

Directors' Report

To the Members

Your Directors have pleasure in presenting their 5th Report together with the audited Accounts of your Company for the year ended 31st March, 2010.

Financial Highlights

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

Motilal Oswal Financial Services Limited (Standalone)

	Rs. in million	
	Year ended 31st March, 2010	Year ended 31st March, 2009
Income	642.59	722.36
Profit before Interest and Taxation	601.56	683.33
Interest	(28.46)	(73.18)
Profit before Taxation	573.10	610.15
Less : Provision for Taxation		
Current Tax	137.43	156.76
Deferred Tax	11.71	0.05
Fringe Benefit Tax	—	0.22
Profit for the year	423.96	453.12
Balance brought forward from previous year	224.13	16.60
Profit Available for appropriation	648.09	469.72
Less: Appropriations		
Transfer to Statutory Reserve	84.79	90.62
Proposed dividend	171.81	113.62
Dividend Distribution Tax	6.27	5.10
Transfer to General Reserve	33.92	36.25
Balance of Profit carried forward	351.30	224.13

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

	Rs. in million	
	Year ended 31st March, 2010	Year ended 31st March, 2009
Income	6,453.25	4,661.23
Profit before Interest, Depreciation and Taxation and Exceptional Items	2,769.85	1,806.91
Interest	(96.24)	(178.40)
Depreciation	(141.89)	(202.71)
Profit before Taxation and Exceptional Items	2,531.72	1,425.80
Exceptional Items (Expenses) / Income	0.57	(30.00)
Profit before Taxation	2,532.28	1,395.80
Less : Provision for Taxation		
Current Tax	801.87	479.58

Directors' Report

	Rs. in million	
	Year ended 31st March, 2010	Year ended 31st March, 2009
Deferred Tax Expenditure / (Income)	(17.90)	(25.09)
Fringe Benefit Tax	—	11.42
Wealth Tax	0.19	0.26
Tax for the prior year	3.92	(4.68)
Profit after tax before Minority Interest	1,744.21	934.31
Minority Interest in profits	(39.74)	(38.35)
Profit after tax and Minority Interest	1,704.47	895.96
Profit brought forward from previous year	2,820.90*	2046.25
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	4,525.36	3101.28
Less: Appropriations		
Transfer to Statutory Reserve & Capital Redemption Reserve	84.79	90.62
Pre acquisition (Profits)/Loss	(5.12)	1.68
Proposed Dividend	171.81	113.62
Distribution tax on proposed Dividend	28.53	19.30
Transfer to General Reserve	55.58	51.19
Balance of Profit carried to Balance Sheet	4,189.77	2824.87

* Includes opening balance of reserves (Rs. 3.97 million) of subsidiaries acquired during the year

Dividend

Keeping in view the overall performance during the year, your Directors are pleased to recommend a dividend of Rs. 1.20 per Equity Share on the face value of Re.1 each, being 120% dividend, payable to those members whose names appear in the Register of Members as on the Book Closure Date. The Dividend and dividend distribution tax will absorb a sum of Rs. 178.08 million.

Results of Operations (MOFSL Standalone)

The Revenue for the year decreased by 11.04% from Rs. 722.36 million to Rs. 642.59 million. The Profit before interest and taxation registered a decrease of 11.97% and were down from Rs. 683.33 million to Rs. 601.56 million. The Company's net profit for the year is Rs. 423.96 million down from Rs. 453.12 million in the previous year, a decrease of 6.44% over the previous financial year.

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

Subsidiary Companies and Consolidated Results of Operations

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. 1,704.47 million as against Rs. 895.96 million earned last year - a growth of 90.24%. During the year under review, Motilal Oswal Securities Limited (MOSL), the 'Material Non-listed Subsidiary' of the Company earned the revenues of Rs. 5,158.99 million and PAT of Rs. 1191.41 million. During the year under review, the market share of MOSL was 3.2% as against 4.2% in the previous financial year.

During the year under review, Motilal Oswal Insurance Brokers Private Limited became a subsidiary of the Company and Motilal Oswal Asset Management Company Limited and Motilal Oswal Trustee Company 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.

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

Credit Rating

The Company continued to enjoy the highest rating of 'PI +' 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 also reaffirmed the rating of 'PI +' to the Short-term Debt Programme of Rs. 4 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 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. Raamdeo Agrawal was appointed as the Joint Managing Director of the Company by the Board of Directors, for a period of 5 years, with effect from 14th October, 2009, without any remuneration, subject to the approval of the Members in the ensuing Annual General Meeting of the Company. Mr. Agrawal is also the Joint Managing Director in Motilal Oswal Securities Limited, a material unlisted subsidiary of the Company.

