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**Kotak Mahindra Pension Fund Limited**

ANNUAL REPORT 2013-14

# DIRECTORS' REPORT

To the Members of

**Kotak Mahindra Pension Fund Limited**

The Directors present their Fifth Annual Report together with the audited accounts of your Company for the year ended March 31, 2014.

## FINANCIAL RESULTS

(₹ Lakhs)

	2013-2014	2012-2013
Gross income	126.89	81.81
Profit/(Loss) before Depreciation and Tax	(12.87)	(59.03)
Depreciation	4.45	1.43
Profit/(Loss) before Tax	(17.33)	(60.46)
Provision after Tax	-	-
Balance of Profit/(Loss) from previous years	(231.88)	(171.42)
Loss carried forward to the Balance Sheet	(249.21)	(231.88)

## DIVIDEND

Your Directors do not recommend any dividend on equity shares for this financial year.

## OPERATIONS

Kotak Mahindra Pension Fund was appointed as a Pension Fund Manager (PFM) by the Pension Fund Regulatory and Development Authority (PFRDA), on April 30, 2009 for a period of three years for managing the funds under National Pension System Trust (NPS). The company was then granted Certificate under Registration of Pension Funds for Private sector Guidelines 2012 on January 23, 2013 for a further period of 1 year. The validity of the registration has been extended till June 30, 2014 in the light of the new RFP issued on January 16, 2014, or till further orders / arrangements that may bring the extension to a close, whichever is earlier.

On January 16, 2014, PFRDA has issued revised guidelines for appointment of upto eight (8) Pension Fund Managers (PFM), for a period of 5 years, to manage the Pension Assets of the Private Sector NPS. Kotak Mahindra Asset Management Co. Ltd (KMAMC) our existing sponsor, has made an application on 14th February 2014, to participate in the proposed process of selection of Sponsors of Pension Funds. It should be noted that based on the financial bid opening on 16th April 2014, KMAMC has been shortlisted as a PFM.

As per the terms of the appointment, your Company manages the funds received in the Trustee Bank and as per the pension fund subscription information provided by the Central record keeping agency (National Securities Depository Limited). The assets are under the custody of the NPS Trustee appointed custodian viz., Stock Holding Corporation of India Limited.

Your Company manages seven schemes, and the combined assets under management on March 31, 2014 were ₹ 5,481.21 Lakhs.

The scheme wise assets under management as on March 31, 2014 is given below:

(₹ Lakhs)

Scheme	AUM as on March 31, 2014	AUM as on March 31, 2013
NPS Trust A/c Kotak Pension Fund Scheme E	1,371.20	493.32
NPS Trust A/c Kotak Pension Fund Scheme C	1,045.99	424.87
NPS Trust A/c Kotak Pension Fund Scheme G	1,264.65	505.32
NPS Trust A/c Kotak Pension Fund Scheme E Tier II	145.15	73.74
NPS Trust A/c Kotak Pension Fund Scheme C Tier II	94.57	90.90
NPS Trust A/c Kotak Pension Fund Scheme G Tier II	94.02	52.84
NPS Trust A/c – Kotak Mahindra Pension Fund Limited – NPS Lite Scheme – Govt Pattern	1,465.63	833.93
	<b>5,481.21</b>	<b>2,474.92</b>

The pension fund management business is currently at a nascent stage and considering the low rates of management fees, the revenue generated from the investment management activity for the year ended March 31, 2014 is ₹ 6.86 lacs (Previous year - ₹0.14 lacs)

#### **DIRECTORS**

Your Company has six Directors on the Board, three of whom are Independent.

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

Mr. Jaimin Bhatt retires by rotation at the forthcoming Annual general Meeting and is eligible for reappointment.

Mr. Gaurang Shah retires by rotation at the forthcoming Annual general Meeting and is eligible for reappointment.

#### **AUDIT COMMITTEE**

Pursuant to Section 292A of the Companies Act, 1956, your Company has constituted an Audit Committee of the Board consisting of Mr. Tushar Mavani (Independent Director), Mr. Jaimin Bhatt and Mr. Balan Wasudeo (Independent Director). Mr. Balan Wasudeo, independent Director on the Board, is the Chairman of the Audit Committee. During the year, four meetings of the Committee were convened to review accounts, operations and internal controls.

#### **APPOINTMENT COMMITTEE**

Your company has constituted an Appointment Committee consisting of Mr. Jaimin Bhatt and Mr. Gaurang Shah. The scope of the Committee is to ensure that 'fit & proper' persons are appointed as Directors and Senior Management Personnel of the organization. The Committee notified the Board regarding the declarations and undertakings received from Directors and Senior Management personnel.

#### **RISK COMMITTEE:**

Pursuant to the revised Investment Management Agreement signed with NPS Trust & PFRDA, the Risk Committee was reconstituted on April 18, 2013 to include the Fund Manager. The committee consists of Mr. Tushar Mavani, Mr. Gaurang Shah, Mr. Sandip Shrikhande and Mr Vinod A.N. The Risk Committee met twice during the year to analyze and review the risk associated with managing the Pension Fund business and risk mitigants put in place.

