

Kotak Mahindra (UK) Limited  
Annual Report 2016-17



**CHANGING  
WITH INDIA.  
FOR INDIA.**



# DIRECTORS' REPORT

## TO THE SHAREHOLDERS

The directors present their Directors' Report and the audited financial statements of Kotak Mahindra (UK) Limited ("the Company") for the year ended 31 March 2017.

## PRINCIPAL ACTIVITY AND BUSINESS REVIEW

Kotak Mahindra (UK) Limited ("the Company") is authorised and regulated by the UK Financial Conduct Authority ("FCA") as a limited license firm (IFPRU 125K firm) with effect from 06 September 2016 (a full scope EUR 730K firm until then) and has several regulatory permissions. The Company's primary business is fund management, distribution of own and third party funds and dealing in securities. The Company is authorised and regulated by the Financial Conduct Authority ("FCA"). The Company has two branches – Dubai (regulated by the Dubai Financial Services Authority) and Singapore (regulated by the Monetary Authority of Singapore).

The businesses of the Company are: fund (investment) management, distribution of own managed funds and third party funds/products and dealing in securities. The fund management activity is solely carried out from the company's Singapore branch. Distribution and dealing in securities is carried out from all its branches and London office.

The financial year ("FY") 2017 was dominated by unexpected events, globally and in India. Global events included the result of the United Kingdom ("UK") referendum to leave the European Union ("EU") in June 2016 and the presidential election in the United States of America ("USA") in November 2016. In India, the specified bank notes ("SBN") ban was announced on November 8, 2016 (enacting demonetisation of INR 500 and INR 1000 denominated notes).

Net FPI inflows to the Indian capital markets were US\$ 7.17 billion in FY 2017, consisting of net inflows into equities of US\$ 8.39 billion and net outflows from debt instruments of US\$ 1.22 billion. The majority of inflows occurred in the fourth quarter (net inflows of USD 11.20 billion), in particular in March 2017 (net inflows of US\$ 9.14 billion). These significant inflows helped drive the strengthening of the INR against the USD towards the end of the year, with INR appreciating by 2.2% during the FY 2017.

During the FY 2017, the large cap NIFTY index gained 21.0% while the mid cap index gained 37.7% in United States Dollar terms – based on strong domestic flows into equity markets directly and via mutual funds and other financial products along with strong flows during fourth quarter of FY 2017.

The Company, however, continued its focus on consistent fund performance and generated returns in excess of its respective benchmarks. Also, it continued consolidating its relationships with institutional investors and expanded its global distribution network during the year.

The assets under management as on 31 March 2017 was ₹ 1,66,989 million (2016: ₹ 1,61,728 million).

## FUTURE OUTLOOK

*Fund management & global distribution - Termination of investment management agreements by funds managed by the Company:*

During the year 2014, Her Majesty Revenue and Customs had passed the Alternative Investment Fund Managers Directive ("AIFMD") which restricted the Company from distributing certain funds in the European Union as an investment manager of those funds. The funds managed by the Company from its Singapore branch have as a result of these restrictions terminated the investment management agreement with the Company with effect from 01 April 2017. The Company has also novated and assigned the investment management agreement of certain other funds to its fellow subsidiary in Singapore (Kotak Mahindra Asset Management (Singapore) Pte. Limited) with effect from 01 April 2017. The Company will however continue to act as the global distributor of these funds. The Company has also carried out certain rationalisation in cost owing to these changes.

As a global distributor of funds, the Company will continue to expand its relationships with institutional investors and its distribution network during the next financial year. Given the Indian macro-economic parameters, the political situation and the economic reforms proposed by the Government of India, it is expected that India will continue to be a relevant destination for global investors.

*Dealing in securities as agent/principal ("dealing"):*

The Company expects that it can capitalise on the base it has now built for the dealing business which will help increase revenues. The Company also targets to build capabilities to deal in specific markets/products. It has also recruited specialist dealers in its Dubai and Singapore branches to capture opportunities in the Middle East and Asia respectively.

As a global distributor of funds, the Company will continue to expand its relationships with institutional investors and its distribution network during the next financial year. The Company also expects that it can capitalise on the base it has now built for the dealing business which will help increase revenues and the specialist recruited for this purpose will help the Company capture opportunities.

## **RISK MANAGEMENT**

The activity profile of the Company is focused on India and hence the Company is significantly exposed to an emerging market economy risk. The Company registered as a Foreign Portfolio Investor ("FPI") with the Securities Exchange Board of India during the year 2016-17 [hitherto a Foreign Institutional Investor ("FII")]. The Company, however, doesn't expect this change to materially impact its business given its strong foothold in the asset management and distribution space.

## **POLITICAL AND CHARITABLE DONATIONS**

No political or charitable donations were made during the year (2016: NIL).

## **FINANCIAL RESULTS AND DIVIDENDS**

The profit on ordinary activities after taxation for the year ended 31 March 2017 was ₹ 413,720,427 (2016: ₹ 535,095,564).

The Company declared and paid a dividend of ₹ NIL (2016: ₹ NIL) during the year.

## **DIRECTORS**

The directors as at the date of this Report and who served throughout the period are:

Mr. Abhishek Bhalotia

Mr. Ruchit Puri

Mr. Sanjeev Prasad (Appointed w.e.f 27 January 2017)

Mr. Dipak Gupta (Appointed w.e.f 17 June 2016)

Mr. Gaurang Shah

Mr. Hasan Askari

Mr. Jayaram Chengalath (Resigned w.e.f 11 May 2016)

Mr. Gijo Joseph (Resigned w.e.f 27 January 2017)

## **QUALIFYING THIRD PARTY INDEMNITIES**

There are no qualifying third party indemnities in force for the benefit of any of the directors and officers at the time of this report.

