AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF KOTAK MAHINDRA FINANCE LIMITED ON THE CONSOLIDATED FINANCIAL STATEMENTS OF KOTAK MAHINDRA FINANCE LIMITED AND ITS SUBSIDIARIES

We have examined the attached Consolidated Balance Sheet of Kotak Mahindra Finance Limited and its subsidiaries as at 31st March 2002, and the Consolidated Profit and Loss Account for the year then ended.

These financial statements are the responsibility of the management of Kotak Mahindra Finance Limited. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in India. These Standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatements. 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 statements. We believe that our audit provides a reasonable basis for our opinion.

We did not jointly audit the financial statements of subsidiaries, whose financial statements reflect total assets of Rs. 241385 lakhs as at 31st March 2002 and total revenues of Rs. 49154 lakhs for the year then ended. These financial statements have been audited by either of us in our individual capacities and / or jointly with other auditors, or by other auditors, whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts included in respect of the subsidiaries, is based solely on the reports of the respective auditors.

We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of Kotak Mahindra Finance Limited and its subsidiaries included in the consolidated financial statements.

On the basis of the information and explanations given to us and on the consideration of the separate audit reports on individual audited financial statements of Kotak Mahindra Finance Limited and its aforesaid subsidiaries, we are of the opinion that:

(a) the Consolidated Balance Sheet gives a true and fair view of the consolidated state of affairs of Kotak Mahindra Finance Limited and its subsidiaries as at 31st March 2002; and

(b) the Consolidated Profit and Loss Account gives a true and fair view of the consolidated results of operations of Kotak Mahindra Finance Limited and its subsidiaries for the year then ended.

For C.C. CHOKSHI & CO.
Chartered Accountants
R. LAXMINARAYAN
Partner

For V.C. SHAH & CO.
Chartered Accountants
V. C. SHAH
Partner

Mumbai, July 30, 2002

CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2002

Rs. in lakhs

	Schedule		As at 31st March 2002
SOURCES OF FUNDS			
1. Shareholders' Funds :			
a) Share Capital	1	5921.28	
b) Reserves and Surplus	2	91033.75	96955.03
2. Loan Funds			
a) Secured	3	61630.10	
b) Unsecured	4	131457.70	193087.80
3. Minority Interest			24686.07
4. Policy Holders Funds			348.65
TOTAL			315077.55
APPLICATION OF FUNDS			
1. Fixed Assets	5		
a) Gross Block		14362.82	
b) Less: Depreciation / Amortisation		4842.63	
c) Net Block			9520.19
2. Goodwill on Consolidation			2870.42
3. Investments	6		34525.84
4. Current Assets, Loans and Advances			
a) Stock - in - trade	7	24255.18	
b) Receivables under Lease and Hire Purchase	8	63025.40	
c) Sundry Debtors	9	20330.69	
d) Cash and Bank balances	10	16071.03	
e) Other Current Assets - Interest Accrued on Investments		1364.55	
f) Loans and Advances	11	181236.83	
		306283.68	
Less : Current Liabilities and Provisions			
a) Current Liabilities	12	34839.89	
b) Provisions	13	1793.89	
		36633.78	
Net current assets			269649.90
5. Deferred Tax Liability			(1644.06)
6. Miscellaneous Expenditure to the extent not written off or adjusted	14		155.26
TOTAL			315077.55
Significant Accounting Polices and Notes to the Accounts	22		

As per our attached report of even date

For C.C. CHOKSHI & Co.
Chartered Accountants

R. LAXMINARAYAN
Partner

For V.C. SHAH & Co.
Chartered Accountants

V.C. SHAH
Partner

For and on behalf of the Board of Directors

ANAND MAHINDRA
Chairman

UDAY KOTAK
Vice Chairman

N.J.N.VAZIFDAR
Company Secretary

DIPAK GUPTA
Executive Director

Mumbai, July 30, 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2002

Rs. in lakhs

	Schedule	Year ended 31st March 2002
INCOME		
Lease and Hire Purchase	15	21381.30
Trading Income	16	9348.93
Financing and Investment activity	17	13442.57
Fee Based Income & Other Income	18	16445.00
TOTAL INCOME		60617.80
EXPENDITURE		
Personnel	19	8419.57
Interest & Bank Charges	20	17453.47
Provision for Diminution In Value of Investments		725.20
Provisions / Write offs for Non Performing Assets		1235.34
Establishment and Other Expenses	21	16011.86
TOTAL EXPENDITURE		43845.44
Profit before depreciation and tax		16772.36
Depreciation / Amortization		1438.56
Profit before tax		15333.80
Provision for taxation		
- Current Tax (including prior period tax Rs 7.92 lakhs)		6243.72
- Deferred Tax		(385.80)
PROFIT AFTER TAX		9475.88
Share of Minority Interest		1066.90
Profit Available to Shareholders		8408.98
Add: Surplus brought forward from previous year		16651.44
Profit available for Appropriation		25060.42
Appropriations:		
General Reserve		970.94
Transfer to Capital Redemption Reserve		41.25
Transfer to Debenture Redemption Reserve		1120.63
Transfer from Debenture Redemption Reserve		(1046.26)
Deferred Tax Liability as on April 1, 2001 adjusted, (net)		(124.41)
Special Reserve u/s 45 IC of the RBI Act, 1934		1995.14
Interim Dividend		1184.25
Proposed Dividend		1367.22
Corporate Dividend Tax		120.79
Surplus carried to Balance Sheet		19430.87
		25060.42
Earnings per share (Refer Note No. 9 in Schedule 22)		
- Basic and diluted		14.20
Significant Accounting Policies and Notes to the Accounts	22	