#### **INVESTMENT MANAGEMENT COMMITTEE:**

Pursuant to the revised Investment Management Agreement signed with NPS Trust and PFRDA, your company has reconstituted the Investment Management Committee to include the Fund Manager on April 18, 2013. The Committee consists of, Mr. Balan Wasudeo, Mr. Jaimin Bhatt, Mr. Gaurang Shah, Mr. Shivaji Dam, Mr. Sandesh Kirkire, Mr. Sandeep Shrikhande and Mr. Vinod A.N.. The scope of the Investment Management Committee is to ensure that all investments are carried out as per the provisions of PFRDA Guidelines/directions. The Investment Management Committee met thrice during the year to ensure that all investments are made to earn adequate return to the subscribers consistent with the protection, safety and liquidity of such funds.

#### **AUDITORS**

The Auditors of your Company Suresh Surana & Associates, Chartered Accountants, Mumbai, retire at the conclusion of the forthcoming Annual General Meeting.

#### **STATUTORY INFORMATION**

Your Company did not have any employees falling within the scope of sub-section (2A) of Section 217 of the Companies Act, 1956, nor did it accept any deposits during the year. It had no foreign exchange earnings or outgo. The other particulars prescribed under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are not applicable since your Company is not a manufacturing company.

#### **EMPLOYEES/HUMAN RESOURCES**

Mr. Narasimhan V. R. resigned as the Chief Executive Officer of the Company effective May 1, 2013 and Sandeep Shrikhande has been appointed in his place.

#### **DIRECTORS' RESPONSIBILITY STATEMENT**

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

- i. Your Company has, in the preparation of the annual accounts for the year ended 31st March 2014, followed the applicable accounting standards along with proper explanations relating to material departures, if any;

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- ii. The Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of your Company as at 31st March 2014 and of Profit and Loss of your Company for the financial year ended 31st March 2014;
  - iii. The Directors have taken proper and sufficient care to the best of their knowledge and ability, for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of your Company and for preventing and detecting fraud and other irregularities; and
  - iv. The Directors have prepared the annual accounts on a going concern basis.

#### **ACKNOWLEDGEMENTS**

Your Directors would like to place on record their gratitude for the valuable guidance and support received from the Pension Fund Regulatory and Development Authority, NPS Trust and other Government and Regulatory agencies.

For and on behalf of the Board of Directors

**Gaurang Shah**

Director

Mumbai

April 21, 2014

**Balan Wasudeo**

Director

# Independent Auditors' Report

To,  
The Members of  
**KOTAK MAHINDRA PENSION FUND LIMITED**

## Report on the Financial Statements

We have audited the accompanying financial statements of **Kotak Mahindra Pension Fund Limited** ("the Company"), which comprise the balance sheet as at March 31, 2014 and statement of profit and loss and 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

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position and financial performance of the Company in accordance with the Accounting Principles generally accepted in India including Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956 ("the Act") read with the General Circular 15/2013 dated 13 September 2013 of Ministry of Corporate Affairs in respect of Section 133 of the Companies Act, 2013. This responsibility includes the design, implementation and maintenance of internal controls relevant to the preparation and fair 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 audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. 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 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 control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, 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.

## 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:

- (a) in the case of the balance sheet, of the state of affairs of the Company as at March 31, 2014, and
- (b) in the case of the statement of profit and loss, of the loss for the year ended on that date.
- (c) In the case of the cash flow statement, of the cash flows of the Company for the year ended on that date.

## Report on Other Legal and Regulatory Requirements

1. As required by Companies (Auditor's Report) Order, 2003 ("the Order") issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Act, we give in the annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
2. As required by Section 227(3) of the Act, 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 purpose 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, statement of profit and loss and cash flow statement dealt with by this report are in agreement with the books of account;
  - d. in our opinion, the balance sheet, statement of profit and loss and the cash flow statement comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Act, read with the General Circular 15/2013 dated 13 September 2013 of Ministry of Corporate Affairs in respect of Section 133 of the Companies Act, 2013;
  - e. On the basis of written representations received from the directors of the Company, as on March 31, 2014 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2014 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act.

## FOR SURESH SURANA & ASSOCIATES LLP

Chartered Accountants  
Firm Registration No- 121750W/ W-100010

(Ramesh Gupta)  
PARTNER  
Membership No.: 102306

Mumbai  
Dated: April 21, 2014

## Annexure to Independent Auditors' Report

(Referred to in paragraph 1 under the heading of "Report on Other Legal and Regulatory Requirements" of our report of even date)

1. Having regards to the nature of the Company's business / activities / results / transactions, etc. clause (ii), (viii), (xi), (xii), (xiii), (xv), (xvi), (xviii), (xix), and (xx) of Companies (Auditor's Report) Order, 2003 ("the Order") are not applicable to the company.
2. (a) The Company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets.  
(b) The Company has regular programme of physical verification of its fixed assets on yearly basis. In our opinion, this periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification.  
(c) During the year, the Company has not disposed off substantial part of the fixed assets.
3. The Company has not granted / taken any loans, secured or unsecured to / from the companies, firms and other parties covered in the register maintained under Section 301 of the Act during the year. Accordingly, paragraph 4(iii)(b), 4(iii)(c), 4(iii)(d), 4(iii)(f) and 4(iii)(g) of the Order are not applicable, to the Company.
4. In our opinion and according to the information and explanations given to us, there is adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of fixed assets and for the sale of services. During the course of our audit, we have not observed any major weaknesses in internal control system.
5. In our opinion and according to the information and explanations given to us, there were no contracts, particulars of which needed to be entered in the registered maintained under Section 301 of Act and hence, provision of paragraph 4(v)(b) of the Order is not applicable to the Company.
6. According to the information and explanations given to us, the Company has not accepted any deposits from the public during the year.
7. In our opinion, the Company has an adequate internal audit system commensurate with the size and the nature of its business.
8. (a) The Company is generally regular in depositing with appropriate authorities undisputed statutory dues including provident fund, Income tax, service tax, cess and other material statutory dues applicable to it, with the appropriate authorities during the year. According to the information and explanations given to us, there are no undisputed amounts payable in respect of such statutory dues which have remained outstanding as at 31 March 2014 for a period of more than six months from the date they became payable.  
(b) According to the information and explanations given to us, there are no dues in respect of income tax, service tax, and cess which have not been deposited on account of any dispute other than the following:

Name of the statute	Nature of dues	Amount (₹)	Period to which the amount relates	Forum where dispute is pending
Income Tax Act, 1961	Income Tax	86,880	2010-2011	Dy. Commissioner of Income Tax

9. The Company's accumulated losses at the year end are not more than fifty percent of its net worth. The Company has incurred cash losses during the financial year and also incurred cash losses in the immediately preceding financial year.
10. In our opinion, the Company has maintained proper records of the transaction and contracts in respect of its dealing in investment and timely entries have been made therein. The aforesaid securities have been held by the Company in its own name.
11. According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that the no funds were raised on short-term basis which have used for long-term investments.
12. During the course of our examination of books of account and records of the Company, carried out in accordance with the generally accepted auditing practices in India and according to the information and explanations given to us, we have not come across any instance of fraud on or by the Company, noticed or reported during the year, nor have we been informed of such case by the management.

### FOR SURESH SURANA & ASSOCIATES LLP

Chartered Accountants  
Firm Reg. No. 121750W/ W-100010

### (Ramesh Gupta)

PARTNER  
Membership No. 102306

Place: Mumbai  
Dated: April 21, 2014

## Balance Sheet as at 31st March, 2014

		(Amount in ₹)	
	Notes	As at 31st March, 2014	As at 31st March, 2013
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds:</b>			
(a) Share Capital	3	280,000,000	280,000,000
(b) Reserves and Surplus	4	(24,920,589)	(23,187,565)
<b>2. Non-current liabilities</b>			
(a) Long term Provisions	5	918,542	868,801
<b>3. Current liabilities</b>			
(a) Trade Payables	6	2,542,763	2,625,926
(b) Other current Liabilities	7	336,716	207,405
(c) Short term Provisions	8	792,424	1,026,720
<b>Total</b>		<b>259,669,856</b>	<b>261,541,287</b>
<b>II. ASSETS</b>			
<b>1. Non-current assets</b>			
(a) Tangible Fixed Assets	9	1,220,662	1,597,162
(b) Non Current Investments	10	254,173,544	258,707,116
(c) Long term Loans & Advances	11	98,717	20,774
<b>2. Current assets</b>			
(a) Trade Receivables	12	199,430	12,850
(b) Cash & Bank Balances	13	3,855,437	1,116,172
(c) Short Term Loans & Advances	14	102,674	73,567
(d) Other Current Assets	15	19,392	13,646
<b>Total</b>		<b>259,669,856</b>	<b>261,541,287</b>
Summary of significant accounting policies	2.1		
The accompanying notes are an integral part of the financial statements.	1 & 2		

As per our report of even date attached

**For and on behalf of the Board of Directors**

For Suresh Surana & Associates LLP  
Chartered Accountants

Manager

Director

Director

**Ramesh Gupta**  
Partner

Mumbai, 21st April, 2014

Company Secretary

## Statement of Profit and Loss For The Year Ended 31st March, 2014

(Amount in ₹)

	Notes	Year Ended 31st March, 2014	Year Ended 31st March, 2013
Revenue from Operations	16	685,378	13,889
Other Income	17	12,003,992	8,166,867
<b>Total Revenue</b>		<b>12,689,370</b>	<b>8,180,756</b>
Employee benefits expense	18	5,938,697	5,634,609
Depreciation	9	445,583	143,158
Other Expenses	19	8,038,114	8,448,840
<b>Total Expense</b>		<b>14,422,394</b>	<b>14,226,607</b>
<b>Loss before tax</b>		<b>(1,733,024)</b>	<b>(6,045,851)</b>
<b>Tax Expense</b>			
Current tax		-	-
Deferred tax		-	-
<b>Net Loss for the year</b>		<b>(1,733,024)</b>	<b>(6,045,851)</b>
Earnings per equity share [nominal value of share ₹10	26		
Basic & Diluted		(0.06)	(0.32)
Summary of significant accounting policies	2.1		
The accompanying notes are an integral part of the financial statements.	1 & 2		

As per our report of even date attached

For and on behalf of the Board of Directors

For Suresh Surana & Associates LLP  
Chartered Accountants

Manager

Director

Director

**Ramesh Gupta**  
Partner

Mumbai, 21st April, 2014

Company Secretary



## Cash Flow Statement for the year ended 31st March, 2014

(Amount in ₹)

