

Knowledge First



Annual Report 2007-08

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It's tough to imagine a world without knowledge. Right from the invention of the telephone to the introduction of the laptop, Knowledge has changed our lives for the better. Be it discoveries or inventions, science or technology, right from the stone age to the modern age, it is knowledge that has shaped the world we live in and made life a little richer and a lot easier for us all.

The field of wealth creation is no exception. For it is knowledge that often makes the difference between a good decision and a great one. At Motilal Oswal, we make it a point to put knowledge above everything else. That's why over the years, Solid Advice has become synonymous with Motilal Oswal. And at the end of the day our success boils down to one simple philosophy, Knowledge First.



Albert Einstein (1879 - 1955)
Theoretical physicist

message from the chairman

Dear Shareholders,

I take great pleasure in sharing with you the highlights of another year of great achievements. We were able to set new records in terms of topline, net profits and dividend payout.

During the year ended 31st March 2008, your company made an Initial Public Offer (IPO) of 29,82,710 equity shares of Rs.5 each in the price band of Rs.725-825 per share. The issue received an overwhelming response and was subscribed 27.18 times in turbulent market conditions.

The results for year ended March 2008 have been quite gratifying. On a consolidated basis, your company has posted 91% growth in revenues to Rs.7,009 million and 100% growth in net profit to Rs.1,706 million (including extraordinary income of Rs.145 million), a growth of 149%.

The Board of Directors has recommended a maiden dividend of 80% (Rs.4 per equity share).

The various strategic initiatives taken by your company in adding businesses such as investment banking, private equity, asset management and wealth management have yielded good results. In addition to de-risking the business portfolio, it has helped us establish ourselves as a full-fledged financial services company.

Investment banking turned out sterling performance - revenues grew from Rs.273 million in FY07 to Rs.637 million in FY08. The private equity business has had a good beginning. It has successfully launched a US\$125 million fund; US\$31 million have been disbursed and another US\$30 million have been committed. Fund-based income grew over 200% during FY08. Broking business grew 76% over FY07 and contributed 80% of FY08 revenues, down from 87% in FY07. As our business mix changes in favor of non-broking business over the next 1-2 years, overall margins would be favorably impacted. Besides, the investment phase of the wealth management business has been concluded. We expect significant productivity gains, which should again favorably impact EBITDA margins.

True to our positioning as a knowledge-based company, Asia Money Polls 2007 awarded us the 'Best Overall Country Research - Local Brokerage'. Our effort on building a robust franchisee network was recognized by Franchising World Magazine, which awarded us the Best Franchisor award in the Financial Services category - India for 2007. Dun & Bradstreet rated your company's subsidiary, MOSL, as India's top Broking House in terms of total number of trading terminals.

As we begin the new financial year, the market conditions have changed considerably. Market volumes, which had reached record levels in FY 2008, have corrected sharply in April-May. The current market volumes are ~Rs.57,000 crores as against ~Rs.73,000 crores during FY 2008, a drop of almost 22%. Gaining market share profitably is the only panacea for driving business growth in these challenging times. We plan to achieve this through higher employee productivity enabled by a comprehensive client focused approach and strong monitoring of costs through optimization of resources.

I would like to express my gratitude to our Board of Directors for their continued support and guidance. I am also grateful to all our stakeholders - our customers, business associates, bankers, employees, vendors and shareholders, who have reposed their trust in us and given us constant support.

With best wishes,

Sincerely,



Motilal Oswal

Chairman and Managing Director

board of directors, bankers and auditors

Board of Directors

Mr. Motilal Oswal

*Chairman and Managing Director,
Chief Executive Officer and Chief Financial Officer*

Mr. Raamdeo Agrawal

Director

Mr. Navin Agarwal

Director

Mr. Ramesh Agrawal

Independent Director

Mr. Balkumar Agrawal

Independent Director

Mr. Madhav Bhatkuly

Independent Director

Company Secretary & Compliance Officer

Tarun Khurana

Bankers

Citibank N.A.