## **GOING CONCERN**

The directors have considered the Company's ability to continue as a going concern and after due inquiry to the management, believe that the Company has sufficient resources to continue operating for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

## **FIXED ASSETS**

Information on the tangible fixed assets of the Company is given in the financial statements.

## **DIRECTORS DECLARATION**

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor are aware of that information.

## **AUDITOR**

KPMG LLP has indicated its willingness to continue in office and a resolution to reappoint it as auditor will be proposed at the next annual general meeting.

For and on behalf of the Board of Directors

**Abhishek Bhalotia**

Director and CEO

Date: 24 April 2017

# INDEPENDENT AUDITORS' REPORT

To  
The Members of  
**Kotak Mahindra (UK) Limited**

The financial statements of **Kotak Mahindra (UK) Limited** (the "Company") as at 31st March, 2017, being a company registered in the UK, are audited by KPMG LLP, Chartered Accountants, London, and we have been furnished with their audit report dated

We are presented with the accounts in Indian Rupees prepared on the basis of aforesaid accounts to comply with requirements of section 129 of Companies Act, 2013("the Act"). We give our report hereunder:

## Report on the Financial Statements

We have verified the accompanying financial statements duly converted in Indian Rupees from audited accounts in USD of **Kotak Mahindra (UK) Limited**. ("the Company"), which comprise the Balance Sheet as at 31st March 2017, the Statement of Profit and Loss, the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the matters stated in section 134(5) of the Act with respect to the preparation of these financial statements to give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 and Companies (Accounting Standards) Amendment Rules, 2016. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our verification. We have taken into account the provisions of the Act and the Rules made thereunder including

the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

We conducted our verification in accordance with the Standards on Auditing specified under section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the financial statements that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the Company's Directors as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements.

## Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the company as at 31st March, 2017, and its profit and its cash flows for the year ended on that date.

## Report on Other Legal and Regulatory Requirements

In view of the facts specified in Para 1 and 2 herein above, the requirements of Companies (Auditor's Report) Order, 2016, report under section 143(3) of the Act, report on directors disqualification in terms of subsection (2) of section 164 of the Companies Act, 2013 are not applicable.

Place: Mumbai  
Date: 25th April, 2017

For V. C. Shah & Co.  
Chartered Accountants  
Firm Registration No. 109818W  
**A. N. Shah**  
Partner  
M. No. 042649

# BALANCE SHEET

## AS AT 31ST MARCH, 2017

Particulars	Note No.	As at	As at 31
		31 March 2017	March 2016
		₹	₹
<b>I. EQUITY AND LIABILITIES</b>			
<b>1 Shareholders' funds</b>			
(a) Share capital	3.1	70,078,422	70,078,422
(b) Reserves and surplus	3.2	1,944,766,108	1,582,325,376
<b>2 Non-current liabilities</b>			
(a) Long-term borrowings	3.3	4,069,338	4,768,372
(b) Long-term provisions	3.4	42,781,436	22,728,795
<b>3 Current liabilities</b>			
(a) Trade payables		2,550,765,942	2,910,561,844
(b) Other current liabilities	3.5	19,861,309	17,049,500
(c) Short-term provisions	3.6	89,097,784	70,446,344
<b>TOTAL</b>		<b>4,721,420,340</b>	<b>4,677,958,653</b>
<b>II. ASSETS</b>			
<b>Non-current assets</b>			
<b>1 (a) Fixed assets</b>			
Property, Plant and Equipment	3.7	7,718,148	12,779,677
(b) Deferred Tax		1,160,434	890,395
(c) Long-term loans and advances	3.8	10,901,997	146,258,015
<b>2 Current assets</b>			
(a) Trade receivables	3.9	2,538,649,468	1,629,574,537
(b) Cash and bank balance	3.10	2,140,558,013	2,863,401,932
(c) Short-term loans and advances	3.11	17,431,010	21,116,483
(d) Other current assets	3.12	5,001,270	3,937,614
<b>TOTAL</b>		<b>4,721,420,340</b>	<b>4,677,958,653</b>