Particulars	Year Ended 31st March, 2014	Year Ended 31st March, 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss Before Tax	(1,733,024)	(6,045,851)
Adjustments for:		
Depreciation	445,583	143,158
Dividend income	(153,022)	(775,454)
Excess provision no longer required written back	(566,122)	-
Interest on Fixed Deposits	(93,419)	(101,576)
Net (gain)/ loss on sale of Non-current investments	(11,191,429)	(7,289,837)
<b>OPERATING LOSS BEFORE WORKING CAPITAL CHANGES</b>	<b>(13,291,433)</b>	<b>(14,069,560)</b>
<b>Movements in working capital :</b>		
Increase / (decrease) in trade payables	247,737	964,114
Increase / (decrease) in long/short-term provisions	50,668	465,521
Increase / (decrease) in other current liabilities	129,311	112,583
Decrease / (increase) in trade receivables	(186,580)	(12,672)
Decrease / (increase) in short-term loans and advances	(29,107)	(16,913)
Decrease / (increase) in other current assets	(5,152)	(7,432)
<b>CASH USED IN OPERATIONS</b>	<b>(13,084,556)</b>	<b>(12,564,359)</b>
<b>Direct Taxes Paid</b>	<b>(77,943)</b>	<b>(10,157)</b>
<b>NET CASH USED IN OPERATING ACTIVITIES (A)</b>	<b>(13,162,499)</b>	<b>(12,574,516)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(69,083)	(1,740,320)
<u>Current investments</u>		
Purchase	(14,153,021)	(120,865,129)
Proceeds from sale	14,153,021	120,865,129
<u>Non-current investments</u>		
Purchase	(30,000,000)	(209,000,000)
Proceeds from sale	45,725,000	39,300,000
Proceeds from maturity of bank deposits (having original maturity of more than three months)	1,000,000	-
Investments in bank deposits (having original maturity of more than three months)	(1,083,482)	(1,000,000)

(Amount in ₹)

Particulars	Year Ended 31st March, 2014	Year Ended 31st March, 2013
Interest received	92,825	95,362
Dividends received	153,022	775,454
<b>NET CASH (USED IN)/FROM INVESTING ACTIVITIES (B)</b>	<b>15,818,282</b>	<b>(171,569,504)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of Share Capital	-	160,000,000
<b>CASH FLOWS FROM FINANCING ACTIVITIES (C)</b>	<b>-</b>	<b>160,000,000</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS (A + B )</b>	<b>2,655,783</b>	<b>(24,144,020)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b>116,172</b>	<b>24,260,192</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>2,771,955</b>	<b>116,172</b>
<b>Components of cash and cash equivalents</b>		
With banks- on current account	2,771,955	116,172
- on deposit account	-	-
<b>Total cash and cash equivalents (Refer Note -12)</b>	<b>2,771,955</b>	<b>116,172</b>
Summary of significant accounting policies (note 2.1)		

The Cash Flow Statement has been prepared under the 'Indirect Method' as set out in the Accounting Standard - 3 on Cash Flow Statement notified by Central Government of India under Companies (Accounting Standards) Rules, 2006.

The corresponding amounts of previous year have been re-grouped, wherever necessary.

As per our report of even date attached

For and on behalf of the Board of Directors

For Suresh Surana & Associates LLP  
Chartered Accountants

Manager

Director

Director

**Ramesh Gupta**

Partner

Mumbai, 21st April, 2014

Company Secretary

# Notes to the Financial Statements for the year ended 31st March 2014

## 1. CORPORATE INFORMATION

Kotak Mahindra Pension Fund Limited is a Company incorporated on 23rd March, 2009. The main business of the Company is managing the investments of the National Pension System as formed by the Government of India through the Pension Fund Regulatory & Development Authority (PFRDA). The investments are held by the Board of Trustees of the National Pension System Trust, established by the PFRDA under the Indian Trusts Act, 1882.

## 2. BASIS OF PREPARATION

The Financial Statements have been prepared on historical cost basis of accounting. The Company adopts the accrual system of accounting and the financial statements conform with the Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006 read with the General Circular 15/2013 dated 13 September 2013 of Ministry of Corporate Affairs in respect of Section 133 of the Companies Act, 2013, the generally accepted accounting principles prevailing in India and the relevant provisions of the Companies Act, 1956.

### 2.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### A. 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, the reported income and expenses during the reporting period. The Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable. Actual results could differ from these estimates and assumptions.

#### B. REVENUE RECOGNITION

- Investment Management Fee is recognised at specific rates agreed with the relevant schemes, applied on the average monthly net assets managed.
- Dividend income is accounted when the right to receive dividend is established.
- Revenue is recognised only when it is reasonably certain that the ultimate collection will be made.

#### C. 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 accounted at cost and any decline in value, other than temporary, is provided for. Current investments are valued at cost (calculated by applying weighted average cost method) or market value whichever is lower.

Brokerage, stamping and additional charges paid are included in the cost of investments.

In case of investments in units of mutual funds, the net asset value of units is considered as the market value.

#### D. EMPLOYEE BENEFITS

##### Defined contribution scheme

- a. The contributions as required by the statute to Government Provident Fund are charged to the Statement of Profit and Loss when due.

##### Defined Benefit Plan

- b. The Company accounts for the liability for future gratuity benefits based on an independent actuarial valuation. The gratuity obligation is wholly unfunded. The net present value of the Company's obligation towards the same is actuarially determined based on the projected unit credit method as at the Balance Sheet date.
- c. Actuarial gain s/ losses are immediately recognised in the Statement of Profit and Loss.

