



THE SPIRIT OF  
**ENDURANCE**

MOTILAL OSWAL  
Financial Services

ANNUAL REPORT 2008-09

## MESSAGE FROM THE CHAIRMAN

Dear Shareholders,

I write to you at the close of this very challenging and tough year which has been a true test for investor confidence and the strength of the business models of capital market participants.

In such turbulent times, we continued to lead our clients to find a right path in this journey; by providing them best in-class research, advisory and execution services. We continue to expand our client base across business segments and remain fully committed to the trust we have developed over the years with them by working towards a better financial future for each of our clients.

A focused approach, strong balance sheet, consistent margins, a successful time-tested business model and well diversified income streams helped your company deliver sound results in challenging times. Our constant focus to rationalize costs and maintain our margins and thus returns for the businesses delivered results. Our plans for existing as well as new business lines are well in place to capture the long term growth potential, while striking the right balance between current profitability and investing for future; in the current environment.

On a consolidated basis, your company posted consolidated revenue of Rs. 4,661 million (down 33% as compared to FY08) and a consolidated adjusted PAT of Rs. 926 million (down 41% as compared to FY08). Our endeavor to diversify our revenue streams resulted in 30% of our revenue coming from non-broking businesses vis-à-vis 20% in previous year. Investment Banking advisory fees was Rs. 452 million and contributed to 10% of total revenues for the group. Income from Fund based activities was Rs. 639 million and contributed to 14% of total revenues. Asset Management fees were Rs. 214 million and contributed to 5% of total revenues. Despite the fluctuations in market volumes and revenues, our margins continue to be stable with EBIDTA and PAT margins at 39% (FY 2008: 39%) and 20% (FY 2008: 22%) respectively.

During the last financial year, your company received several accolades including:

- 'The Best Franchisor in Financial Services' in the retail and franchising industry by The Franchising World Magazine for the second year in succession
- 'Limca Book of Records' for creating India's largest dealing room in Mumbai
- In the latest Starmine India Broker Rankings 2009 from Thomson Reuters, we won awards in 3 out of 4 categories
- The prestigious Nasscom - CNBC TV 18 IT User Award - 2008 for the Financial Services category

In terms of outlook, FY 2010 has started on a positive note for the equity markets with the Sensex almost doubling from recent lows to around 15,000 levels and the daily equity volumes averaging at Rs. 890 billion in the first few months of FY 2010 versus Rs. 554 billion in Q4 FY09 and Rs. 612 billion in FY09. Sustained improvement in the economy and capital markets augur well for all our key businesses. We are confident of capturing the resulting opportunities through our all season business model and a strong unleveraged Balance Sheet.

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.

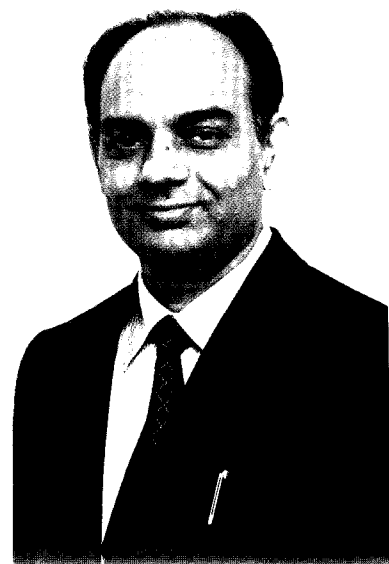
With best wishes,

Sincerely,



**Motilal Oswal**  
Chairman and Managing Director

Mumbai, 29th June, 2009





## THE SPIRIT OF **ENDURANCE**

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When it comes to weathering tough times it is the *spirit of endurance* that separates the winners from the rest. In the year gone by it is this *spirit* that has symbolised Motilal Oswal's approach to business.

A *spirit* fuelled by faith in the India story and the opportunity presented by the next Trillion Dollar Opportunity of India's GDP growth. A *spirit* powered by our unflinching faith in the power of knowledge.

And a *spirit* based on the belief that tough times don't last; tough people do...

## BOARD OF DIRECTORS, BANKERS &amp; 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 Agarwal**

Independent Director

**Mr. Balkumar Agarwal**

Independent Director

**Mr. Madhav Bhatkuly**

Independent Director

**Company Secretary & Compliance Officer**

Tarun Khurana

**Bankers**

Citibank N.A.