Citigroup Centre,
6th Floor,
Bandra Kurla Complex,
Bandra (East)
Mumbai - 400 051.

HDFC Bank

Trade World, "A" Wing, 2nd Floor,
Kamala Mills Compound,
Senapati Bapat Marg,
Lower Parel,
Mumbai - 400013.

Standard Chartered Bank

90, M. G. Road,
Fort, Mumbai - 400 001.

Auditors

M/s Haribhakti & Co., Chartered Accountants

42, Free Press House, 4th Floor,
215, Nariman Point,
Mumbai - 400 021.

Registered Office

Palm Spring Centre, 2nd Floor,
Palm Court Complex, New Link Road,
Malad (West), Mumbai-400064.

Corporate Office

Hoechst House, 3rd Floor,
Nariman Point, Mumbai - 400 021.

directors' report

To the Members

Your Directors have pleasure in presenting their 3rd Report together with the audited Accounts of your Company for the year ended 31st March, 2008.

Financial Highlights

Summary of Financial results for the year is as under: -

Motilal Oswal Financial Services Limited (Standalone)

	Year ended 31st March, 2008	Rs.in million Year ended 31st March, 2007
Income	355.76	109.78
Profit before Interest, Exceptional Items, Prior period expenses and Taxation	290.30	87.58
Interest	(44.62)	(2.00)
Exceptional Items	-	(42.64)
Prior period expenses	-	(5.37)
Profit before Taxation	245.68	37.57
Provision for Taxation		
Current Tax	(71.69)	(27.66)
Deferred Tax Asset / (Liability)	(0.42)	(0.33)
Fringe Benefit Tax	(0.67)	(0.07)
Profit for the year	172.90	9.51
Balance brought forward from previous year	5.73	(1.88)
Profit Available for appropriation	178.63	7.63
Less: Appropriations		
Transfer to Statutory Reserve & Capital Redemption Reserve	34.58	1.90
Proposed dividend	113.62	-
Transfer to General Reserve	13.83	-
Balance of Profit carried forward	16.60	5.73

Summary of Consolidated Financial results of the Company and its subsidiaries for the year is as under: -

	31st March, 2008	Rs.in million 31st March, 2007
Income	7,009.04	3,675.75
Profit before Interest, Depreciation and Taxation	2,695.88	1,367.45
Interest	(149.03)	(39.38)
Depreciation	(148.47)	(109.98)
Profit before Taxation and Exceptional Items	2,398.39	1,218.09
Exceptional Items	-	(42.64)
Prior year expenses	-	(11.36)
Profit before Taxation	2,398.39	1,164.09
Provision for Taxation		
Current Tax	(772.11)	(398.94)
Deferred Tax Asset / (Liability)	1.49	(1.96)
Fringe Benefit Tax	(12.43)	(8.72)
Wealth Tax	(0.19)	(0.19)
Tax for the prior year	(4.77)	(0.64)
Profit after Taxation before Extraordinary Items for the year	1,610.38	753.64

directors' report

	31st March, 2008	Rs.in million 31st March, 2007
Extraordinary Items (net of tax)	145.36	(41.97)
Profit after tax before Minority Interest	1,755.74	711.67
Minority Interest in profits	(49.53)	(27.20)
Profit after tax and Minority Interest	1,706.21	684.47
Profit brought forward from previous year	784.71	126.39
Profit available for the Appropriations	2,490.92	810.86
Less:- Appropriations:		
Transfer to Statutory Reserve & Capital Redemption Reserve	124.58	1.90
Pre acquisition (profits)/Loss	(0.20)	24.25
Proposed Dividend	265.12	-
Distribution tax on proposed Dividend	25.75	-
Transfer to General Reserve	30.59	-
Balance of Profit carried to Balance Sheet	2,045.08	784.71

Dividend

Keeping in view the overall performance during the year, your Directors are pleased to recommend a maiden dividend of Rs.4 per Equity Share on the face value of Rs.5 each being 80% dividend, payable to those members whose names appear in the Register of Members as on the Book Closure Date. The Dividend will absorb a sum of Rs.113.62 million.