##### Other Long –term Employee Benefits

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

##### Other Employee Benefits

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

## Notes to the Financial Statements for the year ended 31st March 2014

### E. TAXES ON INCOME

The Income Tax expense comprises Current tax, Deferred tax. Current tax is measured at the amount expected to be paid in respect of taxable income for the year in accordance with the Income Tax Act, 1961. Deferred tax adjustments comprise of changes in the deferred tax assets and liabilities. Deferred tax assets and liabilities are recognised for the future tax consequences of timing differences being the difference between the taxable income and the accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax assets on account of 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. In situations where the Company has unabsorbed depreciation or carried forward losses, deferred tax assets are recognised only if there is virtual certainty supported by convincing evidence that the same can be realised against future taxable profits. Deferred tax assets and liabilities are measured using tax rates and tax laws that have been substantially enacted before the Balance Sheet date. Changes in deferred tax assets / liabilities on account of changes in enacted tax rates are given effect to in the Statement of Profit and Loss in the period of the change. The Company writes-down the carrying amount of a deferred tax asset to the extent that it is no longer reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available against which deferred tax asset can be realised.

### F. LEASE

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

### G. TANGIBLE AND INTANGIBLE ASSETS, DEPRECIATION AND AMORTISATION

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

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

Asset	Useful life in Years
Motor vehicles	4
Office Equipment	5
Computers	3

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

### H. IMPAIRMENT

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

### I. EARNINGS PER SHARE

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

### J. PROVISIONS AND CONTINGENT LIABILITIES

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

## Notes to the Financial Statements for the year ended 31st March 2014

### K. EMPLOYEE STOCK OPTION SCHEME

#### Cash-settled scheme:

The cost of cash-settled scheme (stock appreciation rights) is measured initially using intrinsic value method at the grant date taking into account the terms and conditions upon which the instruments were granted. This intrinsic value is amortised on a straight-line basis over the vesting period with 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 in 'Employee costs'

### L. CASH AND CASH EQUIVALENTS

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

	As at	As at	As at	As at
	31st March, 2014	31st March, 2014	31st March, 2013	31st March, 2013
	Number of Shares	Amount (₹)	Number of Shares	Amount (₹)
<b>3. Share Capital</b>				
<b>Authorised :</b>				
Equity shares of ₹ 10 each.	30,000,000	300,000,000	30,000,000	300,000,000
<b>Issued,Subscribed and Paid Up:</b>				
Equity shares of ₹ 10 each fully paid up.	28,000,000	280,000,000	28,000,000	280,000,000
<b>Total issued, subscribed and fully paid-up share capital</b>	<b>28,000,000</b>	<b>280,000,000</b>	<b>28,000,000</b>	<b>280,000,000</b>
<b>(a) Reconciliation of the equity shares outstanding at the beginning and at the end of the reporting period</b>				
At the beginning of the year	28,000,000	280,000,000	12,000,000	120,000,000
Issued during the year	-	-	16,000,000	160,000,000
<b>Outstanding at the end of the year</b>	<b>28,000,000</b>	<b>280,000,000</b>	<b>28,000,000</b>	<b>280,000,000</b>
<b>(b) Shares held by holding and ultimate holding company</b>				
Kotak Mahindra Asset Management Co. Ltd.,the holding company	26,799,940	267,999,400	26,799,940	267,999,400
Kotak Mahindra Bank Limited,the Ultimate Holding Company	1,200,000	12,000,000	1,200,000	12,000,000
<b>(c) Details of shareholders holding more than 5% shares in the company</b>	<b>Number of Shares</b>	<b>% holding</b>	<b>Number of Shares</b>	<b>% holding</b>
Kotak Mahindra Asset Management Co. Ltd.,the holding company	26,799,940	95.71%	26,799,940	95.71%

#### (d) Terms / Rights attached to Equity Shares

The Company has only one class of equity shares having par value of ₹ 10 per share. Each holder of equity shares is entitled to one vote per share. 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 to the Financial Statements for the year ended 31st March 2014

	As at 31st March, 2014	As at 31st March, 2013
	Amount (₹)	Amount (₹)
<b>4. Reserves and Surplus</b>		
<b>Surplus / (Deficit) in Statement of Profit and Loss</b>		
Balance as at the beginning of the year	(23,187,565)	(17,141,714)
Add: Loss for the year	(1,733,024)	(6,045,851)
	<b>(24,920,589)</b>	<b>(23,187,565)</b>
<b>5. Long Term Provisions</b>		
Provision for employee benefits		
Provision for Gratuity (Refer Note - 21)	584,348	533,839
Provision for Compensated Absences	334,194	334,962
	<b>918,542</b>	<b>868,801</b>
<b>6. Trade payables</b>		
Dues to micro and small enterprises (Refer Note - 28)	-	-
Others	2,542,763	2,625,926
	<b>2,542,763</b>	<b>2,625,926</b>
<b>7. Other Current liabilities</b>		
Statutory dues payable	336,716	143,110
Others	-	64,295
	<b>336,716</b>	<b>207,405</b>
<b>8. Short Term Provisions</b>		
<b>Provision for employee benefits</b>		
Provision for Leave Travel Allowance	38,167	50,000
Provision for Gratuity (Refer Note - 21)	45,787	37,392
Provision for Compensated Absences	43,470	39,328
Provision for Annual Incentive	665,000	900,000
	<b>792,424</b>	<b>1,026,720</b>