Significant Accounting Policies and Notes to Accounts

2 & 3

In terms of our report of even date

**For V . C. Shah & Co.**

Chartered Accountants

Firm Regn. No. 109818W

**A. N. Shah**

Partner

Membership No. 042649

Mumbai

Dated: 25 April, 2017

For and on behalf of the Board of Directors

**Abhishek Bhalotia**

Director

**Gaurang Shah**

Director

Dated: 24 April, 2017

# PROFIT AND LOSS ACCOUNT

## FOR THE YEAR ENDED 31ST MARCH, 2017

Particulars	Note No.	For the year ended 31st March, 2017	For the year ended 31st March, 2016
		₹	₹
<b>I. Revenues from operations</b>			
(a) Service Income (net)		1,213,965,261	1,287,822,932
(b) Interest Income	3.13	20,522,677	10,136,194
<b>II. Other income</b>	3.14	594,822	818,716
<b>III. Total Revenue</b>		<b>1,235,082,760</b>	<b>1,298,777,842</b>
<b>IV. Expenses:</b>			
Employee benefit expenses	3.15	521,619,097	461,893,434
Interest and Finance cost	3.16	3,917,394	1,503,571
Depreciation and Amortisation expense	3.7	8,516,410	8,479,634
Other expenses	3.17	186,857,798	220,415,558
<b>Total expenses</b>		<b>720,910,699</b>	<b>692,292,197</b>
<b>V. PROFIT/(LOSS) BEFORE TAX</b>		<b>514,172,061</b>	<b>606,485,645</b>
<b>VI. Tax expense:</b>			
(a) Current tax			
- Pertaining to profit/ (loss) for the current period		102,840,456	72,269,758
- Adjustment of tax relating to earlier periods		(2,089,943)	-
(b) Deferred tax		(298,879)	(879,677)
		<b>100,451,634</b>	<b>71,390,081</b>
<b>VII. PROFIT/(LOSS) FOR THE YEAR</b>		<b>413,720,427</b>	<b>535,095,564</b>
<b>VIII. Earnings / (loss) per equity share (in ₹):</b>			
Basic and Diluted	3.20	431.32	557.86
Significant Accounting Policies and Notes to Accounts	2 & 3		

In terms of our report of even date

**For V . C. Shah & Co.**

Chartered Accountants

Firm Regn. No. 109818W

**A. N. Shah**

Partner

Membership No. 042649

Mumbai

Dated: 25 April, 2017

For and on behalf of the Board of Directors

**Abhishek Bhalotia**

Director

**Gaurang Shah**

Director

Dated: 24 April, 2017

# CASH FLOW STATEMENT

## FOR THE YEAR ENDED 31 MARCH 2017

Particulars	For the year ended	For the year ended
	31st March, 2017	31st March, 2016
	₹	₹
<b>Cash Flow from Operating Activities</b>		
Net Profit/(Loss) before taxation	514,172,061	606,485,645
Adjustments for:		
Interest Income	(971,334)	(103,894)
Interest Expenses	2,785,062	520,540
Exchange Adjustments	(51,872,827)	68,816,191
Interest on Fixed deposit	(19,551,343)	(10,014,799)
Depreciation and Amortisation Expense	8,516,410	8,479,634
<b>Operating Profit before Working Capital Changes</b>	<b>453,078,030</b>	<b>674,183,317</b>
Adjustments for:		
Increase in Long-term loans and advances	2,846,018	1,899,194
Decrease /(Increase) in Trade receivables	(909,074,931)	(485,337,584)
Increase in Short-term loans and advances	3,685,473	16,671,538
(Increase) / Decrease in Other current assets	-	73,549
Increase / (Decrease) in Long-term provisions	20,052,641	(12,830,671)
(Decrease) /Increase in Trade payables	(359,795,902)	1,589,226,831
Increase / (Decrease) in Other current liabilities	2,811,809	1,387,082
(Decrease) / Increase in Short-term provisions	10,358,229	2,733,009
<b>Cash Generated from Operations</b>	<b>(776,038,633)</b>	<b>1,788,006,265</b>
Income taxes (refunded) / paid	(92,428,462)	(39,031,532)
<b>NET CASH FLOW FROM OPERATING ACTIVITIES (A)</b>	<b>(868,467,095)</b>	<b>1,748,974,733</b>
<b>Cash Flow from Investing Activities</b>		
Fixed deposits redeemed/(placed)	(389,208,484)	(477,560,341)
Purchase of Fixed Assets	(3,560,783)	(15,161,309)
Interest on Fixed deposit	18,487,687	8,009,357
Interest Income on Term Loan	971,334	103,894
<b>NET CASH FLOW FROM INVESTING ACTIVITIES (B)</b>	<b>(373,310,246)</b>	<b>(484,608,399)</b>
<b>Cash Flow from Financing Activities</b>		
Interest Expenses	(2,785,062)	(520,540)

# CASH FLOW STATEMENT

## FOR THE YEAR ENDED 31 MARCH 2017

Particulars	For the year ended 31st March, 2017	For the year ended 31st March, 2016
	₹	₹
<b>NET CASH FLOW USED IN FINANCING ACTIVITIES (C)</b>	<b>(2,785,062)</b>	<b>(520,540)</b>
Net Increase in Cash and Cash Equivalents (A + B + C)	<b>(1,244,562,403)</b>	<b>1,263,845,794</b>
Cash and Cash Equivalents at the beginning of the year	1,868,226,392	604,380,598
Cash and Cash Equivalents at the end of the year	623,663,989	1,868,226,392
	<b>(1,244,562,403)</b>	<b>1,263,845,794</b>

### Notes:

- The Cash Flow Statement has been prepared under the 'Indirect Method' as set out in the Accounting Standard -3 "Cash Flow Statements" specified under section 133 of the Companies Act, 2013, read with Rule 7 of the Companies (Accounts) Rules, 2014.
- Figures in brackets indicate cash outflow.
- The previous year's figures have been re-grouped, wherever necessary in order to conform to current year's presentation.

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

**For V . C. Shah & Co.**

Chartered Accountants

Firm Regn. No. 109818W

**A. N. Shah**

Partner

Membership No. 042649

Mumbai

Dated: 25 April, 2017

For and on behalf of the Board of Directors

**Abhishek Bhalotia**

Director

**Gaurang Shah**

Director

Dated: 24 April, 2017

# NOTES

## FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2017

### 1 Organisation and Nature of Business

Kotak Mahindra (UK) Limited ("the Company") is authorised and regulated by the UK Financial Conduct Authority ("FCA") as a limited license firm (IFPRU 125K firm) with effect from 06 September 2016 (a full scope EUR 730K firm until then) and has several regulatory permissions including managing investments, arranging deals in investments, dealing in securities as an agent and principal, advising on investments and safeguarding and administration of assets.