Mr. Navin Agarwal and Mr. Balkumar Agarwal 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, 2010 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, 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.

Directors' Report

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 the Statutory 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 the Statutory Auditors for the current year and fix their remuneration.

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

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.

Acknowledgements

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, 19th June, 2010

Annexure to the Directors' Report

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	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 Insurance Brokers Pvt. Ltd.	Motilal Oswal Capital Markets Pvt. Ltd.	Antop Traders Pvt. Ltd.	Motilal Oswal Asset Management Company Ltd.	Motilal Oswal Trustee Company Ltd.	Total
The Financial year of the Subsidiary ended on	31st March, 2010	31st March, 2010	31st March, 2010	31st March, 2010	31st March, 2010	31st March, 2010	31st March, 2010	31st March, 2010	31st March, 2010	
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	812,500	990,000	350,000	3	20,000,000	100,000	
Extent of holding (%)	99.95%	97.55%	85.00%	81.25%	99.00%	99.95%	99.95%	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, 2010	NIL	NIL	NIL	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, 2010	1,190,859,808	12,760,852	21,235,502	175,991,166	(2,156,796)	(2,253,636)	3,365,252	(41,030,876)	(85,222)	1,358,686,050
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, 2010	NIL	NIL	NIL	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, 2010	3,392,607,381	7,694,634	24,250,983	94,265,176	(128,960)	(242,234)	2,845,806	(3,809,433)	(28,052)	3,517,455,301

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

Motilal Oswal
Chairman & Managing Director

Raamdeo Agrawal
Jt. Managing Director

Samrat Sanyal
Company Secretary and Compliance Officer

Place : Mumbai
Dated : 19th June, 2010

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 with the parent company, Motilal Oswal Financial Services Limited

Loans and advances in the nature of loans to subsidiaries:

(In Rs. million)

Name of the Company	Balance as on 31st March, 2010	Maximum outstanding during the year
Motilal Oswal Commodities Broker Private Limited	Nil	20.00
Motilal Oswal Private Equity Advisors Private Limited	0.004	6.03
Motilal Oswal Investment Advisors Private Limited	0.06	20.78
Motilal Oswal Capital Markets Private Limited	43.38	47.38
Motilal Oswal Securities Limited	Nil	300.57
Motilal Oswal Insurance Brokers Private Limited	Nil	0.10
Motilal Oswal Asset Management Company Limited	Nil	2.50

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 loans: Nil

Annexure to the Directors' Report

Information disclosed under the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 as at 31st March, 2010:-

S. No.	Particulars	Motilal Oswal Financial Services Limited - Employees' Stock Option Scheme - III (ESOS - III)	Motilal Oswal Financial Services Limited - Employees' Stock Option Scheme - IV (ESOS - IV)	Motilal Oswal Financial Services Limited - Employees' Stock Option Scheme - V (ESOS - V)	Motilal Oswal Financial Services Limited - Employees' Stock Option Scheme - VI (ESOS - VI)
a)	Options granted	12,61,500	2,00,000	55,42,500	33,15,000
b)	The pricing formula	Price at which shares are issued to Private Equity Investor i.e. at the Rate of Rs. 518.90 per share.	Price arrived at with reference to the expected Issue Price i.e. at Rs. 775 per share.	The closing price of the Company's Equity Shares quoted on the Bombay Stock Exchange Limited immediately preceding the date of Grant of the Stock Options, which for this purpose shall be the date on which the Committee grant the Stock Options, discounted by such percentage as may be determined by the Committee in the best interest of the various stakeholders in the prevailing market conditions.	The closing price of the Company's Equity Shares, prior to the date of grant of the Options, on the Stock Exchanges where the highest trading volume is recorded, discounted / increased by such percentage as may be determined by the Committee.
c)	Options vested	9,35,175	2,500	Nil	Nil
d)	Options exercised	5,64,075	2,500	Nil	Nil
e)	The total number of shares arising as a result of exercise of option	11,28,150	12,500	Nil	Nil
f)	Options lapsed (as at 31.03.10)	5,72,750	1,90,000	30,42,500	60,000
g)	Variation of terms of options	N. A.	N. A.	N. A.	N. A.
h)	Money realised by exercise of options	Rs. 11,70,79,407	Rs. 19,37,500	Nil	Nil
i)	Total number of options in force (as at 31.03.10)	1,24,675	7,500	25,00,000	32,55,000
j)	Employee-wise details of options granted to:				
	(i) Senior managerial personnel	N.A.	N.A.	(i) Mr. Sameer Kamath 50,000 Options (ii) Mr. Sudhir Dhar 40,000 Options	N. A.
	(ii) Any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year	N. A.	N. A.	N.A.	N.A.
	(iii) Identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant	N. A.	N. A.	N. A.	N. A.
k)	Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with Accounting Standard (AS) 20 'Earnings per Share'	Rs. 2.97	Rs. 2.97	Rs. 2.97	Rs. 2.97

