372	551,489	—	1,669,862	624,906	184,762	—	809,667	860,194	493,467
<b>Total</b>	<b>2,076,236</b>	<b>669,521</b>	<b>—</b>	<b>2,745,757</b>	<b>1,191,833</b>	<b>320,057</b>	<b>—</b>	<b>1,511,890</b>	<b>1,233,867</b>	<b>884,403</b>
Previous Year	1,659,370	416,866	—	2,076,236	771,002	420,831	—	1,191,833	884,403	888,368

Note:

Fixed asset includes translation reserve of Rs. 94,534 (Previous year Rs. 60,319)

Depreciation for the year includes translation reserve of Rs. 9,064 [Previous year Rs. (360)]

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

	31st March, 2007 Rupees	31st March, 2006 Rupees
<b>Schedule 5 — Investments</b>		
<b>Long Term</b>		
300 Warrants of National Association of Security Dealers (Face Value 50 Cents)	6,539	6,563
<b>Total</b>	<b>6,539</b>	<b>6,563</b>

## Schedule 6 — Sundry Debtors (Unsecured)

<b>Considered good</b>		
Over six months	—	—
Others	39,264,233	14,908,836
<b>Total</b>	<b>39,264,233</b>	<b>14,908,836</b>

## Schedule 7 — Cash And Bank Balances

Bank balances with Bank of New York (other than scheduled bank)	128,584,400	59,384,311
<b>Total</b>	<b>128,584,400</b>	<b>59,384,311</b>

## Schedule 8 — Loans And Advances

(Unsecured, considered good unless otherwise stated)

Advances recoverable in cash or in kind or for value to be received	1,993,015	1,970,269
Advance Taxes paid	—	2,830,594
<b>Total</b>	<b>1,993,015</b>	<b>4,800,863</b>

## Schedule 9 — Liabilities

Other liabilities	38,769,120	27,313,454
Provision for Tax	23,064,995	—
<b>Total</b>	<b>61,834,115</b>	<b>27,313,454</b>

## Schedules forming part of the Profit and Loss Account

	For the year ended 31st March, 2007 Rupees	For the year ended 31st March, 2006 Rupees
<b>Schedule 10 — Income from Services</b>		
Commission & Fees	240,171,334	103,267,316
<b>Total</b>	<b>240,171,333</b>	<b>103,267,315</b>

## Schedule 11 — Other Income

Interest	2,071,071	209,283
<b>Total</b>	<b>2,071,071</b>	<b>209,283</b>

## Schedule 12 — Personnel

Salaries and other allowances	69,437,368	59,322,304
Contribution to statutory dues	8,266,786	2,055,974
<b>Total</b>	<b>77,704,153</b>	<b>61,378,277</b>

## Schedule 13 — Establishment and Other Expenses

Foreign Auditors Remuneration	904,581	886,000
Legal and Professional	4,500,955	3,313,753
Communication expenses	3,640,002	4,037,264
Insurance	379,256	209,135
Directors Remuneration	9,044,000	11,567,217
Rent	3,516,298	3,301,113
Travelling and Conveyance	7,152,927	3,985,206
Other Expenses	2,972,655	3,942,090
<b>Total</b>	<b>32,110,672</b>	<b>31,241,777</b>

## Schedules forming part of the Balance Sheet and Profit and Loss Account

### Schedule 14 — Significant Accounting Policies and Notes to the Accounts

#### 1. Significant Accounting Policies:

##### (i) Method of Accounting

The accounts are prepared in accordance with accounting principles generally accepted in India. The Company follows accrual method of accounting.

##### (ii) Conversion to Indian Rupees

For the purpose of the accounts during the year, all income and expense items are converted at the average rate of exchange. All assets and liabilities are translated at the closing rate as on the Balance Sheet date. The exchange difference arising out of the year-end translation is being debited or credited to Translation Reserve.

The Share Capital is carried forward at the rate of exchange prevailing on the transaction date. The resulting exchange difference on account of translation at the year end is being treated transferred to Translation Reserve Account and the said account is being treated as "Reserve and Surplus".

##### (iii) Revenue Recognition

Securities transactions and the related revenue and expenses are recorded on a trade date basis. The Company also receives commission for referring clients. Referral fees are based (a) on the month-end NAV of the clients' holdings and (b) on the equity brokerage and derivative trades as a percentage of each trade.