As per our attached report of even date

For C.C. CHOKSHI & Co.
Chartered Accountants

R. LAXMINARAYAN
Partner

For V.C. SHAH & Co.
Chartered Accountants

V.C. SHAH
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For and on behalf of the Board of Directors

ANAND MAHINDRA
Chairman

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Vice Chairman

N.J.N.VAZIFDAR
Company Secretary

DIPAK GUPTA
Executive Director

Mumbai, July 30, 2002

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET

Rs. in lakhs

	As at 31st March 2002
SCHEDULE 1 - SHARE CAPITAL	
AUTHORISED	
10,00,00,000 Equity Shares of Rs.10/- each	**10000.00**
Total	**10000.00**
ISSUED, SUBSCRIBED AND PAID UP	
5,92,12,750 Equity Shares of Rs. 10/- each fully paid up	**5921.28**
Total	**5921.28**

SCHEDULE 2 - RESERVES AND SURPLUS

Rs. in lakhs

	As at 31st March 2001	Additions	Deductions	As at 31st March 2002
Capital Reserve	4910.30	—	—	**4910.30**
Capital Redemption Reserve	3.85	41.25	—	**45.10**
Share Premium Account	41628.94	2122.73	—	**43751.67**
Debenture Redemption Reserve	546.26	1120.63	1046.26	**620.63**
Contingency Reserve	186.97	—	186.97	**—**
Special Reserve	5411.01	1995.14	—	**7406.15**
General Reserve	15657.42	1157.91	1946.30*	**14869.03**
Profit And Loss Account	16651.44	5220.43	2441.00#	**19430.87**
	84996.19	**11658.09**	**5620.53**	**91033.75**

* Deferred Tax Liability as on April 1, 2001 adjusted

\# Transfer as per Scheme of Amalgamation

Rs. in lakhs

	Note		As at 31st March 2002
SCHEDULE 3 - SECURED LOANS	**Note**		
A) Debentures			
Secured Redeemable Non-Convertible Debentures privately placed	**1**		**25370.00**
B) Borrowings from Banks			
- Cash Credits		2407.37	
- Others		26754.18	**29161.55**
C) From Institutions :			
Term Loan			**7098.55**
Total			**61630.10**

Note :

1. The Secured Redeemable Non-Convertible Debentures are secured by pari passu charge on a combination of immovable property and specific movable assets

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET

Rs. in lakhs

			As at 31st March 2002
SCHEDULE 4 - UNSECURED LOANS			
1. Redeemable Non-Convertible Debentures			**62950.00**
2. Optionally Convertible Debentures (Convertible into redeemable non convertible preference shares)			**700.00**
3. Fixed Deposits			**17651.40**
4. Short Term Loans			
From Banks		19925.03	
From Others		1335.75	
			21260.78
5. Other Loans and Advances			
From Banks		7600.14	
From Others		8917.96	
			16518.10
6. Commercial Paper		10090.00	
Less : Discount not written off		212.58	
			9877.42
7. Call Money Market Loan			
From Banks		2300.00	
From Others		200.00	
			2500.00
	Total		**131457.70**

SCHEDULE 5 - FIXED ASSETS

(Rs. in lakhs)

Description	GROSS BLOCK				DEPRECIATION / AMORTISATION				NET BLOCK
	As on 1st April 2001	**Additions**	**Deductions**	**As on 31st March 2002**	**As on 1st April 2001**	**For the year**	**Deductions**	**As on 31st March 2002**	**As on 31st March 2002**
Premises	7567.21	24.04	0.00	7591.25	1752.65	252.69	1.07	2004.27	5586.98
Office Equipments	1086.35	275.30	396.96	964.69	636.23	174.67	382.57	428.33	536.36
Computers	2101.22	726.80	668.56	2159.46	1196.01	530.83	663.33	1063.51	1095.95
Furniture & Fixtures	1375.59	389.17	578.94	1185.82	1023.78	186.82	565.36	645.24	540.58
Vehicles	463.95	221.27	117.99	567.23	168.50	124.14	55.39	237.25	329.98
Plant and Machinery	723.33	145.65	22.01	846.97	295.38	93.43	7.09	381.72	465.25
Goodwill	188.40	0.00	0.00	188.40	3.14	37.68	0.00	40.82	147.58
Forex Broking Business Rights	383.00	0.00	0.00	383.00	3.19	38.30	0.00	41.49	341.51
Stock Exchange Membership Cards	486.45	0.00	10.45	476.00	0.00	0.00	0.00	0.00	476.00
Total	14375.50	1782.23	1794.91	14362.82	5078.88	1438.56	1674.81	4842.63	9520.19
			(*)				(*)		