HDFC Bank

Standard Chartered Bank

**Auditors**

M/s Haribhakti &amp; Co., Chartered Accountants

**Registered Office**Palm Spring Centre, 2nd Floor,  
Palm Court Complex, New Link Road,  
Malad (West), Mumbai - 400 064.**Corporate Office**Hoechst House, 3rd Floor,  
Nariman Point, Mumbai - 400 021.**CONTENT**

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## DIRECTORS' REPORT

### To the Members

Your Directors have pleasure in presenting their 4th Report together with the audited Accounts of your Company for the year ended 31st March, 2009.

### Financial Highlights

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

#### Motilal Oswal Financial Services Limited (Standalone)

	31st March, 2009	Rs. in million 31st March, 2008
Income	<b>722.36</b>	355.76
Profit before Interest and Taxation	<b>683.33</b>	290.30
Interest	<b>(73.18)</b>	(44.62)
Profit before Taxation	<b>610.15</b>	245.68
Less: Provision for Taxation		
Current Tax	<b>156.76</b>	71.69
Deferred Tax Asset	<b>0.05</b>	0.42
Fringe Benefit Tax	<b>0.22</b>	0.67
Profit for the year	<b>453.12</b>	172.90
Balance brought forward from previous year	<b>16.60</b>	5.73
Profit Available for appropriation	<b>469.72</b>	178.63
Less: Appropriations		
Transfer to Statutory Reserve	<b>90.63</b>	34.58
Proposed dividend	<b>113.62</b>	113.62
Dividend Distribution Tax	<b>5.09</b>	-
Transfer to General Reserve	<b>36.25</b>	13.83
Balance of Profit carried forward	<b>224.13</b>	16.60

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

	31st March, 2009	Rs. in million 31st March, 2008
Income	<b>4,661.23</b>	6,995.47
Profit before Interest, Depreciation and Taxation and Exceptional Items	<b>1,806.91</b>	2,695.88
Interest	<b>(178.40)</b>	(149.03)
Depreciation	<b>(202.71)</b>	(148.47)
Profit before Taxation and Exceptional Items	<b>1,425.80</b>	2,398.38
Exceptional Items	<b>(30.00)</b>	-
Profit before Taxation	<b>1,395.80</b>	2,398.38
Less:- Provision for Taxation		
Current Tax	<b>479.58</b>	772.11
Deferred Tax Asset/(liability)	<b>(25.09)</b>	(1.49)
Fringe Benefit Tax	<b>11.42</b>	12.43
Wealth Tax	<b>0.26</b>	0.19
Tax for the prior year	<b>(4.68)</b>	4.77
Profit after Taxation before Extraordinary Items	<b>934.31</b>	1,610.37
Extraordinary Items (net of tax)	<b>-</b>	145.36
Profit after tax before Minority Interest	<b>934.31</b>	1,755.73
Minority Interest in profits	<b>(38.35)</b>	(49.53)
Profit after tax and Minority Interest	<b>895.96</b>	1,706.20

## DIRECTORS' REPORT

	31st March, 2009	Rs. in million 31st March, 2008
Profit brought forward from previous year	2,046.25	784.71
Minority share in dividend and others for previous financial year	45.44	-
Dividend from subsidiary Company for the previous financial year	113.63	-
Profit available for the Appropriations	3,101.28	2,490.91
Less:- Appropriations		
Transfer to Statutory Reserve & Capital Redemption Reserve	90.62	124.58
Pre acquisition (Profits)/Loss	1.68	(0.20)
Proposed Dividend	113.62	265.12
Distribution tax on proposed Dividend	19.30	25.75
Transfer to General Reserve	51.19	30.59
Balance of Profit carried to Balance Sheet	2,824.87	2,045.08

### Dividend

Keeping in view the overall performance during the year, your Directors are pleased to recommend a dividend of Rs. 0.80 per Equity Share on the face value of Re. 1 each, payable to those members whose names appear in the Register of Members as on the Book Closure Date. The Dividend including the Dividend Distribution Tax will absorb a sum of Rs. 118.71 million.