Annexure to the Directors' Report

S. No.	Particulars	Motilal Oswal Financial Services Limited - Employees' Stock Option Scheme - III (ESOS - III)	Motilal Oswal Financial Services Limited - Employees' Stock Option Scheme - IV (ESOS - IV)	Motilal Oswal Financial Services Limited - Employees' Stock Option Scheme - V (ESOS - V)	Motilal Oswal Financial Services Limited - Employees' Stock Option Scheme - VI (ESOS - VI)
l)	Where the Company has calculated the employee compensation cost using the intrinsic value of the stock options, the difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognised if it had used the fair value of the options, shall be disclosed. The impact of this difference on profits and on EPS of the Company shall also be disclosed.	Nil	Nil	The Company has calculated the employee compensation cost using the intrinsic value of stock options. Had the fair value method been used, in respect of stock options granted under ESOS - V and ESOS - VI, the employee compensation cost would have been higher by Rs. 82960572, Profit after tax lower by Rs. 82960572 and the basic earnings per share would have been lower by Re. 0.58.	
m)	Weighted-average exercise prices and weighted average fair values of options shall be disclosed separately for options whose exercise price either equals or exceeds or is less than the market price of the stock.	N. A.	N. A.	i) Option Grant Date: 14th October, 2009 for 542500 options ii) Exercise Price: Rs. 172.85 per option iii) Fair Value: Rs.65.45 per option	I. Option granted on 13th July, 2009 i) No. of Options granted : 7,10,000 ii) Exercise Price: Rs. 165 per option iii) Fair Value: Rs. 52.39 per option II. Option granted on 14th October, 2009 i) No. of Options granted : 4,95,000 ii) Exercise Price: Rs. 172.85 per option iii) Fair Value: Rs. 65.45 per option.
n)	A description of the method and significant assumptions used during the year to estimate the fair values of options, including the following weighted-average information:-	N. A.	N. A.	The fair-value of the stock options granted on 14th October, 2009 have been calculated using Black-Scholes Options pricing Formula and the significant assumptions made in this regard are as follows:	The fair-value of the stock options granted on 13th July, 2009 and 14th October, 2009 have been calculated using Black-Scholes Options pricing Formula and the significant assumptions made in this regard are as follows:
	(i) risk-free interest rate	N. A.	N. A.	6%	6%
	(ii) expected life	N. A.	N. A.	3 years	3 years
	(iii) expected volatility	N. A.	N. A.	50%	50%
	(iv) expected dividends	N. A.	N. A.	0.70%	0.70%
	(v) the price of the underlying share in market at the time of option grant.	The Company was an unlisted company at the time of grant. However, the Options were granted at the price at which Shares were issued to Private Equity Investor i.e. Rs. 518.90 per share.	The Company was an unlisted company at the time of grant. However, the Options were granted at the price which was determined with reference to the expected Issue Price.	Rs. 172.85 per share	i) Rs. 139.70 per share for grant date 13.07.09 ii) Rs. 172.85 per share for grant date 14.10.09