(*) Deductions during the year (Gross Block: Rs. 1569.22 lakhs and Depreciation: Rs. 1564.75 lakhs) include effects of assets discarded/not in active use.

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET

Rs. in lakhs

SCHEDULE 6 - INVESTMENTS	AS AT 31ST MARCH 2002		
A. **LONG TERM INVESTMENTS** (at cost)	QUOTED	UNQUOTED	TOTAL
Government Securities	6402.30	—	6402.30
Infrastructure and social bonds	—	2215.32	2215.32
Other bonds	—	191.96	191.96
Preference Shares	—	100.00	100.00
Equity Shares	418.90	12306.46	12725.36
Less: Provision for diminution in value	(304.92)	(757.82)	(1062.74)
	113.98	11548.64	11662.62
Debentures / Units	32.80	1185.03	1217.83
Less: Provision for diminution in value	(32.80)	—	(32.80)
	—	1185.03	1185.03
Total Long Term Investments (A)	6516.28	15240.95	21757.23
B. CURRENT INVESTMENTS (at cost or fair / market value,whichever is lower)			
Units of Mutual Funds	—	7151.42	7151.42
Equity Shares	60.75	—	60.75
Government Securities	2735.32	1320.72	4056.04
Infrastructure and social bonds	—	701.95	701.95
Other bonds	—	500.00	500.00
Certificate of Deposits	—	298.45	298.45
Total Current Investments (B)	2796.07	9972.54	12768.61
Total (A)+(B)	9312.35	25213.49	34525.84

Rs. in lakhs

SCHEDULE 7 - STOCK IN TRADE		As at 31st March 2002
SECURITIES (at cost or market value, whichever is lower)		
A. Government Dated Securities and Treasury bills	21219.58	
B. Debentures, Bonds and Units	1763.45	
C. Equity Shares	1171.29	**24154.32**
OTHER THAN SECURITIES (at cost or net realisable value, whichever is lower)		
Raw Materials & Consumable stores		**100.86**
Total		**24255.18**

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET

		Rs. in lakhs As at 31st March 2002
SCHEDULE 8 - RECEIVABLES UNDER LEASE AND HIRE PURCHASE:		
Hire Purchase		51,652.36
Lease		11699.19
Less : Provisions		326.15
Total		63025.40
SCHEDULE 9 - SUNDRY DEBTORS		
Sundry Debtors		
a) Debts outstanding for a period exceeding six months		1263.61
Less: Provisions for doubtful debts		890.57
		373.04
b) Other Debts		20035.51
Less: Provisions for doubtful debts		77.86
		19957.65
Total		20330.69
SCHEDULE 10 - CASH & BANK BALANCES		
Cash / Stamps On Hand		225.70
Bank Balances with Scheduled Banks in :		
i) Current accounts	6078.74	
ii) Fixed Deposit Accounts	9766.59	15845.33
Total		16071.03
SCHEDULE 11 - LOANS AND ADVANCES		
Bills of Exchange		
Unsecured Considered Good		2077.67
Unsecured Considered doubtful		14.78
Less: Provision		14.78
		2077.67
Advances Recoverable in Cash or in kind or for value to be received		
Secured Considered Good		157431.54
Secured Considered Doubtful		191.42
Less : Provisions		191.42
		157431.54
Unsecured Considered Good		20073.62
Unsecured Considered Doubtful		303.68
Less : Provisions		303.68
		20073.62
Advance payment of Income tax and tax deducted at source (net of provision for tax)		1654.00
Total		181236.83