The percentage of commission is determined based on a pre-determined fee structure agreed by the clients at the time of opening the accounts or as per the amendment.

##### (iv) Fixed Assets

Fixed assets are stated net of depreciation. Depreciation has been provided on Straight Line Method over an estimated useful life between three and five years. The rates of depreciation are fixed after considering the management's estimation of the useful life of the asset.

##### (v) Taxes

Current tax is determined as the amount of tax payable in respect of taxable income for the year.

Deferred Tax is recognized, subject to the consideration of prudence in respect of deferred tax assets, on timing differences, being the differences between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods.

#### Notes to the accounts

1. During the year ended March 31, 2007, the company increased the authorized shares from 1,000,000 to 2,000,000 and issued 780,620 shares of its common stock to the Kotak Mahindra Bank Limited (KMBL). Prior to the issuance, the company was majority owned subsidiary of Kotak Mahindra Capital Company Limited ("KMCC"). As a result of this issuance, as of March 31, 2007, KMBL owns 51% of the company and KMCC owns 49% of the company. The accounts have been prepared and audited for the purpose of attachment to the accounts of the Holding Company to comply with the provisions of the Indian Companies Act, 1956.
2. The transactions are in local currency (US Dollars), which have been converted into Indian Currency (Indian Rupees) for reporting and the rate applied is as per para (ii) of the significant accounting policies.
3. As at the end of the year the company has amounts payable of Rs. Nil (Previous Year Rs. 20,074,500) under three subordinated loans of Rs. Nil (Previous Year Rs. 4,461,000) each and one subordinated loan of Rs. Nil (Previous Year Rs. 6,691,500) to Kotak Mahindra (International) Limited, which were pursuant to agreements approved by the National Association of Securities Dealer. The four loans were non interest bearing and were set to mature on September 30 2007, August 30 2009, September 30, 2009 and July 31 2007 respectively. The company with NASD approval, fully repaid all four equity subordinated loans in March, 2007.
4. The Company has a deferred tax asset of Rs. Nil (Previous period Rs. 579,931/-), The company has utilized the federal and New York state net operating loss carry-forwards, which were to expire beginning 2023. Prior year deferred tax asset fully valued at Rs. 579,931/- was also utilized against the provision for income taxes.

## Schedules forming part of the Balance Sheet and Profit and Loss Account (Contd.)

5. The Company appointed Kotak Mahindra (UK) Limited, an fellow subsidiary, as its clearing agent to execute and process the settlement of its ADR and GDR business. For the period April 1, 2006 through March 31, 2007 there were no commissions earned for transactions that cleared through Kotak Mahindra (UK) Limited (previous period Rs. 57,590/-). There are no amounts due from the said Company at March 31, 2007 related to the ADR and GDR business.

The Company received referral fees from four affiliates who managed accounts referred to them by the Company. The Company had referral fees from affiliates of approximately Rs. 183,231,440 for the year ended March 31, 2007. Amounts due from three of the affiliates at March 31, 2007 were Rs. 34,608,586/- (Previous Year Rs. 1,04,98,964).

6. The Company has entered into a non-cancelable operating lease for office facilities, which expires in October, 2007 and is subject to escalations for increase in real estate taxes and other operating costs. In April, 2007, the Company entered into an operating lease for office facilities in New York City, which expires on September 30, 2007 with an automatic six-month renewal. Monthly rent is Rs. 153,748/- plus applicable taxes and other fixed charges. On completion of one year of the lease, the monthly base rent will increase by 6%.

Aggregate future minimum rental payments under the lease are as follows:

Year ending March 31,	Amount in Rs.
2008	2,179,500

Office rent expenses amounted to approximately Rs. 3,516,298 for the 12 month period ended March 31, 2006.

7. Previous years figures have been regrouped, reclassified wherever necessary to confirm to figures of the current year.

Signatures to Schedules 1 to 14

In terms of our report of even date  
For V. C. Shah and Co.  
Chartered Accountants

A. N. Shah  
Partner

Mumbai  
Dated: 4th May, 2007

For and on behalf of the Board of Directors

S. Shyam Kumar  
Director

Ravi Lochan Pola  
Director