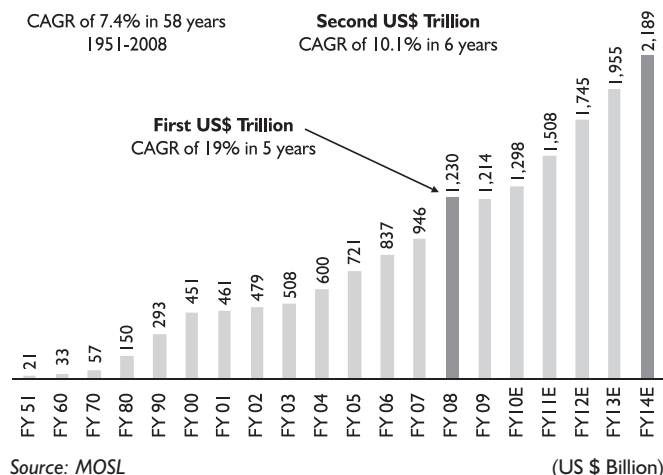
Management Discussion and Analysis

Opportunities for financial services in the NTD era

The NTD Era

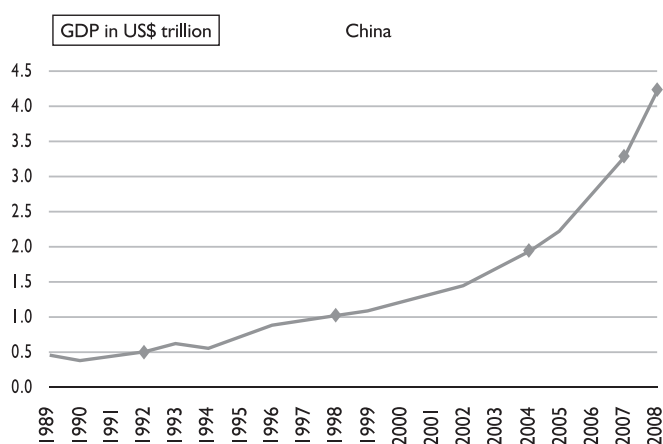
It took India over 60 years since independence to create its first US\$ 1 trillion of GDP in FY08. However, growing nominally @ 12-15% per annum and at current US\$/INR rates, India will add the next trillion dollar (NTD) of GDP in 5-6 years.

The NTD Era will be marked by sustained boom in discretionary spend, savings and investment.



Comparisons with China

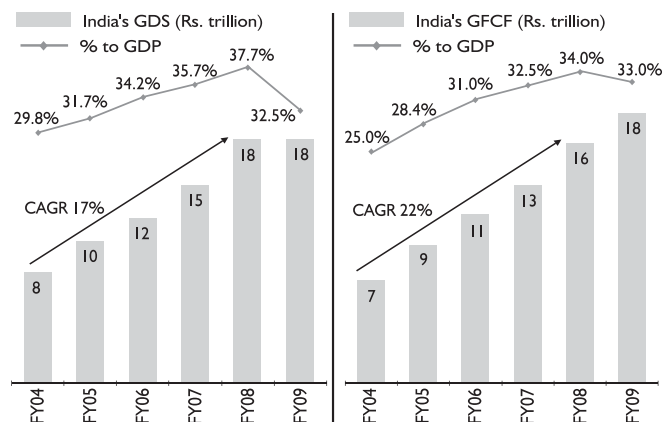
China achieved its first trillion dollar GDP in 1998. It took about six years to add the second trillion in 2005. However, the third trillion took just 3 years, and all of the fourth came in just one year, 2008, when China's GDP hit US\$ 4 trillion.



India is hopefully on its way to mimicking the Chinese experience. Whether we will do it somewhat slower or faster is just a matter of time.

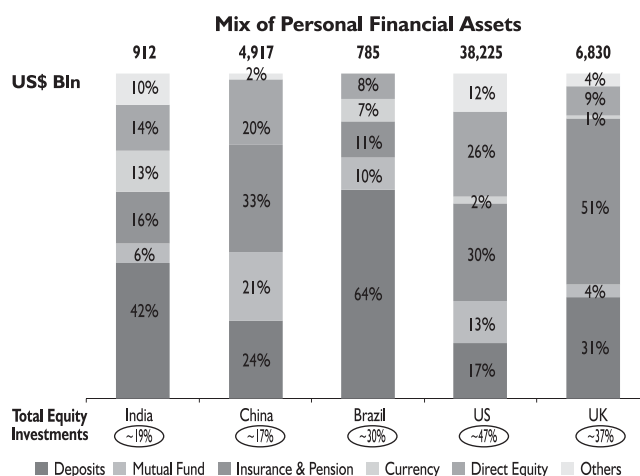
Savings is on the rise

In the last 6 years to FY09, India's Gross Domestic Savings has been on the rise, clocking a CAGR of 17%. In 5-6 years' time, India's GDP may touch US\$ 2.5 trillion. At then 40% of GDP, India's savings would almost equal current GDP. Gross Fixed Capital Formation has grown even stronger - from 25% of GDP to 33% of GDP, a CAGR of 22%.



Equity ownership as an asset class is low in India




Recent report released by FICCI / Mckinsey indicates that total household holdings into equities both directly and indirectly is ~19% which is much lower than comparatives with developed countries like US and UK.



