



AUDITORS' REPORT

To the Members of Kotak Mahindra Securities Limited

1. We have audited the attached Balance Sheet of Kotak Mahindra Securities Limited, as at 31st March, 2002 and the relative Profit and Loss Account for the year ended on that date, both of which we have signed under reference to this report. These financial statements are the responsibility of the management of the Company. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We have 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 Manufacturing and Other Companies (Auditor's Report) Order, 1988 issued by the Central Government of India in terms of Section 227(4A) of 'The Companies Act, 1956' of India (the 'Act') and on the basis of such checks as we considered appropriate and according to the information and explanations given to us, we set out 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 in paragraph 3 above, we report that:
 - (a) 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;
 - (b) 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;
 - (c) The Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account;
 - (d) In our opinion, the Balance Sheet and Profit and Loss Account dealt with by this report have been prepared in compliance with the applicable accounting standards referred to in Section 211 (3C) of the Act;
 - (e) On the basis of written representations received from the directors, as on 31st March, 2002 and taken on record by the Board of Directors of the Company, none of the directors is disqualified as on 31st March, 2002 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act;
 - (f) In our opinion and to the best of our information and according to the explanations given to us, the Balance Sheet and Profit and Loss Account together with the notes thereon and attached thereto give in the prescribed manner the information required by the Act, and also give, a true and fair view in conformity with the accounting principles generally accepted in India:
 - (i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2002; and
 - (ii) in the case of the Profit and Loss Account, of the profit for the year ended on that date.

Thomas Mathew
(Partner)

For and behalf of
Lovelock & Lewes
Chartered Accountants

Place : Mumbai

Date : May 2 , 2002



ANNEXURE TO THE AUDITORS' REPORT [REFERRED TO IN PARAGRAPH (3) THEREOF]

- (i) The company has not taken any loans, secured or unsecured, from companies, firms or other parties listed in the Register maintained under Section 301 of the Act. In terms of subsection (6) of Section 370 of the Act, provisions of the Section are not applicable to a company on or after 31st October, 1998.
- (ii) In our opinion, the rates of interest and other terms and conditions of loans, secured or unsecured, granted by the company during the year, to companies, firms or other parties listed in the Register maintained under Section 301 of the Act are prima facie not prejudicial to the interest of the company. In terms of subsection (6) of Section 370 of the Act, provisions of the Section are not applicable to a company on or after 31st October, 1998.
- (iii) The parties to whom loans or advances in the nature of loans have been given by the company are repaying the principal amounts as stipulated and are also regular in payment of interest, where applicable.
- (iv) In our opinion, purchase of debentures and other securities and sale of debentures, other securities and services, made in pursuance of contracts or arrangements entered in the Register maintained under Section 301 of the Act and aggregating during the year Rs 50,000/- or more in value in respect of each party have been made at prices which are reasonable having regard to the prevailing market prices for such debentures and other securities and services or the prices at which the transactions for similar debentures and other securities and services have been made with other parties.
- (v) The company has not accepted any deposits from public.
- (vi) In our opinion, the company has an internal audit system commensurate with its size and nature of its business.
- (vii) The company has, during the year, regularly deposited Provident Fund dues in the holding company's account with the appropriate authorities in India. We are informed that the Employees' State Insurance Act, 1948 is not applicable to the company.
- (viii) At the last day of the financial year there was no amount outstanding in respect of undisputed income tax, wealth tax, sales tax, customs duty and excise duty which were due for more than six months from the date they became payable.
- (ix) During the course of our examination of the books of account carried out in accordance with the generally accepted auditing practices in India, we have not come across any personal expenses which have been charged to Profit and Loss Account, nor have we been informed of such case by the management other than those payable under contractual obligations and / or accepted business practices.
- (x) The company is not a sick industrial company within the meaning of clause (o) of Section 3(1) of the Sick Industrial Companies (Special Provisions) Act, 1985 of India.
- (xi) In relation to the service activities of the company there exists reasonable internal control system commensurate with the size of the company and the nature of its business.
- (xii) The company has maintained proper records of the transactions and contracts entered into for dealing or trading in debentures and other securities and timely entries have been made therein. The debentures and other securities are held by the company in its own name or held with valid transfer documents.
- (xiii) Taking into consideration, the nature of business of the company, in our opinion, clauses (i), (ii), (iii), (iv), (v), (vi), (x), (xi), (xiv) and (xvi) of paragraph 4(A), clauses (ii) and (iii) of paragraph 4(B), paragraph 4(C) and paragraph 4(D) are not applicable to the company for the current year.