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

	Rs. in lakhs As at 31st March 2002
SCHEDULE 12 - CURRENT LIABILITIES	
Sundry Creditors	15656.17
Advances received against Hire Purchase and Lease Agreements	829.75
Unclaimed Dividend	81.88
Other liabilities	8873.83
Interest accrued but not due on Loans	7544.30
Book Overdraft with Banks	1853.96
Total	34839.89
SCHEDULE 13 - PROVISIONS	
Proposed Dividend	1367.22
Provision for Gratuity and Leave Encashment	426.67
Total	1793.89
SCHEDULE 14 - MISCELLANEOUS EXPENDITURE (TO THE EXTENT NOT WRITTEN OFF OR ADJUSTED)	
Brokerage on fixed deposits	75.65
Preliminary Expenses	46.28
Advertisement	33.33
Total	155.26
SCHEDULE 15 - INCOME FROM LEASE AND HIRE PURCHASE	
Lease Rentals	6429.93
Less: Capital recovery	(4587.02)
	1842.91
Hire Purchase	19538.39
Total	21381.30
SCHEDULE 16 - TRADING INCOME	
Interest Income	3369.48
Sale of Securities, Bonds	5979.45
Total	9348.93
SCHEDULE 17 - INCOME FROM FINANCING/INVESTMENT ACTIVITY	
Interest (Gross) on :-	
Deposits and Loans	9252.57
Others	1082.95
Income on Investments (Gross) :-	
Dividend	350.83
Interest	1407.54
Profit on sale of Investments (net)	1038.80
Income from Bill Discounting	309.88
Total	13442.57

SCHEDULES FORMING PART OF CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Rs. in lakhs Year ended 31st March 2002
SCHEDULE 18 - FEE BASED INCOME AND OTHER INCOME	
Fee Based Income	
Trusteeship Fees	**151.62**
Management Fees	**1255.15**
Corporate Advisory Fees	**2471.20**
Issue Management & Placement Fees	**438.53**
Brokerage	**5513.70**
Other Fees	**712.48**
Premium on Insurance Business	**737.15**
Other Income	
Income from Publications	**3565.13**
Gain on Translation of Foreign Subsidiaries	**255.24**
Liabilities written back	**743.84**
Miscellaneous Income	**600.96**
Total	**16445.00**
SCHEDULE 19 - PERSONNEL	
Salaries, Allowances & Bonus	**7741.27**
Contribution to Provident & Other Funds	**393.91**
Staff Welfare Expenses	**284.39**
Total	**8419.57**
SCHEDULE 20 - INTEREST AND BANK CHARGES	
a) Interest on:	
Fixed Period Loans and Debentures	**9801.46**
Bank Borrowings	**2474.10**
Fixed Deposits	**2006.13**
Other Borrowings	**2755.70**
b) Bank & Other Finance Charges	**416.08**
Total	**17453.47**

SCHEDULES FORMING PART OF CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Rs. in lakhs Year ended 31st March 2002
SCHEDULE 21 - OTHER EXPENSES	
Advertising Expenses	**2119.87**
Media Business Expenses	**1719.20**
Brokerage	**1644.75**
Telephone and Postage	**1380.92**
Office Expense	**1147.53**
Travelling & Conveyance	**1006.40**
Professional Expenses	**971.08**
Maintenance Expense	**845.52**
Rent	**666.90**
Loss on Sale of Repossessed Assets / Termination	**642.58**
Miscellaneous Expenses	**601.60**
Business Promotion Expenses	**517.31**
Printing & Stationery	**398.56**
Turnover/Transaction Charges	**358.24**
Liabilities against policies in force	**346.93**
Training and Recruitment Expenses	**304.47**
Electricity Expense	**302.06**
Insurance Business Commission	**181.22**
Commission to Non-Wholetime Directors	**162.00**
Donations	**160.37**
Membership & Subscription	**156.20**
Auditors' Remuneration	**113.50**
Rates and Taxes	**102.31**
Outsourcing Costs	**91.85**
Insurance Expenses	**63.65**
Directors' Fees	**6.84**
Total	**16011.86**

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

SCHEDULE 22 – NOTES TO THE ACCOUNTS

1. The Consolidated Financial Statements are prepared in accordance with Accounting Standard 21 (AS 21) "Consolidated Financial Statements" which comes into effect in respect of accounting periods commencing on or after 1-4-2001

   This being the first year of application, previous year's figures have not been presented. List of Subsidiaries which along with the Holding Company viz. Kotak Mahindra Finance Limited (KMFL) constitute the **"Group"** is as under:

Name of the Subsidiary	Country of Origin	% Shareholding of KMFL
Kotak Mahindra Capital Company Limited	India	74.99
Kotak Mahindra Securities Limited	India	74.99
Kotak Mahindra Incorporated*	US	74.99
Kotak Mahindra International Limited*	Mauritius	74.99
Kotak Mahindra Investment Company Limited, PCC*	Mauritius	74.99
Kotak Mahindra (U.K) Limited*	U.K	74.99
Kotak Securities Limited	India	75.00
OM Kotak Mahindra Life Insurance Company Limited	India	74.00
Kotak Mahindra Primus Limited	India	60.00
Kotak Mahindra Asset Management Company Limited	India	100.00
Kotak Mahindra Trustee Company Limited	India	100.00
Hamko Financial Services Limited	India	100.00
Business Standard Limited	India	62.61
Business Standard Digital Limited	India	62.61
Kotak Forex Brokerage Limited	India	100.00
Kotak Mahindra Private Equity Trustee Limited	India	100.00

* For the purposes of consolidating these subsidiary accounts into KMFL (Consolidated), balances as per audited accounts for the financial year ended December 31, 2001 have been considered.