Results Of Operations

The Revenue for the year increased by 224% from Rs.109.78 million to Rs.355.76 million. The Profit before interest, exceptional items, prior period expenses and taxation registered a growth of 231% and were up from Rs.87.58 million to Rs.290.30 million. The Company's net profit for the year was Rs.172.90 million up from Rs.9.51 million in the previous year.

The detailed results of operations of the Company are given in the Management Discussion & Analysis forming part of this Report.

Subsidiary Companies

The subsidiary companies of your Company are moving on from strength to strength and contributing to the overall growth of your Company. These subsidiaries have created a niche for themselves with their excellent performance and are continuing to add to the shareholders' value.

The Consolidated Group Profit for the year after exceptional items, prior period adjustments and tax and after deducting minority interests is Rs.1,706.21 million as against Rs.684.47 million earned last year - a growth of 149%.

During the year under review, Motilal Oswal Securities Limited (MOSL), the 'Material Non-listed Subsidiary' of the Company earned the revenues of Rs.6,006.14 million and PAT of Rs.1,381.73 million. During the year under review, the market share of MOSL was 4.69% as against 4.12% in the previous financial year.

During the year under review, Motilal Oswal Capital Markets Private Limited became the subsidiary of MOSL and, in turn of the Company.

The Statement pursuant to section 212 of the Companies Act, 1956, containing details of the Company's Subsidiaries is attached.

The Consolidated Financial Statements of your Company and its subsidiaries prepared in accordance with 'Accounting Standard - 21' prescribed by The Institute of Chartered Accountants of India, form part of the Annual Report and the Accounts.

In terms of approval granted by the Central Government under section 212(8) of the Companies Act, 1956, copy of the Balance Sheet, Profit and Loss Account, Reports of the Board of Directors and Auditors of the subsidiaries have not been attached with the Balance Sheet of the Company. The Company Secretary & Compliance Officer will make these documents available upon receipt of request from any Member of the Company interested in obtaining the same. However, as directed by the Central Government, the financial data of the subsidiaries have been separately furnished forming part of the Annual Report. These documents will also be available for inspection at the Registered Office of the Company and the concerned subsidiary companies, during 2 p.m. to 5 p.m. on all working days upto the date of the Annual General Meeting.

directors' report

Initial Public Offer (IPO)

To augment the capital base for future growth plans, your Company made an Initial Public Offer (IPO) of 29,82,710 Equity Shares of Rs.5 each ("the Shares") in the price band of Rs.725 - Rs.825 per share. The issue constituted 10.50% of the paid-up share capital of the Company.

Your Directors would like to state, with great pleasure, that the issue received an overwhelming response and was subscribed 27.18 times, in turbulent market conditions. The issue price was fixed at Rs.825 per Equity Share, being the upper end of the price band.

The Shares were allotted on 5th September, 2007 and got listed on Bombay Stock Exchange Limited and National Stock Exchange of India Limited on 11th September, 2007.

Capital

Consequent upon the Initial Public Offer, the paid-up share capital of the Company stands at Rs.142.02 million divided into 2,84,04,000 equity shares of Rs.5 each.

Sub-division of Equity Shares

The Directors, subject to the approval of the members, have proposed the sub-division of existing 1 (One) Equity Share of face value of Rs.5 (Rupees Five) each, into 5 (Five) Equity Shares of the face value of Re. 1 (Rupee One) each.

Credit Rating

During the year under review, CRISIL Limited assigned the highest rating of 'P1+' to the Short-term Debt Programme of Rs.2 billion. The rating indicates the highest degree of safety with regard to timely payment of interest and principal on the instrument.

CRISIL Limited also assigned the rating of 'P1+' to the Short-term Debt Programme of Rs.3 billion of Motilal Oswal Securities Limited, a subsidiary of the Company.