Thomas Mathew
(Partner)

For and behalf of
Lovelock & Lewes
Chartered Accountants

Place : Mumbai

Date : May 2 , 2002

**BALANCE SHEET AS AT 31ST MARCH 2002**

	Schedule	As at 31st March 2002 Rupees	As at 31st March 2001 Rupees
SOURCES OF FUNDS			
Shareholders' Funds			
Capital	1	20,000,700	25,500,700
Reserves and Surplus	2	16,414,342	12,931,203
TOTAL		36,415,042	38,431,903
APPLICATION OF FUNDS			
Investments	3	7,686,573	25,458,933
Current Assets, Loans and Advances			
Sundry debtors	4	902,550	1,179,570
Cash and Bank balances	5	429,260	1,267,123
Loans and Advances	6	32,201,393	13,695,646
		33,533,203	16,142,339
Less:			
Current Liabilities and Provisions			
Liabilities	7	4,806,906	2,857,821
Provisions	8	95,714	311,548
		4,902,620	3,169,369
NET CURRENT ASSETS		28,630,583	12,972,970
DEFERRED TAX ASSET [refer note 2 in Schedule 9]		97,886	—
TOTAL		36,415,042	38,431,903
Notes to the Accounts	9		

Schedules referred to above form an integral part of the balance sheet

In terms of our report of even date

Thomas Mathew
Partner

For and on behalf of

Lovelock & Lewes
Chartered Accountants

Mumbai, May 2, 2002

For and on behalf of the Board of Directors

Shanti Ekambaram
Director

Jaimin Bhatt
Director

Mumbai, April 30, 2002

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

	Schedule	For the year ended	For the year ended
		31st March 2002	31st March 2001
		Rupees	Rupees
INCOME			
Brokerage		19,406,719	12,819,169
Interest on current investments		608,573	2,612,348
{Tax deducted at source Rs Nil (previous year Rs 6,496)}			
Profit on sale of current investments (Net)		171,591	454,871
Interest on Intercompany Deposits / loan		1,136,877	26,810
{Tax deducted at source Rs 231,923/-; (previous year Rs. Nil)}			
Provision for doubtful debts no longer required		96,275	209,714
Dividend on current investments		243,910	—
Other income		443,871	221,564
Writeback of diminution in value of current investments no longer required		—	5,383
TOTAL		22,107,816	16,349,859
EXPENDITURE			
Salaries, allowances and bonus		2,840,562	1,680,627
Gratuity and leave encashment		59,166	29,542
Contribution to provident and other funds (Refer note 3 in Schedule 9)		62,602	49,809
Professional charges		2,985,175	2,143,500
Communication charges		1,660,417	1,250,760
Auditors' remuneration			
Audit fees		131,250	131,250
Tax audit fees		52,500	52,500
In other capacity		15,750	5,250
Stamping expenses		6,304,036	3,754,399
Service charges		1,200,000	1,000,000
Diminution in value of current investments		—	142,500
Bad debts		146,635	209,714
Provision for doubtful debts		15,450	96,275
Service tax		958,538	651,586
NSE charges		375,672	350,000
Insurance expenses		1,464	1,153
Other expenses		123,088	158,431
TOTAL		16,932,305	11,707,296
Profit before taxation		5,175,511	4,642,563
Less: Provision for taxation			
Current Tax (Net of writeback of Rs. 109,945/- for earlier years)	1,790,258		290,000
(Previous year provision includes Rs. 90,034/- for earlier years)			
Deferred Tax	(75,203)	1,715,055	—
Profit after taxation		3,460,456	4,352,563
Add : Balance brought forward from previous year		12,931,203	—
: Deferred Tax asset as on 1st April 2001 (Refer note 2 in Schedule 9)		22,683	8,881,690
Profit available for appropriation		16,414,342	13,234,253
APPROPRIATIONS			
Proposed dividend on preference shares - Rs 5,000/- per share (5%)		—	275,000
Tax on distributed profits		—	28,050
Transfer to Capital Redemption Reserve		5,500,000	—
Profit carried to balance sheet		10,914,342	12,931,203
Notes to the Accounts	9		
Earnings per share on equity shares of Rs 10 each			
Basic and Diluted		1.73	2.02
Schedule referred to above forms an integral part of the profit and loss account			