1.2 SIGNIFICANT ACCOUNTING POLICIES

A. ACCOUNTING METHODOLOGY

The Accounts have been prepared on historical cost basis of accounting. The Group adopts the accrual system of accounting.

B. REVENUE RECOGNITION

a. **Asset Finance Activity:**

i) Finance charges income in respect of Lease/Hire Purchase/Loan transactions (including service charges, incentives) is accounted for by using the internal rate of return method to provide a constant periodic rate of return after adjustment of brokerage expenses on the net investment outstanding on the contract.

ii) The Group complies with prudential norms for income recognition and provisioning for non-performing assets as prescribed by the Reserve Bank of India for Non Banking Financial Companies. In addition, the Group adopts an approach to provisioning that is based on the past experience, evaluation of security and other related factors.

b. **Investment Banking Activity:**

Issue management fees, underwriting fees, financial advisory fees and placement fees are accounted for based on stage of completion of assignments.

c. **Insurance Activity:**

Premium is recognised as income when it is due from policyholders. Further, in accordance with the policies of the Insurer, uncollected premium on lapsed policies is not recognised as income.

d. **Broking Activity:**

i) Brokerage on Fixed Income Securities Placements is accounted net of sub-brokerage on completion of the transactions.

ii) Brokerage Income:

— on fixed deposit management is accounted on completion of the transaction.

— on primary market subscription – mobilization is accounted on allotment.

— on secondary market transaction is recognized on contract date.

iii) Underwriting commission is accounted on allotment.

iv) Incentive on primary market subscription – mobilisation is accounted on the basis of intimation received by the Group.

v) Depository Fees: Transaction fees are recognised on completion of transaction. Account maintenance charges are recognised on time basis over the period of contract.

vi) Stock Lending Fees and Borrowing Expenses: Stock lending fees and borrowing expenses are recognised on time basis over the period of contract.

e. **Publishing Business:**

Advertisement sale is recognised when the relevant advertisement is displayed on the site and is accounted for net of trade discounts. Content sale is recognised as and when the content is provided to the parties.

f. Revenue is recognised only when it is reasonably certain that the ultimate collection will be made.

C. DEFERRED EXPENDITURE

a. Brokerage expenditure on fixed deposits accepted is amortised over the period of the deposit.

b. Discount on Debentures is amortised over the tenure of the instrument.

D. FIXED ASSETS

a. Fixed assets have been stated at cost inclusive of incidental expenses less accumulated depreciation.

b. Depreciation on assets whose cost do not exceed Rs. 5,000/- is provided at the rate of 100%.

E. DEPRECIATION

The Group has adopted the Straight Line Method of depreciation so as to write off 100% of the cost of the assets at rates higher than those prescribed under Schedule XIV to the Companies Act, 1956 based on the management's estimates of useful life of all assets as follows:

Asset Type	Useful Life in years
Premises	30
Office equipments	5
Computers	3
Furniture & Fixtures	6
Vehicles	3

F. INVESTMENTS

a. In respect of Government Securities, Bonds, Treasury Bills, etc. invested for meeting the Statutory Liquidity Ratio prescribed by Reserve Bank of India for Non Banking Financial Companies, the same are treated as long term and stated at cost. Market value of these securities is determined by taking the market quotes available on the Balance Sheet date. In the absence of market quotes, prices based on yield to maturity basis as indicated by Fixed Income Money Market and Derivatives Association of India (FIMMDA) as on 31st March are considered. Any diminution other than temporary in the value of these securities is provided for in the Profit & Loss Account.

b. Other long term Investments of the Group have been valued at weighted average cost of acquisition and provision for decline in value, other than temporary, is made in the accounts.

c. Current investments are valued at cost or fair/market value, whichever is lower.

d. Other debt securities, which include government securities, are measured at historical cost. The premium/ discount, if any, on purchase of debt securities is amortised over the period to maturity on the basis of their intrinsic yield.

G. CURRENT ASSETS

a. Securities acquired with the intention to trade are considered as stock in trade under current assets. Stock in trade is valued at cost (inclusive of brokerage and stamp charges- in case of equity shares) or market/fair value whichever is lower. In case of debt instruments, fair value is worked out on the basis of latest available stock exchange quotations and in their absence, on the basis of yield to maturity rates selected, considering available quotes of similar securities and credit profile of the issuer.

b. Receivables under lease and hire purchase are stated at cost.