### Note 9 : FIXED ASSETS

(Amount in ₹)

Description	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As on 1st April 2013	Additions	Deductions	As on 31st March 2014	As on 1st April 2013	For the year	Deductions	As on 31st March 2014	As on 31st March 2014	
<b>Tangible Assets</b>										
Vehicles	1,669,630	-	-	1,669,630	139,517	417,408	-	556,925	1,112,705	
Computers	-	54,833	-	54,833	-	13,569	-	13,569	41,264	
Office Equipments	70,690	14,250	-	84,940	3,641	14,606	-	18,247	66,693	
<b>Total</b>	<b>1,740,320</b>	<b>69,083</b>	<b>-</b>	<b>1,809,403</b>	<b>143,158</b>	<b>445,583</b>	<b>-</b>	<b>588,741</b>	<b>1,220,662</b>	
Description	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As on 1st April 2012	Additions	Deductions	As on 31st March 2013	As on 1st April 2012	For the year	Deductions	As on 31st March 2013	As on 31st March 2013	
<b>Tangible Assets</b>										
Vehicles	-	1,669,630	-	1,669,630	-	139,517	-	139,517	1,530,113	
Office Equipments	-	70,690	-	70,690	-	3,641	-	3,641	67,049	
<b>Total</b>	<b>-</b>	<b>1,740,320</b>	<b>-</b>	<b>1,740,320</b>	<b>-</b>	<b>143,158</b>	<b>-</b>	<b>143,158</b>	<b>1,597,162</b>	

## Notes to the Financial Statements for the year ended 31st March 2014

	As at 31st March, 2014	As at 31st March, 2013
	Amount (₹)	Amount (₹)
<b>10. Non Current Investments</b>		
<b>Non-trade investments (valued at cost unless stated otherwise)</b>		
Unquoted Mutual Fund		
1,400,012.082 (31 March 2013: 3,521,581.026) Units of ₹10 each fully paid-up of Kotak Floater Long Term - Growth	19,761,170	49,707,116
15,104.3925 (31 March 2013: NIL) Units of ₹1000 each fully paid-up of Kotak Floater Short Term - Direct Pan - Growth	30,000,000	-
111,273.8911 (31 March 2013:113,771.210) Units of ₹1000 each fully paid-up of Kotak Floater Short Term - Growth	204,412,374	209,000,000
	<b>254,173,544</b>	<b>258,707,116</b>
Aggregate amount of unquoted investments (Market value of ₹ 294,257,204.25 (31 March 2013: ₹ 284,238,778.76)	254,173,544	258,707,116
<b>11. Long Term Loans &amp; Advances</b>		
<b>Other Loans and Advances</b>		
Advance Tax (Tax deducted at source)	98,717	20,774
	98,717	20,774
<b>12. Trade Receivables</b>		
<b>Unsecured, considered good unless stated otherwise</b>		
Outstanding for a period exceeding 6 months from the date they are due for payment	-	-
Other Receivables	199,430	12,850
	199,430	12,850
<b>13. Cash and Bank Balances</b>		
<b>Cash and cash equivalents</b>		
Balances with banks:		
– On current accounts	2,771,955	116,172
Other Bank Balances		
– Deposits with residual maturity of less than twelve months	1,083,482	1,000,000
	<b>3,855,437</b>	<b>1,116,172</b>
Kept as margin money with bank against bank guarantee		
<b>14. Short Term Loans &amp; Advances</b>		
<b>Other Loans and Advances</b>		
Prepaid Expenses	102,674	73,567
	<b>102,674</b>	<b>73,567</b>
<b>15. Other current assets</b>		
Interest accrued on fixed deposits	6,808	6,214
Others	12,584	7,432
	<b>19,392</b>	<b>13,646</b>

## Notes to the Financial Statements for the year ended 31st March 2014

	Year Ended 31st March, 2014	Year Ended 31st March, 2013
	Amount (₹)	Amount (₹)
<b>16. Revenue from operations</b>		
Fees from Fund Management	685,378	13,889
	<b>685,378</b>	<b>13,889</b>
<b>17. Other Income</b>		
Dividend from Current Investments	153,022	775,454
Interest Income on Bank Deposits	93,419	101,576
Profit on sale of Non current investments	11,191,429	7,289,837
Excess provision no longer required written back	566,122	-
	<b>12,003,992</b>	<b>8,166,867</b>
<b>18. Employee Benefits Expense</b>		
Salaries and Wages	5,537,485	5,248,745
Contribution to Provident Funds (Refer Note 21)	307,476	242,729
Gratuity (Refer Note 21)	58,904	129,503
Reimbursement of ESOP cost	6,366	12,166
Staff Welfare Expenses	28,466	1,466
	<b>5,938,697</b>	<b>5,634,609</b>
<b>19. Other Expenses</b>		
Rent	1,458,000	132,000
Rates and taxes	243,000	57,654
Travel Expenses	370,503	156,173
Directors' sitting fees	285,000	285,000
Payment to Auditors		
As auditor:		
Audit Fee (Inclusive of Service Tax)	168,540	168,540
Out of Pocket Expenses	-	1,685
Legal and Professional Fees	525,831	417,053
Membership & Subscription	1,666,037	3,514,709
IT Expenses	561,800	561,800
Filing Fees	-	1,230,126
Reimbursement of common administrative costs	1,651,412	1,162,170
Pension Fund Expenses	310,495	196,952
Business Promotion Expenses	492,631	459,627
Miscellaneous Expenses	304,865	105,351
	<b>8,038,114</b>	<b>8,448,840</b>