In terms of our report of even date

Thomas Mathew
Partner

For and on behalf of

Lovelock & Lewes
Chartered Accountants

Mumbai, May 2, 2002

For and on behalf of the Board of Directors

Shanti Ekambaram
Director

Jaimin Bhatt
Director

Mumbai, April 30, 2002



SCHEDULES FORMING PART OF THE BALANCE SHEET

SCHEDULE 1 - CAPITAL

	31st March 2002	31st March 2001
	Rupees	Rupees
Authorised		
2,500,000 equity shares of Rs 10/-each	25,000,000	25,000,000
250 preference shares of Rs 100,000/- each	25,000,000	25,000,000
TOTAL	50,000,000	50,000,000
Issued and Subscribed		
2,000,070 equity shares of Rs 10 each fully paid up . {All the above shares are held by the holding company Kotak Mahindra Capital Company Limited [formerly Kotak Mahindra Capital Company (Company with unlimited liability)] and its nominees	20,000,700	20,000,700
Nil (Previous year 55) 5% cumulative redeemable non convertible preference shares of Rs 100,000 each.	—	5,500,000
TOTAL	20,000,700	25,500,700

SCHEDULE 2 -RESERVES AND SURPLUS

Capital Redemption Reserve		
As per last Balance Sheet	—	—
Add: Transfer from Profit and Loss Account	5,500,000	—
	5,500,000	—
Profit and Loss account	10,914,342	12,931,203
TOTAL	16,414,342	12,931,203

SCHEDULE 3 - INVESTMENTS

Current Investments (non trade) (at cost or market / fair value, whichever is lower)

	Face value Rupees	Quantity 31st March 2002	31st March 2001		
In Government of India Securities (Quoted, fully paid up)					
11.55% Government of India 2001 (Matured during the year)	19,000,000	—	—	—	19,095,000
In Bonds and Debentures (Quoted , fully paid up)					
9.00% Nuclear Power Corporation [2002] (Sold during the year)	100	—	5,000	—	504,250
9.00% Housing and Urban Development Corporation Limited [2002] (Sold during the year)	100	—	51,000	—	4,859,683
In Units of Mutual Fund (Unquoted, Fully Paid up)					
Kotak Mahindra Mutual Fund					
Kotak Mahindra Liquid Scheme -Growth (Sold during the year)	10	—	95,578	—	1,000,000
Kotak Mahindra Liquid Scheme -Dividend (Purchased during the year)	10	768,149	—	7,686,573	—
TOTAL				7,686,573	25,458,933
Aggregate Value of Quoted Investments :					
At Book Value				—	24,458,933
At Market / Fair Value				—	24,738,440