H. RETIREMENT BENEFITS

a. Contribution as required by statute made to Government Provident Fund is debited to the Profit & Loss Account.

b. Provision for Gratuity and Leave encashment liability to employees is made on the basis of actuarial valuation.

I. FOREIGN CURRENCY TRANSACTIONS

a. Transactions in foreign currencies are translated to Indian Rupees at the rate of exchange ruling on the date of the transaction.

b. Assets and liabilities contracted in foreign currencies are translated into Indian Rupees at the rate of exchange ruling at the Balance Sheet date.

c. Exchange differences arising on settlement of the transaction and on account of restatement of assets and liabilities are dealt with in the Profit and Loss Account.

J. BORROWING COST

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. TAXES ON INCOME

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 difference between taxable income and accounting income that originates in one period and are capable of reversal in one or more subsequent periods.

L. SEGMENTAL ACCOUNTING

Segment assets and liabilities:

All segment assets and liabilities are directly attributable to the segment. Segment assets include all operating assets used by the segment and consist principally of Leased assets, Hire purchase receivables, Loans, Debtors, Investments and Other assets. Segment assets and liabilities do not include Fixed assets (other than Premises) and income tax (both current and deferred).

Segment revenue and expenses:

Segment revenue and expenses are directly attributable to segment. It does not include depreciation and income tax.

M. INVENTORIES

Inventories are valued at cost or net realisable value (inclusive of advertisement revenue) whichever is lower. The cost is determined on first in first out basis.

N. REPURCHASE AND RESALE TRANSACTIONS (REPO)

REPO transactions are treated as secured borrowing / lending transactions and accordingly disclosed in the financial statements. The difference between purchase and sale consideration is treated as interest and is accounted as income or expenditure, as the case may be, over the period of the contract.

O. ZERO COUPON INSTRUMENTS

The difference between the acquisition cost and redemption value of Treasury Bills, Commercial Deposits and Commercial Papers are apportioned on time basis and recognised as discounting income. The acquisition cost of these securities is increased accordingly.

2. CONTINGENT LIABILITIES

a. Guarantees given: Rs. 8865.26 lakhs

b. Estimated amount of contracts remaining to be executed on capital account and not provided for Rs. 91.74 lakhs.

c. In respect of Sales Tax and Lease Tax, demands amounting to Rs.134.29 lakhs are raised on completion of assessments. These have been disputed by the Group and hence have not been provided for in the Accounts.

d. Income and Interest tax demands amounting to Rs. 721.80 lakhs have been raised on completion of assessments. These have been disputed by the Group and hence have not been provided for in the Accounts.

e. The maximum amount of recourse to the Group as per the terms of the agreement to sell some of its receivables under Hire Purchase agreements is limited to Rs. 82.58 lakhs.

f. Claims against the Group not acknowledged as debts amount to Rs. 5.00 lakhs

3. Securities which are not registered in the name of the constituents of the Group, are held by the respective constituent with valid transfer documents.

4. Securities received from the clients as collateral for margins are held by the constituents of the Group in their respective name in fiduciary capacity.

5. Fixed deposits with scheduled banks include Rs. 4873.75 lakhs which is under the lien of The National Securities Clearing Corporation Limited and Rs. 1263.75 lakhs which is under the lien of The Stock Exchange, Mumbai.

6. Consequent to the Accounting Standard 22 on Accounting for Taxes on Income becoming mandatory, the Group recorded the cumulative net deferred tax liability (including share of minority interest) of Rs. 2029.86 lakhs against Reserves, in respect of timing differences, as at 1st April 2001. The deferred tax credit of Rs. 385.80 lakhs for the year is included in provision for taxation in the Profit and Loss Account.

Components of net deferred tax liabilities as at 31st March, 2002:

	Amount (Rs.in lakhs)
Deferred tax assets	
Expenditure allowed on payment basis	193.29
Unabsorbed capital losses/ provision for investments	618.05
Unabsorbed business losses/ Depreciation (*)	92.85
Provision for Doubtful Debts	290.37
Others	29.93
Total Deferred Tax Assets	**1224.49**
Deferred tax liabilities	
Deferred expenses	465.03
Difference in method in valuing Investments	25.92
Interest accrued but not due	79.76
Provision for non – performing assets (#)	340.82
Depreciation on assets	1957.00
Total Deferred Tax Liabilities	**2868.53**
Net deferred tax liabilities	**1644.04**

* Considered as there are compensatory timing differences the reversal of which will result in sufficient future taxable income against which this can be realized.

\# The amount is on account of retrospective amendment made to Section 36 (i) (vii) to the Income Tax Act, 1961, by the Finance Act, 2001, effect of which has not been given to in the tax assessments completed.