Management Discussion and Analysis

Retail penetration is low in India

Low Equity Ownership is further accentuated by the low level of equity penetration in India (~1% of population has demat accounts) as compared to ~10% in other Asian countries like China and Korea

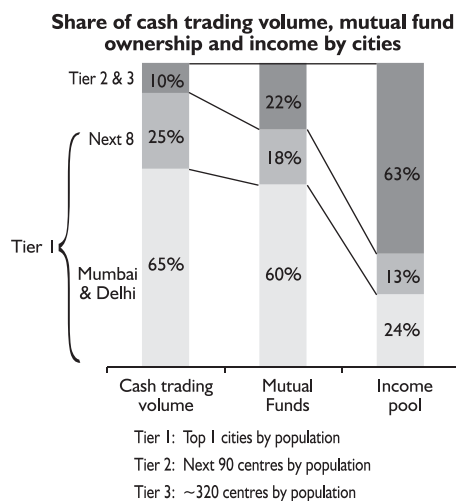
Country		Demat Accounts	Population	Penetration %
	China	152	1,325	11
	Korea	4.6	47	10
	India	16	1,190	1

Source: Exchange publications

Low participation beyond top 10 cities

Top 10 cities (Tier 1) contribute 90% of the total trading volume and 78% of mutual fund ownership but account for only 37% of the total urban income pool. This indicates the immense potential offered by Tier 2 and Tier 3 cities.

Although disposal household income in these cities is less than in Tier 1 cities, owing to a lower share of HNI individuals and affluent segment, there is huge opportunity to be tapped.

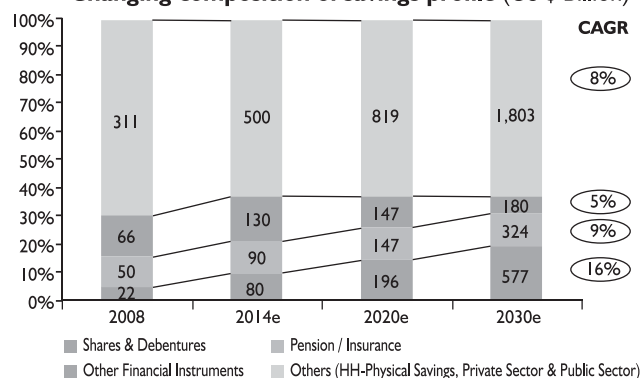


Source: FICCI / McKinsey report on Capital markets

Opportunity for Financial intermediation

India's rising savings and income levels holds enormous potential for the development of the Financial Services sector. Data from the rich countries suggests that nearly 40% of total wealth is held in financial instruments while nearly 20% of household financial assets are held in equity. In India only 5% of household savings are channeled into equity suggesting that there is a huge scope for growth on this front.

Changing composition of savings profile (US \$ Billion)

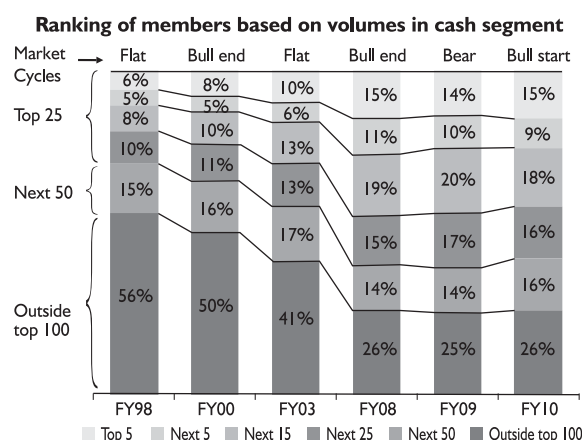


Source: Noble report, RBI data and MOSL estimates

As India's per capita income and savings rises, estimates suggest that the quantum of household savings going into the Indian stock market will increase nine fold in the next 20 years

Intensifying competition driving industry consolidation but at a slow pace

India has over 9,000 registered brokerages. Past trends suggest that consolidation within the industry follows market downturns. Effects of this were very visible post the bear phase of 2000. However, considerable consolidation has been witnessed even during the bull run of 2003-2008. During this period, competition has intensified with the entry of several new players with large brands and well capitalized balance sheets. Smaller players would face the heat of this intensifying competition resulting in large players further gaining market share. The bigger challenge for large players is to achieve sustained and consistent returns on their investments, while managing their growth trajectory.



Source: NSE

Coming to the point of market cycle accelerating consolidation, unlike in 2003, the 2009 market downturn has not resulted in consolidation within the industry.