The Company's Dubai branch is regulated by the Dubai Financial Services Authority ("DFSA") as a Category 3A firm and has permissions to advise on financial products or credit, arrange credit or deals in investments, deal in investments as agent and manage assets.

The Company's Singapore branch is regulated by the Monetary Authority of Singapore ("MAS") and holds Capital Markets Services ("CMS") Licenses issued by MAS to conduct the regulated activities of fund management and dealing in securities.

The businesses of the Company are: fund (investment) management, distribution of own managed funds and third party funds/products and dealing in securities. The fund management activity is solely carried out from the company's Singapore branch. Distribution and dealing in securities is carried out from all its branches and London office.

### 2 Significant Accounting Policies:

#### 2.1 Basis of Preparation

- i) The financial statements of the Company have been prepared in accordance with the Generally Accepted Accounting Principles in India (Indian GAAP). The Company has prepared these financial statements to comply in all material respects with the Accounting standards notified under Section 133 of the Companies Act, 2013, read with paragraph 7 of the Companies (Accounts) Rules, 2014 and Companies (Accounting Standards) Amendment Rules, 2016. The financial statements have been prepared on accrual basis and under the historical cost convention. The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the previous year except for the change in accounting policies disclosed hereafter, if any.
- ii) All assets and liabilities have been classified as current or non-current as per the Company's normal operating cycle and other criteria set out in the Schedule III to the Companies Act, 2013. Based on the nature of the services and the time between the provision of services and their realization in cash and cash equivalents, the Company has ascertained its operating cycle as 12 months for the purpose of current and non-current classification of assets and liabilities.

#### 2.2 Conversion to Indian Rupees

For the purpose of accounts, all income and expense items are converted at the average rate of exchange applicable for the period. All assets and liabilities are translated at the closing rate as on the Balance Sheet date. 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 transferred to Translation Reserve Account and the said account is being treated as "Reserves and Surplus".

#### 2.3 Use of estimates

The preparation of financial statements requires the management to make estimates and assumptions considered in the reported amounts of assets and liabilities (including contingent liabilities) as of the date of the financial statements and the reported income and expenses during the reporting period. Management believes that the estimates used in preparation of the financial statements are prudent and reasonable. Actual results could differ from these estimates.

#### 2.4 Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Company, and the revenue can be reliably measured. Commission, fees and other revenue are invoiced and recognised on an accrual basis. Interest income is recognised in the income statement as accrued. Premium or discount is amortised or accreted on debt securities over the maturity period of such investments using effective interest rate method.

#### 2.5 Expenses

Expenses are accounted for in the profit and loss on the accrual basis.

# NOTES

## FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2017

### 2.6 Fixed Assets

#### Property, Plant and Equipment

Property, plant and Equipment are stated at acquisition cost inclusive of incidental expenses, net of accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided on a pro-rata basis on a Straight Line Method over the estimated useful life of the assets at rates which are higher than the rates prescribed under Schedule II of the Companies Act, 2013 in order to reflect the actual usage of the assets. The estimated useful lives of assets based on technical evaluation by management are as follows:”

Furniture and Fittings	3 years
Computer & Software	3 years
Other Equipment	3 years

Losses arising from the retirement of and gains or losses arising from disposal of Property, plant and Equipment which are carried at cost, are recognised in the Statement of Profit and Loss.

### 2.7 Investments

Investments are classified into long term investments and current investments. Investments which are intended to be held for more than one year are classified as long term investments and investments which are intended to be held for less than one year are classified as current investments. Long-term investments are stated at cost less other than temporary diminution. Current investments are valued at cost or market value / fair value which ever is lower.

### 2.8 Employee Benefits

Provision for employees' end of service benefits represents the liability that would arise if the employment of all eligible staff of the representative office were terminated as of the balance sheet date and is calculated in accordance with the UAE Federal Labour Law.

### 2.9 Leases

Leases, where the lessor effectively 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 statement of profit and loss on a straight-line basis over the lease term.

### 2.10 Cash and cash equivalent

For the purposes of the cash flow statement, cash and cash equivalent consists of cash in hand, bank balances and short-term deposits with an original maturity of three months or less, net of outstanding bank overdrafts, if any.

### 2.11 Taxes

Current tax is expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date and any adjustments payable / refund received in respect of previous years.

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.

Deferred tax assets arising mainly on account of carry forward of losses and unabsorbed depreciation under tax laws are recognised only if there is virtual certainty supported by convincing evidence that there will be sufficient future taxable income against which such deferred tax assets can be realised. Deferred tax assets on account of other timing differences 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.

### 2.12 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 attributable taxes) by the weighted average number of equity shares outstanding during the period.

# NOTES

## FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2017

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.

### 2.13 Provisions and Contingencies

Provision is recognised 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, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are measured 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 unless the outflow of resources is remote. Contingent assets are neither recognised nor disclosed in the financial statements.

### 2.14 Employee Share based payments

#### 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 the statement of profit and loss under 'Employee cost'.

## 3 NOTES TO ACCOUNTS

### 3.1 (a) Share capital

Share Capital	As at 31 March 2017	As at 31 March 2016
	₹	₹
<b>Authorised shares</b>		
1,000,000 (Previous year 1,000,000) Ordinary shares of £ 1 each	£1,000,000	£1,000,000
<b>Issued, Subscribed and fully Paid up</b>		
959,200 (Previous year 959,200) Equity Shares of £ 1 each	70,078,422	70,078,422
<b>Total</b>	<b>70,078,422</b>	<b>70,078,422</b>

### (b) Equity shares

Reconciliation of equity share capital	As at 31 March 2017	As at 31 March 2017	As at 31 March 2016	As at 31 March 2016
	Quantity	₹	Quantity	₹
Share capital outstanding at the beginning of the year	959,200	70,078,422	959,200	70,078,422
Issued during the period	-	-	-	-
Share capital outstanding at the end of the year	<b>959,200</b>	<b>70,078,422</b>	<b>959,200</b>	<b>70,078,422</b>

### (c) Terms/rights attached to equity shares

The Company has only one class of equity shares having a par value of £ 1 per share. Each holder of equity shares is entitled to one vote per share.