7. **RELATED PARTY DISCLOSURES**:

A. Parties where control exists:

Nature of relationship	**Related Party**
Individual having control over the group	Mr. Uday Kotak along with relatives and companies controlled by him holds 56.62% of the equity share capital of Kotak Mahindra Finance Limited

B. Other Related Parties

Nature of relationship	**Related Party**
Associates / Enterprises managed by the Group	Ford Credit Kotak Mahindra Limited India Car.Com Limited Pranavaditya Spinning & Weaving Mills Limited Kotak Investments Limited Kotak Mahindra Mutual Fund
Enterprises over which major shareholder exercises significant influence	Goldman Sachs (India) Private Limited Aero Agencies Pvt. Ltd. Kotak & Co. Limited Blue Star Limited Mahindra & Mahindra Financial Services Limited
Key Management Personnel	Mr. Dipak Gupta, Executive Director Mr. C Jayaram, Executive Director Mr. Shivaji Dam, Director

Nature of relationship	Related Party
Relatives of key management personnel	Anita Gupta, Prabhat Gupta, Urmila Gupta — Relatives of Mr. Dipak Gupta
	Usha Jayaram – Relative of Mr. C Jayaram
	Salilkumar Dam, Sushmita Dam, Shantanu Dam — Relatives of Mr. Shivaji Dam

C. The following transactions were carried out with related parties in the ordinary course of business:

Amount (Rs. in lakhs)

Nature of transaction	Individual having control over the group	Associates/ Enterprises managed by the group	Enterprises over which major share holder exercises significant influence	Key Management Personnel	Relatives of key management personnel
LIABILITY AS ON 31.03.2002					
Interest payable on FD					0.06
Fixed deposits					0.61
Expenses payable	0.69		4.54		
Other liabilities	0.24	1.48			
Commission payable	154.00				
Unsecured Loans		375.27			
ASSET AS ON 31.03.2002					
Loans and Advances		0.08	5.42		
Interest receivable		0.03			
Shared services receivable		46.82			
Unsecured loans		2000.00			
Debtors		473.36			
EXPENSES FOR THE YEAR					
Interest		65.78		0.20	0.05
Other expense		47.57			
Rent	8.24		6.00		
Travel			230.98		
Salary				167.55	
Directors' Fees	0.52			0.20	
Commission	154.00			15.05	
Professional Charges				5.00	
Brokerage				0.29	

Nature of transaction	Individual having control over the group	Associates/ Enterprises managed by the group	Enterprises over which major share holder exercises significant influence	Key Management Personnel	Relatives of key management personnel
INCOME FOR THE YEAR					
Interest income		45.82			
Shared services		214.19	46.86		
Reimbursement of expenses		777.48			
Dividend		239.77			
Management Fees		1255.15			
Trusteeship Fees		149.62			
Fee income	1.59			0.01	
Insurance premium received	0.15			1.06	0.31
Other Income			0.12		
Brokerage Income	0.01		2.97	0.03	
OTHER TRANSACTIONS					
Inter Corporate Deposit borrowings		31620.00			
Inter Corporate Deposit lent		13734.00			
Fixed deposits accepted					0.23
Volume of investments purchased and sold through	2.22			8.44	
Interim dividend paid	667.43			1.08	0.38
Final dividend of FY Mar 01 paid	594.54			0.96	0.34
INVESTMENTS					
Mutual fund volume purchased and sold		257063.02			

8. SEGMENT REPORTING

In accordance with Accounting Standard 17 on Segment Reporting issued by The Institute of Chartered Accountants of India, the Group has identified the following Segments:

i. The "Asset Finance Division" segment comprises business operations in the related areas of lending. This segment comprises commercial vehicle finance, consumer finance, and loans against shares, structured products and similar lending products.

ii. The "Group Services" segment comprises strategic investments and includes services to other associates companies.

iii. The "Auto Finance" segment is in the business of Vehicle Financing.

iv. The "Investment Banking" segment provides financial advisory services such as mergers and acquisition advice and equity-debt issue management services.

v. The "Trading and Principal Investments" segment deals in debt, equity, money markets and loans/deposits.

vi. The "Insurance" segment is in the Life Insurance business.

vii. The "Broking" segment comprises of services rendered in connection with primary market subscription/mobilization and brokerage income earned on secondary market transactions done on behalf of clients. It also includes interest on delayed payments, incidental and consequential to secondary market related business, received from clients.

viii. The "Others" segment comprises of portfolio management services, Publishing Business, Asset Management and Trusteeship of Mutual Fund, etc.

ix. Segments have been identified and reported taking into account the nature of products and services, the differing risks and returns and the internal financial reporting systems.