## Notes to the Financial Statements for the year ended 31st March 2014

### 20. Contingent Liabilities not provided for

Particulars	As at 31st March, 2014	As at 31st March, 2013
	Amount (₹)	Amount (₹)
Disputed income tax demand	86,880	-
	<b>86,880</b>	-

### 21. Employee Benefit Scheme

#### a.) Defined Contribution Plan

The Company has contributed ₹ 307,476 (31st March 2013: ₹ 242,729) towards provident fund which is defined contribution scheme.

#### b.) Defined Benefit Plan

The Company accounts for the liability for future gratuity benefits based on an independent actuarial valuation. The gratuity obligation is wholly unfunded. The net present value of the Company's obligation towards the same is actuarially determined based on the projected unit credit method as at the Balance Sheet date.

Actuarial gains / losses are immediately recognised in the statement of profit and loss and are not deferred.

The following tables summarize the components of net benefit expense recognized in the statement of profit and loss:

#### Net employee benefit expense recognized in the employee cost

Particulars	Year Ended 31st March, 2014	Year Ended 31st March, 2013
	Amount (₹)	Amount (₹)
Current service cost	85,782	58,236
Interest cost on benefit obligation	52,597	39,415
Expected return on plan assets	-	-
Net actuarial( gain) / loss recognized in the year	(79,475)	31,852
Past Service Cost	-	-
<b>Net benefit expense</b>	<b>58,904</b>	<b>129,503</b>
Actual return on plan assets	NA	NA

#### Changes in the present value of the defined benefit obligation are as follows:

Particulars	As at 31st March, 2014	As at 31st March, 2013
	Amount (₹)	Amount (₹)
Opening defined benefit obligation	571,231	410,121
Current service cost	85,782	58,236
Interest cost	52,597	39,415
<b>Benefits paid</b>	-	-
Actuarial (gains) / losses on obligation	(79,475)	31,852
Past Service Cost	-	-
Liabilities Assumed on Acquisition	-	31,607
<b>Closing defined benefit obligation</b>	<b>630,135</b>	<b>571,231</b>

## Notes to the Financial Statements for the year ended 31st March 2014

Experience adjustments amounts for the current and previous periods are as follows:

Particulars	Amount (₹)				
	As at 31st March, 2014	As at 31st March, 2013	As at 31st March, 2012	As at 31st March, 2011	As at 31st March, 2010
Defined benefit obligation	630,135	571,231	410,121	343,132	69,306
Plan assets	-	-	-	-	-
Deficit	(630,135)	(571,231)	(410,121)	(343,132)	(69,306)
Experience adjustments on plan liabilities	(8,546)	(30,875)	5,779	(105,186)	-

The principal assumptions used in determining gratuity and post-employment medical benefit obligations for the Company's plans are shown below:

Particulars	As at 31st March, 2014	As at 31st March, 2013
Discount rate	9.34%	8.24%
Expected rate of return on assets	0.00%	0.00%
Salary Escalation Rate	8.50%	8.50%

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

The above information is as certified by the Actuary and has been relied upon by the Auditors.

### 22. EMPLOYEE STOCK OPTION SCHEME (ESOS)

At the General Meetings of the holding company, Kotak Mahindra Bank Limited, ("the Bank"), the shareholders of the Bank had unanimously passed Special Resolutions on 5th July, 2007 and 21st August, 2007 to grant options to the Eligible Employees of the Bank and its subsidiary companies. Pursuant to these resolutions, Kotak Mahindra Equity Option Scheme 2007 had been formulated and adopted:

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 ₹ 6,833 (Previous year ₹12,166) during the year on account of such costs and the same is forming part of Employee costs and included under the head "Reimbursement of ESOP cost" under the note no-18 i.e. "Employee benefits expense".

### 23. Cash Settled Employee Stock Option Scheme - Stock appreciation rights (SARs):

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

Detail of activity under SARs is summarized below:

Particulars	2014	2013
Outstanding at the beginning of the year	-	-
Granted during the year	-	186.00
Exercised during the year	-	186.00
Expired during the year	-	-
Forfeited during the year	-	-
Outstanding at the end of the year	-	-

The number of SARs have been adjusted for split of the underlying equity shares from ₹10 paid up to ₹5 paid up per share.

## Notes to the Financial Statements for the year ended 31st March 2014

Effect of grant of SARs to employees on the statement of profit and loss and on its financial position

Year ended 31st March,	2014	2013
Total Employee Compensation Cost pertaining to share-based payment plans	-	110,490
Closing balance of liability for cash-settled options	Nil	Nil

Had the company recorded the compensation cost computed on the basis of fair valuation method instead of intrinsic value method, employee compensation cost would have been higher by ₹ 2,774 (Previous year ₹ 4,618) and the loss before tax would have been higher by same amount. Consequently the basic and diluted EPS would have been lower by ₹ Nil (Previous year ₹ NIL).