Each share holder is entitled to receive dividend as may be approved by Board/ Annual General Meeting. In the event of liquidation of the company, the holders of equity shares will be entitled to receive remaining assets of the company, after distribution of all preferential amounts. The distribution will be in proportion to the number of equity shares held by the shareholders.

# NOTES

## FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2017

### (d) Shares held by holding/ultimate holding company and/or their subsidiaries/associates

Out of equity shares issued by the company, shares held by its holding company, ultimate holding company and their subsidiaries/ associates are as below:

Number of equity share	As at 31 March 2017	As at 31 March 2016
Kotak Mahindra Bank Limited, the holding company	489,200	489,200
Kotak Mahindra (International) Limited, subsidiary of Kotak Mahindra Bank Limited	470,000	470,000

### (e) Details of shareholders holding more than 5% shares in the company

#### Equity shares of ₹ 1 fully paid up

	As at 31 March 2017		As at 31 March 2016	
	number	% holding	number	% holding
Kotak Mahindra Bank Limited, holding company	489,200	51.00%	489,200	51.00%
Kotak Mahindra (International) Limited, subsidiary of Kotak Mahindra Bank Limited	470,000	49.00%	470,000	49.00%

### 3.2 Reserve and Surplus

	As at 31 March 2017 ₹	As at 31 March 2016 ₹
<b>a. Translation Reserve</b>		
Opening Balance	449,106,685	379,995,124
Additions/(deductions) during the period	(51,279,695)	69,111,561
<b>Closing Balance</b>	<b>397,826,990</b>	<b>449,106,685</b>
<b>b. Surplus in the statement of profit and loss</b>		
Opening balance	1,133,218,691	598,123,127
Net Profit / (Loss) For the year	413,720,427	535,095,564
<b>Closing Balance</b>	<b>1,546,939,118</b>	<b>1,133,218,691</b>
<b>Total</b>	<b>1,944,766,108</b>	<b>1,582,325,376</b>

### 3.3 Long-term borrowings

	As at 31 March 2017 ₹	As at 31 March 2015 ₹
<b>Unsecured</b>		
Loans from fellow subsidiary	4,069,338	4,768,372
<b>Total</b>	<b>4,069,338</b>	<b>4,768,372</b>

The long-term borrowing represents a long-term subordinated loan of ₹ 4,069,338 (Previous year ₹ 4,768,372) from the fellow subsidiary company, Kotak Mahindra (International) Limited. The loan is unsecured and interest-free and constitutes regulatory capital as approved by the Regulatory Authority - Financial Conduct Authority. It is repayable upon giving or receiving two years notice to or from the fellow subsidiary company. No such notice had been given or received as at 31st March, 2017.

# NOTES

## FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2017

### 3.4 Long-term provision

	As at 31 March 2017	As at 31 March 2016
	₹	₹
<b>Provision for employee benefits</b>		
Provision for gratuity	16,666,565	14,165,471
Stock Appreciation Rights (refer note 3.26)	26,114,871	8,563,324
<b>Total</b>	<b>42,781,436</b>	<b>22,728,795</b>

### 3.5 Other current liabilities

	As at 31 March 2017	As at 31 March 2016
	₹	₹
Other payable	19,861,309	17,049,500
<b>Total</b>	<b>19,861,309</b>	<b>17,049,500</b>

### 3.6 Short-term Provisions

	As at 31 March 2017	As at 31 March 2016
	₹	₹
<b>Provision for employee benefits:</b>		
Provision for Stock Appreciation Rights (refer note 3.26)	34,785,005	25,681,544
Provision for Leave Encashment	6,107,550	4,451,973
Payable to statutory funds	4,964,201	5,365,010
<b>Other Provisions:</b>		
Provision for taxes (net of taxes paid)	43,241,028	34,947,817
<b>Total</b>	<b>89,097,784</b>	<b>70,446,344</b>

### 3.7 Fixed Asset

	Gross Block				Accumulated Depreciation				Net Block		
	Balance as at 1st April, 2016	Additions	Deduction / Adjustment*	Balance as at 31st March, 2017	Balance as at 1st April, 2016	Depreciation charge for the year	Deduction / Adjustment*	Balance as at 31st March, 2017	Balance as at 31st March, 2017	Balance as at 31st March, 2016	
	₹	₹	₹	₹	₹	₹	₹	₹	₹	₹	
<b>Tangible Assets</b>											
Computer & Software	63,885,272	3,021,681	1,455,418	65,451,535	61,579,385	2,446,347	(1,387,352)	62,638,380	2,813,155	2,305,887	
Furniture and Fixtures	55,244,116	539,102	1,189,464	54,593,754	46,658,884	5,043,495	(1,157,475)	50,544,904	4,048,850	8,585,232	
Office equipment	7,226,266	-	153,240	7,073,026	5,337,708	1,026,568	(147,393)	6,216,883	856,143	1,888,558	
<b>Total</b>	<b>126,355,654</b>	<b>3,560,783</b>	<b>2,798,122</b>	<b>127,118,315</b>	<b>113,575,977</b>	<b>8,516,410</b>	<b>(2,692,220)</b>	<b>119,400,167</b>	<b>7,718,148</b>	<b>12,779,677</b>	
<b>Previous Year</b>	<b>107,795,313</b>	<b>15,161,309</b>	<b>3,399,032</b>	<b>126,355,654</b>	<b>102,119,710</b>	<b>8,479,634</b>	<b>2,976,633</b>	<b>113,575,977</b>	<b>12,779,677</b>		