Finance

During the year under review, to meet the working capital requirements, the Company has issued Commercial Papers and Non-convertible Debentures.

Employees' Stock Option Schemes (ESOS)

Details required to be provided under the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 are set out in Annexure to this Report.

Directors

Mr. Raamdeo Agrawal and Mr. Navin Agarwal retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment.

During the year under review, Mr. T. S. Anantharaman and Mr. Mark Rubin resigned as Directors of the Company. Consequent upon the resignation of Mr. Rubin, Mr. Ankit Kesarwani, an alternate Director to Mr. Rubin also ceased to be the Director of the Company.

The Board places on record its sincere appreciation of the services rendered by Mr. Anantharaman, Mr. Rubin and Mr. Kesarwani during their tenure as Directors of the Company.

Directors' Responsibility Statement

Pursuant to section 217(2AA) of the Companies Act, 1956, your Directors confirm that:

- (i) in the preparation of the annual accounts, the applicable accounting standards have been followed;
- (ii) they have, in the selection of the accounting policies, consulted the Statutory Auditors and these have been applied consistently and reasonable and prudent judgments and estimates have been made so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2008 and of the Profit of the Company for the year ended on that date;
- (iii) proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- (iv) the annual accounts have been prepared on a going concern basis.

Audit Committee

The Audit Committee presently comprises of Mr. Balkumar Agarwal (Chairman of the Committee), Mr. Ramesh Agarwal and Mr. Raamdeo Agrawal.

directors' report

Remuneration/Compensation Committee

The Remuneration/Compensation Committee of the Board of Directors presently comprises of Mr. Ramesh Agarwal (Chairman of the Committee), Mr. Balkumar Agarwal and Mr. Motilal Oswal.

Shareholders/Investors' Grievance Committee

The Shareholders/Investors Grievance Committee of the Board of Directors presently comprises of Mr. Balkumar Agarwal (Chairman of the Committee), Mr. Motilal Oswal and Mr. Raamdeo Agrawal.

Nomination Committee

The Nomination Committee of the Board of Directors presently comprises of Mr. Motilal Oswal and Mr. Raamdeo Agrawal.

Risk Management Committee

The Risk Management Committee of the Board of Directors presently comprises of Mr. Motilal Oswal and Mr. Navin Agarwal.

Corporate Governance

A report on the Corporate Governance along with a certificate from the Auditors of the Company regarding the compliance of conditions of Corporate Governance as also the Management Discussion and Analysis Report as stipulated under Clause 49 of the Listing Agreement are annexed to this Report.

Auditors

Messrs. Haribhakti & Co., Chartered Accountants, retire as Auditors of the Company at the forthcoming Annual General Meeting and have given their consent for re-appointment. The members will be required to appoint Auditors for the current year and fix their remuneration.

As required under the provisions of section 224 of the Companies Act, 1956, the Company has obtained a written certificate from the above Auditors proposed to be re-appointed to the effect that their re-appointment, if made, would be in conformity with the limits specified in the said section.

Fixed Deposits And Loans/Advances

The Company has not accepted any deposits from the public or employees during the year under review.

The particulars of loans/advances and investment in its own shares by listed companies, their subsidiaries, associates, etc., required to be disclosed in the annual accounts of the company pursuant to Clause 32 of the Listing Agreement with the Company, are furnished separately.

Conservation of Energy and Technology Absorption and Foreign Exchange Earnings and Outgo

In view of the nature of activities which are being carried on by the Company, Rules 2A and 2B of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 concerning conservation of energy and technology absorption respectively are not applicable to the Company.

There was no inflow of foreign exchange during the year under review. Details of the foreign exchange outflow are given in the notes to Accounts.