### Results Of Operations (MOFSL Standalone)

The Revenue for the year increased by 103% from Rs. 355.76 million to Rs. 722.36 million. The Profit before taxation registered a growth of 148% and was up from Rs. 245.68 million to Rs. 610.15 million. The Company's net profit for the year was Rs. 453.12 million up from Rs. 172.90 million in the previous year - a growth of 162% over the previous financial year.

During the year under review, the Company earned the revenues by the way of Interest income from financing and other related activities including arbitrage business. The Company also received dividend of Rs. 113.63 million from its subsidiary company. As at 31st March, 2009, the total loan book was Rs. 1.47 billion as against Rs 2.73 billion as at 31st March, 2008. The drop in loan book is attributable to overall slowdown in equity market activity during Financial Year (FY) 2009 as compared to FY 2008. Excess liquidity was deployed at attractive yields.

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

### Subsidiary Companies and the Consolidated Results of Operations

During the year under review, Antop Traders Private Limited became the subsidiary of Motilal Oswal Securities Limited and, in turn of the Company. Subsequent to the year-end, Motilal Oswal Insurance Brokers Private Limited and Motilal Oswal Asset Management Company Limited became the subsidiaries of your Company.

On a consolidated basis, your company posted consolidated revenue of Rs. 4,661 million (down 33% as compared to FY08) and a consolidated PAT (before exceptional and extra-ordinary items) of Rs. 926 million (down 41% as compared to FY08). Our constant focus to rationalize costs and optimize resources helped us deliver stable EBIDTA and PAT margins at 39% (FY 2008: 39%) and 20% (FY 2008: 22%) respectively despite the drop in revenues.

Our businesses are directly linked to the activity levels in the capital markets. The overall revenues and profits of the Company were adversely impacted by the overall slowdown in the equity markets, which registered drop of 16% in the average daily volumes from Rs. 726 billion in FY08 to Rs. 612 billion in FY09. The market share of MOFSL in FY 2009 was 4.2% as against 4.7% in FY 2008.

The endeavor to diversify our revenue streams resulted in 30% of our revenue coming from non-broking businesses vis-à-vis 20% in previous year.

- Investment banking business, which was also adversely impacted by the turmoil in the financial markets, registered revenues of Rs. 452 million and contributed to 10% of total revenues for the group.
- Income from Fund based activities was Rs. 639 million and contributed to 14% of total revenues. The Principal strategies group, which completed its first full year of operations, helped your Company deploy excess liquidity at attractive yield.



## DIRECTORS' REPORT

- Asset management and Advisory fees (revenues earned on PMS and Private Equity businesses) were Rs. 214 million and contributed to 5% of total revenues. During FY 2009, the Promoter Company of MOFSL received an in-principal approval from SEBI for setting up the Mutual Fund business. The Private Equity business has deployed approximately 50% of its maiden fund - India Business Excellence Fund (IBEF) of US\$ 125 million and has received commitments worth Rs. 1 billion in its second fund - India Realty Excellence Fund. Our existing investment management capabilities in managing funds, our strong research and a large in-house retail franchisee to spread our reach and capture the investment potential in India and abroad.

In terms of outlook, FY 2010 has started on a positive note for the equity markets with the Sensex almost doubling from recent lows to around 15,000 levels and the daily equity volumes averaging at Rs. 890 billion in the first few months of FY 2010. India being the second fastest economy, Foreign investors are likely to be favorably inclined to invest in Indian markets. The corporate sector, which is the backbone of the capital market, is likely to fair better in FY 2010 as compared to FY 2009.

Sustained improvement in the economy and capital markets augur well for all our key businesses. We are confident of capturing the resulting opportunities through our all season business model and a strong unleveraged balance sheet.

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.

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

### Utilisation of IPO proceeds

The funds raised by your Company through Initial Public Offer aggregating to Rs. 2460.70 million have been fully utilised as per the objects of the issue. In accordance with the objects of the issue, the excess amount of Rs. 130.70 million in respect of purchase/lease of new office space for business expansion has been utilised for General Corporate Purpose.