### 24. Segmental Reporting

The Company's operations predominantly relate to providing investment management services to the Pension Fund Schemes of the National Pension System Trust and hence, there are no separate reportable business / geographic segments.

### 25. Related party disclosures

#### Names of related parties and related party relationship

##### Related parties

Holding company	Kotak Mahindra Asset Management Company Limited
Ultimate holding company	Kotak Mahindra Bank Limited
Fellow subsidiary	Kotak Mahindra Old Mutual Life Insurance Limited
Key management personnel	Narasimhan V.R.(Till 30th April 2013) Sandip Shrikhande (From 1st May 2013) Vinod A.N

##### Notes:

- The related party relationships have been determined on the basis of the requirements of the Accounting Standard (AS) - 18 'Related Party Disclosures' and the same have been relied upon by the auditors.
- The relationships as mentioned above pertain to those related parties with whom transactions have taken place during the year, except where control exist, in which case the relationships have been mentioned irrespective of transactions with the relatives.

#### Related party transactions

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year:

Nature of Transactions	Key management personnel	Ultimate Holding Company	Holding Company	Amount (₹)	
				Fellow Subsidiary Company	
<b>Balances Outstanding</b>					
Bank Balance	- (-)	2,484,165 (60,294)	- (-)	- (-)	- (-)
Fixed Deposit	- (-)	1,083,482 (1,000,000)	- (-)	- (-)	- (-)
Interest accrued on FD	- (-)	6,808 (6,214)	- (-)	- (-)	- (-)
Trade payable	- (-)	21,229 (84,484)	- (-)	- (-)	- (-)
Other receivable	2,470 (7,432)	- (-)	- (-)	- (-)	- (-)

## Notes to the Financial Statements for the year ended 31st March 2014

Amount (₹)

Nature of Transactions	Key management personnel	Ultimate Holding Company	Holding Company	Fellow Subsidiary Company
<b>Transactions during the year</b>				
Bank Charges	- (-)	9,867 (7,396)	- (-)	- (-)
Interest on Fixed Deposit	- (-)	93,419 (101,576)	- (-)	- (-)
Fixed Deposit Placed	- (-)	1,083,482 (1,000,000)	- (-)	- (-)
Fixed Deposit Matured	- (-)	1,000,000 (-)	- (-)	- (-)
Issue of shares	- (-)	- (-)	- (160,000,000)	- (-)
<b>Remuneration to key managerial personnel</b>				
Vinod A.N , Manager	2,484,648 (2,930,646)	- (-)	- (-)	- (-)
<b>Reimbursement of Expenses</b>				
Rent	- (-)	1,458,000 (132,000)	- (-)	- (-)
Reimbursement of common administrative costs	- (-)	106,462 (1,162,170)	- (-)	1,544,950 (-)
Reimbursement of opex cost	- (-)	144,683 (-)	- (-)	- (-)
Reimbursement of ESOP cost	- (-)	6,366 (12,166)	- (-)	- (-)

Figures in brackets relate to the previous year.

Note: The remuneration to the key managerial personnel does not include the provisions made for gratuity and leave benefits, as they are determined on an actuarial basis for the company as a whole.

### 26. Earnings per share (EPS)

	31st March 2014	31st March 2013
The following reflects the profit and share data used in the basic and diluted EPS computations:		
Net loss for the year	(1,733,024)	(6,045,851)
Weighted average number of equity shares	28,000,000	19,189,041
<b>Basic &amp; Diluted</b>	<b>(0.06)</b>	<b>(0.32)</b>

## Notes to the Financial Statements for the year ended 31st March 2014

### 27. Deferred Income Taxes

In accordance with the Accounting Standard (AS) -22 "Accounting for taxes on Income", the deferred tax assets (net) on account of timing difference up to 31 March 2014 of ₹ 14,717,421 (previous year ₹10,676,482) have been determined. However, as there is no virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which deferred tax assets can be realised, deferred tax assets (net) have not been recognised. Major components of deferred tax assets arising as at the year end are as under:

Particulars	31st March 2014	31st March 2013
	Amount (₹)	Amount (₹)
Depreciation	56,479	3,904
Unabsorbed business losses	14,224,090	10,267,299
Unabsorbed depreciation	125,442	40,332
Provision for gratuity	194,712	176,510
Provision for Compensated Absences	116,698	115,656
Preliminary expenses	-	72,781
<b>Total Deferred tax asset</b>	<b>14,717,421</b>	<b>10,676,482</b>

28. Based on information available with the Company, there are no amounts payable to Micro and Small Enterprises under the Micro, Small and Medium Enterprises Development Act, 2006, (MSMEDA) as on the balance sheet date. This information has been relied upon by the statutory auditors.
29. The Company has taken office and residential premises under operating lease or leave and license agreements. These are generally cancelable in nature. These leave and license agreements are generally renewable or cancelable at the option of the Company. The lease payments recognised in the statement of profit and loss is ₹ 1,458,000 (Previous Year ₹ 132,000).
30. Previous Year's figures have been regrouped / reclassified wherever necessary, to correspond with the current year's classification/disclosures.

#### Signature to Note 1 to 30

As per our report of even date attached

**For and on behalf of the Board of Directors**

For Suresh Surana & Associates LLP

Chartered Accountants

Manager

Director

Director

**Ramesh Gupta**

Partner

Mumbai, 21st April, 2014

Company Secretary