\* Deduction / adjustments include effect of translation reserve

# NOTES

## FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2017

### 3.8 Long Term Loans and Advances

	As at 31 March 2017 ₹	As at 31 March 2016 ₹
<b>Unsecured, considered good</b>		
Prepaid Expenses	177,820	327,299
Security Deposits	10,724,177	13,420,716
Deposits with residual maturity of more than twelve months	-	132,510,000
<b>Total</b>	<b>10,901,997</b>	<b>146,258,015</b>

### 3.9 Trade Receivables

	As at 31 March 2017 ₹	As at 31 March 2016 ₹
<b>Unsecured, considered good</b>		
Outstanding for a period less than six months from the date they are due for payment	2,563,366	11,489,376
<b>Considered doubtful</b>	(2,563,366)	(11,489,376)
Less: Provision for doubtful debts	-	-
<b>Total</b>	<b>2,538,649,468</b>	<b>1,629,574,537</b>

### 3.10 Cash and bank balances

	As at 31 March 2017 ₹	As at 31 March 2016 ₹
<b>Cash and cash equivalent</b>		
Balances with banks:		
On Current accounts*	575,913,139	1,817,723,405
Deposits with original maturity of less than three months	47,750,850	50,502,987
<b>Other Bank Balances</b>		
Deposits with residual maturity of less than twelve months	1,516,894,024	995,175,540
<b>Total</b>	<b>2,140,558,013</b>	<b>2,863,401,932</b>

\* Includes client money deposits aggregating to ₹ 168,941,131 (previous year ₹ 1,332,533,135) earmarked in a separate bank account held in the name of the Company

### 3.11 Short-term Loans and Advances

	As at 31 March 2017 ₹	As at 31 March 2016 ₹
<b>Unsecured, considered good</b>		
Loans to employees	1,420,321	2,125,684
Prepaid expenses	11,167,144	15,017,442
VAT Input Credit	1,091,134	912,868
Advance to Suppliers	-	979,333
Security Deposits	3,752,411	2,081,156
<b>Total</b>	<b>17,431,010</b>	<b>21,116,483</b>

# NOTES

## FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2017

### 3.12 Other current assets

	As at 31 March 2017	As at 31 March 2016
	₹	₹
<b>Unsecured, considered good</b>		
Interest accrued on deposits	5,001,270	3,937,614
<b>Total</b>	<b>5,001,270</b>	<b>3,937,614</b>

### 3.13 Interest Income

	For the year ended 31st March, 2017	For the year ended 31st March, 2016
	₹	₹
Interest income on loans	971,334	103,894
Interest income on deposits with banks	19,551,343	10,014,799
Other interest income	-	17,501
<b>Total</b>	<b>20,522,677</b>	<b>10,136,194</b>

### 3.14 Other Income

	For the year ended 31st March, 2017	For the year ended 31st March, 2016
	₹	₹
Miscellaneous income	594,822	818,716
<b>Total</b>	<b>594,822</b>	<b>818,716</b>

### 3.15 Employee Cost

	For the year ended 31st March, 2017	For the year ended 31st March, 2016
	₹	₹
Salaries, bonus and allowances	427,201,541	403,943,365
Contribution to statutory funds	20,769,030	24,388,501
Expenses on stock appreciation rights	70,584,065	28,489,005
Provision for Leave Encashment	1,810,297	4,398,385
Staff welfare expenses	1,254,164	674,178
<b>Total</b>	<b>521,619,097</b>	<b>461,893,434</b>

### 3.16 Finance cost

	For the year ended 31st March, 2017	For the year ended 31st March, 2016
	₹	₹
Bank Charges	1,132,332	983,031
Interest on borrowings	2,785,062	520,540
<b>Total</b>	<b>3,917,394</b>	<b>1,503,571</b>

# NOTES

## FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2017

### 3.17 Other expenses

	For the year ended 31st March, 2017	For the year ended 31st March, 2016
	₹	₹
Rent, rates & taxes	21,274,667	21,959,250
Communication expenses	11,663,206	13,732,263
Printing and stationery	1,415,922	1,670,631
Repairs and maintenance	11,463,052	9,723,497
Advertising, business promotion and entertainment	6,020,957	10,362,752
Foreign exchange loss (net)	(4,769,931)	7,684,751
Travel expenses	16,308,213	22,389,099
Insurance	5,647,249	4,513,600
Electricity expenses	627,563	646,964
Professional and legal fees	57,969,106	62,670,599
Membership and subscription	10,483,800	11,449,578
Recruitment expenses	52,321	2,568,401
Dealing charges	32,991,928	30,325,948
Auditor's remuneration	11,529,305	9,376,909
- Statutory fees	10,268,207	9,300,560
- Taxation related	1,193,553	-
- Reimbursement of expenses	67,545	76,349
Miscellaneous expenses	4,180,440	11,341,316
<b>Total</b>	<b>186,857,798</b>	<b>220,415,558</b>

**3.18** The Company is a subsidiary of Kotak Mahindra Bank Limited ("KMBL"). The accounts have been prepared and audited to attach with the accounts of KMBL, the holding Company to comply with the provisions of the Indian Companies Act, 2013.