**SCHEDULES FORMING PART OF THE BALANCE SHEET**

	31st March 2002	31st March 2001
	Rupees	Rupees
SCHEDULE 4 - SUNDRY DEBTORS		
(Unsecured)		
Considered good		
Over Six months	—	41,105
Others	902,550	1,138,465
Considered doubtful		
Over Six months	15,450	96,275
Others	—	—
Less : Provision for doubtful debts	(15,450)	(96,275)
TOTAL	902,550	1,179,570
SCHEDULE 5 - CASH AND BANK BALANCES		
Cash on hand	1,420	2,849
Balances with scheduled banks on current account	427,840	1,264,274
TOTAL	429,260	1,267,123
SCHEDULE 6 - LOANS AND ADVANCES (Unsecured , considered good)		
Intercompany deposit	19,000,000	—
Interest accrued on investments	—	598,033
Deposits with National Stock Exchange	10,000,000	10,000,000
Advance payment of Income Taxes (net of provision)	2,297,905	2,552,668
Advances recoverable in cash or in kind or for value to be received	903,488	544,945
TOTAL	32,201,393	13,695,646
SCHEDULE 7 - LIABILITIES		
Sundry creditors (Other than small scale industrial undertaking)	3,856,422	2,448,601
Other liabilities	950,484	409,220
TOTAL	4,806,906	2,857,821
SCHEDULE 8 - PROVISIONS		
Provision for gratuity and leave encashment	95,714	36,548
Proposed dividend	—	275,000
TOTAL	95,714	311,548



SCHEDULE FORMING PART OF THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT.

SCHEDULE - 9 NOTES TO THE ACCOUNTS

1. SIGNIFICANT ACCOUNTING POLICIES

A. ACCOUNTING CONVENTION

The financial statements are prepared under historical cost convention and on an accrual basis.

B. REVENUE RECOGNITION

Brokerage is recognized as income on the date of contract.

C. INVESTMENTS

Investments which are intended to be held for less than one year are classified as current investments. Current investments are valued at cost 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 yield to maturity rates selected, considering available quotes of similar securities and credit profile of the issuer. In case of investments in mutual funds, the net asset value of the units has been considered as market value.

D. RETIREMENT BENEFITS

Provision for gratuity and leave encashment liability to employees is made on the basis of actuarial valuation.

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

2. Consequent to the Accounting Standard 22 on "Accounting for Taxes on Income" becoming mandatory, the Company recorded the cumulative net deferred tax credit as at 31st March, 2001 of Rs. 22,683 as an addition to the profit and loss account on 1st April 2001 and recognized the deferred tax credit for the year of Rs.75,203 in the profit and loss account.

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

	Amount (Rs.)
Deferred tax assets	
Capital loss carried forward	31,221
Provision for Doubtful Debts	5,678
Provision for gratuity and leave encashment	27,682
Preliminary Expenditure	31,737
Others	1,568
	97,886

3. The Provident Fund dues of the Company have been deposited in the account of its holding company with the provident fund authorities as the Company is yet to be registered with the Provident Fund authorities.
4. Figures for the previous year have been regrouped wherever necessary to conform to current year's classification.
5. The balance sheet and profit and loss account of the Company comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956.



6. BALANCE SHEET ABSTRACT AND COMPANY GENERAL BUSINESS PROFILE

(a) Registration Details	
Registration Number	77472
State Code	11
Balance Sheet Date	31st March 2002.
(b) Capital raised during the year (Rs.'000s)	
Public Issue	Nil
Rights Issue	Nil
Bonus Issue	Nil
Private Placement	Nil
(c) Position of Mobilization and Deployment of Funds (Rs.'000s)	
Total Liabilities	36,415
Total Assets	36,415
Sources of Funds (Rs.'000s)	
Paid up Capital	20,001
Reserves and Surplus	16,414
Secured Loans	Nil
Unsecured Loans	Nil
Application of Funds (Rs.'000s)	
Net Fixed Assets	Nil
Investments	7,686
Net Current Assets	28,631
Deferred Tax Asset	98
Miscellaneous Expenditure	Nil
Accumulated Losses	Nil
(d) Performance of the Company (Rs.'000s)	
Turnover	22,108
Total Expenditure	16,932
Profit before Tax	5,176
Profit after Tax	3,460
Earnings per Share (in Rs.)	1.73
Dividend Rate (%)	Nil
(e) Generic Names of Three Principal Products/Services of Company	
Item Code No (ITC Code)	N.A
Product Description	Debt Broking

For and on behalf of the Board of Directors

Shanti Ekambaram
Director

Jaimin Bhatt
Director

Mumbai, April 30, 2002