(Rs. in lakhs)

Particulars	Asset Finance	Auto Finance	Investment Banking	Trading & Principal Business	Insurance	Broking	Group Services	Others	Unallocated	Total
Segment Revenue										
From External Customers	12448	18696	2909	10177	1886	7755	938	5489	320	60618
From Internal Segments	212	59	60	138		398	4811	276	70	6024
Total	**12660**	**18775**	**2969**	**10315**	**1886**	**8153**	**5749**	**5765**	**390**	**66642**
Less: Inter Segment Items										**(6024)**
Total										**60618**
Segment Results	3968	715	1735	7583	(2343)	2875	3435	(636)	**(1998)**	**15334**
Segment Assets	89594	145978	332	34017	14190	29468	54569	14430	2208	384786
Less: Inter Segment Items										(33445)
Total Net Assets										**351341**
Segment Liability	85986	109227	209	17453	1335	20218	6062	5788	2590	248868
Less: Inter Segment Items										(19002)
Net Segment Liability										229866
Cost of tangible assets acquired		73			881	239	20	276	293	1782
Depreciation		**88**			**185**	**277**	**252**	**249**	**387**	**1438**

9. EARNINGS PER SHARE (EPS)

The numerators and denominators used to calculate Basic and Diluted Earnings Per Share:

	Ref	**Rs. in lakhs** (except per share amounts) **31.03.2002**
Profit after tax		9475.88
Less: Share of Minority Interest		1066.90
Profit attributable to the Equity Shareholders	**A**	8408.98
Weighted average number of Equity Shares outstanding during the year	**B**	59212750
Nominal value of Equity Shares (Rs.)	**C**	10.00
Basic and diluted Earnings per share (Rs.)	**D = (A) / (B)**	14.20*

* The Group has granted 835,000 stock options to its employees to be converted into equity shares at prices higher than the market value on the date of the grant. Consequently, the potential equity shares have an anti-dilutive effect and hence have been ignored for the purpose of calculation of diluted EPS.

As per our attached report of even date

For C.C. CHOKSHI & Co.
Chartered Accountants

R. LAXMINARAYAN
Partner

For V.C. SHAH & Co.
Chartered Accountants

V.C. SHAH
Partner

For and on behalf of the Board of Directors

ANAND MAHINDRA
Chairman

UDAY KOTAK
Vice Chairman

N.J.N.VAZIFDAR
Company Secretary

DIPAK GUPTA
Executive Director

Mumbai, July 30, 2002

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH 2002

		Rs.in lakhs 2001-02
CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit	8,408.98	
Add : Financial Expenses	17,453.47	25,862.45
Depreciation		1,438.56
Minority Interest		1,066.90
Diminution in the value of investments		725.20
Deferred Taxation		(385.80)
Provision For Tax		6,243.72
Gain on translation of foreign subsidiary		(255.24)
(Profit)/Loss on sale of investments		(1,038.80)
Provision against non performing assets		1,235.34
Interest / Dividend received		(1,493.04)
Miscellaneous W/offs		119.31
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES		**33,518.60**
(Increase) / Decrease in stock in trade	14,005.27	
(Increase) / Decrease in other current assets	(87.77)	
(Increase) / Decrease in Receivables - Hire purchase and auto finance	(14,363.90)	
(Increase) / Decrease in loans and advances	(48,756.55)	
(Increase) / Decrease in Sundry Debtors	(949.22)	
Increase / (Decrease) in Current liabilities and provisions	(6,532.34)	(56,684.51)
CASH GENERATED FROM OPERATIONS		**(23,165.91)**
Financial Expenses		(17,453.47)
Payment of Taxes		(6,225.19)
NET CASH FLOW FROM OPERATING ACTIVITIES (A)		**(46,844.57)**
CASH FLOW FROM INVESTING ACTIVITIES		
Bank Deposits		22.98
Purchase of Fixed assets		(1,692.96)
Sale of Fixed assets		281.82
(Increase) / Decrease in Other Investments		10,864.27
Interest received		2,526.00
NET CASH FLOW FROM INVESTMENT ACTIVITIES (B)		**12,002.11**
CASH FLOW FROM FINANCING ACTIVITIES		
Increase / (Decrease) in bank borrowings		15,370.82
Increase / (Decrease) in Debentures		21,852.05
Increase / (Decrease)in long term borrowings		(3,794.50)
Increase / (Decrease) in fixed deposits		306.78
Increase / (Decrease) in short term loans and advances		3,997.14
Share Premium		3,547.80
Minority Share Capital		237.12
Dividends paid		(3,106.86)
NET CASH FLOW FROM FINANCING ACTIVITIES (C)		**38,410.35**
NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS (A + B + C)		**3,567.89**
CASH & CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**12,384.49**
CASH & CASH EQUIVALENTS AT THE END OF THE YEAR		**15,952.38**

For and on behalf of the Board of Directors

	N.J.N.VAZIFDAR	**ANAND MAHINDRA**	**UDAY KOTAK**	**DIPAK GUPTA**
Mumbai, July 30, 2002	Company Secretary	Chairman	Vice Chairman	Executive Director