**3.19** The transactions have been converted into Indian Currency (Indian Rupees) for reporting and the rate applied is as per para 2.2 of the significant accounting policies

### 3.20 Earnings per equity share

Particulars	As at 31 March 2017	As at 31 March 2016
	₹	₹
Earnings / (loss) used in the computation of basic and diluted earnings per share (A)	413,720,427	535,095,564
Weighted average number of equity shares used in computation of basic earnings per share (B)	959,200	959,200
Nominal value of Equity shares	₹1	₹1
Basic and diluted earnings / (loss) per share (₹) A/B	431.32	557.86

### 3.21 Leases

The total annual commitments of the Company under non-cancellable operating leases are as under:

Land and Building	As at 31 March 2017	As at 31 March 2016
	₹	₹
<b>Operating leases which expire :</b>		
Within one year	10,051,750	19,412,715
Between one to five years	8,495,350	5,300,400

# NOTES

## FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2016

### 3.22 Contingencies liabilities

During the year the Company's banker have issued a guarantee for ₹ 92,825,000 (Previous year ₹ 98,530,000) in favour of the Monetary Authority of Singapore. No loss is expected on this guarantee at the Balance Sheet date.

### 3.23 The following amounts are due from directors as at 31st March, 2016.

Mr. Abhishek Bhalotia ₹ 120,228 (Previous Year ₹ 4,849)  
Maximum balance due during the year is ₹ 120,228 (Previous Year ₹ 37,341)

Mr. Hasan Askari ₹ Nil (Previous Year ₹ Nil)  
Maximum balance due during the year is ₹ 3,679 (Previous Year ₹ 31,879)

Mr. Ruchit Puri ₹ Nil (Previous Year ₹ Nil)  
Maximum balance due during the year is ₹ 11,349 (Previous Year ₹ Nil)

Mr. Sanjeev Prasad ₹ Nil (Previous Year ₹ Nil)  
Maximum balance due during the year is ₹ Nil (Previous Year ₹ Nil)

### 3.24 Related Party Transactions

During the year ended 31 March 2017, the Company traded with a related entity. The nature, volume of transactions and balances with the related entity are as follows:

Particulars			Volume of transaction for the year ended		Receivable/Payable Balance as at	
Related Parties	Nature of relationship	Nature of transactions	31st March, 2017	31st March, 2016	31st March, 2017	31st March, 2016
Kotak Mahindra Bank Limited	Ultimate Parent Company	Outsourcing Costs	44,704,290	41,221,181	-	-
Kotak Securities Limited	Fellow Group Entities	Service fee income	79,871,687	74,297,342	7,600,760	3,340,571
Kotak Investment Advisors Limited	Fellow Group Entities	Investment advisory expense	29,017,670	19,466,736	-	-
Kotak Mahindra International Limited	Fellow Group Entities	Investment management expense	21,646,846	43,803,254	5,448,956	(1,964,421)
		Investment Manager Income	49,227,997	42,374,951	-	-
		Brokerage Income - others	6,402,491	15,763,167	-	-
		Portfolio Management Income	21,293,071	-	-	-
		Calculation Agency Income	805,020	-	-	-
		Interest Income	945,886	-	-	-
		Client Account	-	-	(148,583,866)	(1,437,270)
		Subordinated Loan taken	-	-	(4,069,338)	(4,768,372)

# NOTES

## FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2017

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Particulars			Volume of transaction for the year ended		Receivable/Payable Balance as at	
Related Parties	Nature of relationship	Nature of transactions	31st March, 2017	31st March, 2016	31st March, 2017	31st March, 2016
Kotak Mahindra Inc	Fellow Group Entities	Investment management expense	39,397,410	13,280,116	(2,456,478)	(1,070,680)
Kotak Mahindra Asset Management Company Ltd	Fellow Group Entities	Investment advisory expense	10,097,939	15,629,019	-	(751,094)
Kotak Mahindra Financial Services Ltd	Fellow Group Entities	Investment management charges	531,200	186,836	-	-
K Fixed Income Opportunities Fund	Investment Manager	Investment management fees	5,450,052	6,563,989	(4,169,446)	(4,075,604)
K Opportunities Fund SPC	Investment Manager	Investment management fees	117,949,861	124,666,951	15,671,372	25,539,249
Kotak India Fixed Income Fund	Investment Manager	Investment management fees	28,860,519	29,364,468	-	-
Kotak Infinity Fund	Investment Manager	Investment management fees	32,618,558	26,346,791	2,292,837	5,628,666
Kotak WM India Fund	Investment Manager	Investment management fees	1,344,671	1,997,487	2,281,615	2,614,148
Core India Infrastructure Fund Pte. Ltd	Investment Manager	Investment management fees	115,276,597	116,514,350	740,802	-
Kotak Global Funds	Investment Manager	Investment management fees	11,368,108	34,155,946	1,131,768	1,042,718
Global Investment Opportunities Fund Limited	Investment Manager	Investment management fees	6,672,732	7,434,582	764,462	564,228
India Bluechip Fund Ltd	Investment Manager	Investment management fees	179,664,476	182,064,998	15,110,193	14,238,838
India Midcap Fund (Mauritius) Ltd	Investment Manager	Investment management fees	379,478,099	312,912,350	34,834,404	29,343,896
K Advantage Opportunites Fund	Investment Manager	Investment management fees	13,171,447	1,659,392.14	595,555	(2,210,174)
K Debt Opportunities Fund Limited - II	Investment Manager	Investment management fees	-	-	398,828	208,703