The details of the fund utilisation are as under:

Particulars	Rs. in million	
	IPO Proceeds	Actual Utilisation
Augmenting long term working capital	400.00	400.00
Financing activity	1,100.00	1,100.00
Purchase / lease of new office space for business expansion	350.00	219.34
General corporate purpose	407.70	538.36
Technology	102.00	102.00
Issue expenses	101.00	101.00
<b>TOTAL</b>	<b>2,460.70</b>	<b>2,460.70</b>

### Sub-division of Equity Shares

Pursuant to the approval of members obtained at the 3rd Annual General Meeting held on 8th July, 2008, each Equity Share of the face value of Rs. 5 each was sub-divided into 5 (Five) Equity Shares of the face value of Re. 1 (Rupee One) each.

Consequent upon the sub-division, the paid-up Equity Share capital of the Company is Rs. 142.02 million divided into 14,20,20,000 Equity Shares of Re. 1 each.

# DIRECTORS' REPORT

## Credit Rating

Your Company continued to enjoy the highest rating of 'P1+' assigned by CRISIL Limited to the Short-term Debt Programme of Rs. 4 billion of your Company. The rating indicates the highest degree of safety with regard to timely payment of interest and principal on the instrument.

CRISIL Limited has also re-affirmed the rating of 'P1+' to the Short-term Debt Programme of Rs. 4 billion of Motilal Oswal Securities Limited, a subsidiary of your Company.

## Finance

During the year under review, to meet the working capital requirements, the Company has issued Commercial Papers and Unsecured 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. Ramesh Agarwal and Mr. Madhav Bhatkuly retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment.

## 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, 2009 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

During the year under review, the Audit Committee was re-constituted by appointing Mr. Madhav Bhatkuly as the member of the Committee. Consequently, the Audit Committee comprises of Mr. Balkumar Agarwal (Chairman of the Committee), Mr. Ramesh Agarwal, Mr. Madhav Bhatkuly and Mr. Raamdeo Agrawal.

## 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 pursuant to the provisions of section 224 of the Companies Act, 1956. The members will be required to appoint Auditors for the current year and fix their remuneration.



## DIRECTORS' REPORT

### 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 were no inflow or outflow of foreign exchange during the year under review.

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

In accordance with the provisions of section 217(2A) of the Companies Act, 1956 and the Rules framed thereunder, the names and other particulars of employees are set out in the Annexure to the Directors' Report. In terms of the provisions of section 219(1)(b)(iv) of the Companies Act, 1956, the Directors' Report is being sent to all the Shareholders of the Company excluding the aforesaid Annexure. The Annexure is available for inspection at the Registered Office of the Company. Any shareholder interested in obtaining a copy of the said Annexure may write to the Company Secretary & Compliance Officer at the Registered Office of the Company.

### 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, 29th June, 2009.

## STATEMENT PURSUANT TO SECTION 212 \_\_\_\_\_

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

Particulars	Name of the Subsidiary Company	Name of the Subsidiary Company	Name of the Subsidiary Company	Name of the Subsidiary Company	Name of the Subsidiary Company	Name of the Subsidiary Company	
	Motilal Oswal Securities Ltd.	Motilal Oswal Commodities Broker Pvt Ltd	Motilal Oswal Private Equity Advisors Pvt Ltd	Motilal Oswal Investment Advisors Pvt Ltd	Motilal Oswal Capital Markets Pvt Ltd	Antop Traders Pvt Ltd	Total
The Financial year of the Subsidiary ended on	31st March, 2009	31st March, 2009	31st March, 2009	31st March, 2009	31st March, 2009	31st March, 2009	
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	3	
Extent of holding (%)	99.95%	97.55%	85.00%	75.00%	99.95%	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, 2009	NIL	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, 2009 Rs.	423,990,089	6,380,487	11,116,492	113,357,158	(50,089)	1,677,072	556,471,209
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, 2009	NIL	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, 2009 Rs.	3,033,076,864	1,314,147	17,093,091	39,733,658	(192,145)	NIL	3,091,025,614

For and on behalf of the Board of  
**MOTILAL OSWAL FINANCIAL SERVICES LTD.**

**Tarun Khurana**  
Company Secretary & Compliance Officer

**Motilal Oswal**  
Chairman & Managing Director

**Raamdeo Agrawal**  
Director

Place : Mumbai  
Dated : 11th May 2009