Particulars of employees as required under section 217(2A) of the Companies Act, 1956 and Rules framed thereunder

As required under section 217(2A) of the Companies Act, 1956 and Rules thereunder, a statement containing particulars of the Company's employees who were in receipt of remuneration of not less than Rs.24,00,000 during the year ended 31st March, 2008 or of not less than Rs.2,00,000 per month during any part thereof is given in the Annexure to this report.

Acknowledgments

Your Directors take this opportunity to thank the Authorities, Bankers of the Company, Shareholders and the Customers for their continued support to the Company. The Directors also place on record their sincere appreciation of the contributions made by every member of the MOFSL family for their dedicated efforts that made these results achievable.

For and on behalf of the Board

Motilal Oswal
Chairman & Managing Director

Mumbai, 26th May, 2008.

statement pursuant to section 212

Statement pursuant to Section 212 of the Companies Act, 1956, relating to subsidiary companies

Particulars	Names of Subsidiary Companies					Total
	Motilal Oswal Securities Ltd.	Motilal Oswal Commodities Broker Pvt Ltd	Motilal Oswal Venture Capital Advisors Pvt Ltd	Motilal Oswal Investment Advisors Pvt Ltd	Motilal Oswal Capital Markets Pvt Ltd	
The Financial year of the Subsidiary ended on	31st March, 2008	31st March, 2008	31st March, 2008	31st March, 2008	31st January, 2008	
Number of Shares in the Subsidiary Company held by Motilal Oswal Financial Services Limited at the above date						
Equity (Nos.)	1,318,218	400,000	50,000	750,000	350,000	
Extent of holding (%)	99.95%	97.55%	85.00%	75%	99.95%	
The net aggregate of profits/(losses) of the Subsidiary Company for its financial period so far as they concern the member Of Motilal Oswal Financial Services Limited						
(a) Dealt with in the accounts of Motilal Oswal Financial Services Limited for the year ended 31st March, 2008	NIL	NIL	NIL	NIL	NIL	NIL
(b) Not dealt with in the accounts of Motilal Oswal Financial Services Limited for the year ended 31st March, 2008 (Rupees)	1,381,088,578	(3,732,311)	19,543,834	136,593,231	(175,321)	1,533,318,011
The net aggregate of profits/(losses) of the Subsidiary Company for its previous financial periods so far as they concern the member of Motilal Oswal Financial Services Limited						
(a) Dealt with in the accounts of Motilal Oswal Financial Services Limited for the year ended 31st March, 2008	NIL	NIL	NIL	NIL	NIL	NIL
(b) Not dealt with in the accounts of Motilal Oswal Financial Services Limited for the year ended 31st March, 2008 (Rupees)	1,651,988,286	5,046,458	(2,450,743)	80,387,849	NIL	1,734,971,851

For and on behalf of board of
Motilal Oswal Financial Services Limited

Motilal Oswal
Chairman & Managing Director

Raamdeo Agrawal
Director

Tarun Khurana
Company Secretary and Compliance Officer

Place : Mumbai
Dated: 21st April 2008

annexure to the directors' report

Particulars of loans/advances and investment in its own shares by listed companies, their subsidiaries, associates etc. required to be disclosed in the Annual Accounts of the Company pursuant to Clause 32 of the Listing Agreement

Loans and advances in nature of loans to subsidiaries and the companies in which the Directors are interested:-

Rs.in million

Name of the Company	Balance as on 31st March, 2008	Maximum outstanding during the year
Motilal Oswal Commodities Broker Pvt. Ltd.	0.48	65.00
Motilal Oswal Investment Advisors Pvt. Ltd.	0.02	17.90
Motilal Oswal Venture Capital Advisors Pvt. Ltd.	0.04	35.50
Motilal Oswal Securities Ltd	2.56	558.17

Except as indicated above, the Company has not made any loans and advances in the nature of loans to associates or loans and advances in the nature of loans where there is no repayment schedule or repayment beyond seven years or no interest or interest below section 372A of the Companies Act, 1956.

Investment by the loanee in the shares of the Company and the subsidiary companies, when the Company has made loans or advances in the nature of loan:- Nil

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