# NOTES

## FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2017

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Particulars			Volume of transaction for the year ended		Receivable/Payable Balance as at	
Related Parties	Nature of relationship	Nature of transactions	31st March, 2017	31st March, 2016	31st March, 2017	31st March, 2016
K Debt Opportunities Fund Limited - I	Investment Manager	Investment management fees	173,196,484	214,663,501	18,301,658	36,209,955
Kotak India Consumption Fund Ltd	Investment Manager	Investment management fees	6,021,478	12,210,279	473,773	798,605
Kotak Investment Opportunities Fund Limited	Investment Manager	Investment management fees	205,817	329,252	29,046	2,194
K Advantage (Mauritius) Ltd - I	Investment Manager	Investment management fees	-	-	-	494,496
			1,375,220,408	1,336,906,939	(53,603,099)	103,748,651
Directors remuneration included in personnel expenses			65,609,130	56,751,653		

During the year compensation to Key Managerial Personnel was ₹ 78.5 million (Previous year ₹ 68.1 million).

### 3.25 Stock Option Scheme

At the General Meetings of the holding company, Kotak Mahindra Bank Limited, the shareholders of the Bank had unanimously passed Special Resolutions on 5th July 2007, 21st August 2007 and 29th June 2015, to grant options to the eligible employees of the Bank and its subsidiary and associate companies. Pursuant to these resolutions, the following Employees Stock Option Schemes had been formulated and adopted:

- Kotak Mahindra Equity Option Scheme 2007; and
- Kotak Mahindra Equity Option Scheme 2015

Further, pursuant to the Scheme of Amalgamation of ING Vysya Bank (IVBL) with the Bank, the Bank has renamed and adopted the ESOP Schemes of the erstwhile IVBL, as given below:

- Kotak Mahindra Bank Ltd. (IVBL) Employees Stock Option Scheme 2007
- Kotak Mahindra Bank Ltd. (IVBL) Employee Stock Option Scheme 2010; and
- Kotak Mahindra Bank Ltd. (IVBL) Employees Stock Option Scheme 2013

Consequent to the above, the Bank has granted stock options to employees of the Company. In accordance with the SEBI Guidelines and the guidance note on "Accounting for Employee Share based payments", the excess, if any, of the market price of the share, preceding the date of grant of the option under ESOSs over the exercise price of the option is amortised on a straight-line basis over the vesting period. The Company has reimbursed the Bank ₹ Nil (Previous Year ₹ Nil) during the year on account of such costs and the same is forming part of Employee costs and included under the head "Reimbursement of expense on ESOP Scheme" under Note 3.15 - "Employee cost".

Had the Company reported the compensation cost computed on the basis of fair value method instead of Intrinsic value method, employee compensation cost would have been higher by ₹ 294,445 (Previous Year ₹ 319,941) with an decrease in after tax profit by ₹ 294,445 (Previous Year ₹ 255,952).

### 3.26 Stock appreciation rights (SARs)

At the General Meeting of the holding company, Kotak Mahindra Bank Limited, the shareholders of the Bank had unanimously passed Special Resolution on 29th June, 2015 to grant stock appreciation rights (SARs) to the eligible employees of the Bank, its subsidiaries and associate companies. Pursuant to this resolution, Kotak Mahindra Stock Appreciation Rights Scheme 2015 has been formulated and adopted. Subsequently, the SARs have been granted under this scheme and the existing SARs will continue.

# NOTES

## FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2017

The contractual life (which is equivalent to the vesting period) of the SARs outstanding ranges from 1.37 years to 3.65 years.

Detail of activity under SAR is summarized below:

	<b>For the year ended 31st March, 2017</b>	<b>No. of SARs</b> For the year ended 31st March, 2016
Outstanding at the beginning of the year	221,772	183,690
Granted during the year	236,990	172,120
Additions/Reduction due to transfer of employees	-	28,562
Exercised during the year	108,270	74,396
Expired/Forfeited during the year	-	31,080
Outstanding at the end of the year	<b>350,492</b>	<b>221,772</b>

Effect of share based payment to employees on the profit and loss account and on its financial position

<b>Year ended March 31,</b>	<b>2017</b>	<b>2016</b>
Total Employee Compensation Cost pertaining to share-based payment plans	70,584,064	28,489,005
Closing balance of liability for cash-settled options	60,899,876	34,244,868

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 ₹ 2,367,081 (Previous year lower by ₹ 2,913,843) and the profit after tax would have been lower (Previous year higher ₹ 2,331,075) by ₹ 1,893,664.

### 3.27 Events after balance sheet date

As at 31 March 2017, the Company managed funds with an AUM of ₹ 16,731 crores through its Singapore branch. On 01 April 2017, the investment management agreements between funds with AUM of ₹ 16,277 crores and the Company were terminated. The funds appointed Kotak Mahindra Asset Management (Singapore) Pte. Limited ("KMAMS" - a fellow subsidiary of the Company) as the investment manager from that date. The investment management agreements for the other funds with AUM of ₹ 454 crores were novated and assigned by the Company's Singapore branch to KMAMS with effect from 01 April 2017.

### 3.28 Previous years figures have been regrouped, reclassified wherever necessary to conform with figures of the current year.

In terms of our report of even date

**For V . C. Shah & Co.**

Chartered Accountants

Firm Regn. No. 109818W

**A. N. Shah**

Partner

Membership No. 042649

Mumbai

Dated: 25 April, 2017

For and on behalf of the Board of Directors

**Abhishek Bhalotia**

Director

**Gaurang Shah**

Director

Dated: 24 April, 2017

