

**DSP Merrill Lynch Investment Managers Limited**

**Schedule 17: Significant Accounting Policies and Notes on Accounts**

**1. Significant Accounting Policies:**

**a. Method of Accounting :**

The Financial Statements have been prepared on historical cost basis and in accordance with the accrual method of accounting.

**b. Use of Estimates :**

The presentation of financial statements in conformity with the generally accepted accounting principles requires estimates and assumptions to be made that affect the reported amount of assets and liabilities on the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Difference between the actual result and the estimates are recognised in the period in which the results are known/materialized.

**c. Revenue Recognition:**

Revenue is recognized when there is reasonable certainty of its ultimate realization/collection. Investment management fees are computed in accordance with investment management agreement and SEBI Regulations.

**d. Foreign Exchange Transactions:**

Expenses and Income are recorded at the exchange rates prevailing on the date of transaction. Year-end accruals have been made as per the exchange rates prevailing as at the last day of the accounting year.

**e. Fixed Assets:**

Fixed Assets are stated at historical cost less accumulated depreciation.

**f. Depreciation:**

Depreciation on Fixed Assets is provided on written down value, at the rates and in the manner prescribed under Schedule XIV to the Companies Act, 1956 on all assets, except as under –

Capital expenditure at Leased Premises (included in furniture & fittings) is depreciated over the period of the lease or over the useful life as prescribed under the Schedule XIV to the Companies Act, 1956 whichever is lower.

Computers and equipments are depreciated on straight-line basis over a period of forty-eight months.

Software is depreciated on straight-line basis over a period of thirty-six months.

**g. Investments :**

Securities acquired with the intention of holding them as investments are classified as investments. Current Investments represent investments made as a part of the Company's Cash Management Policy. They are valued at lower of cost and fair market value.

**h. Contingent Liabilities:**

These are disclosed by way of notes to accounts. Provision is made in the accounts in respect of those liabilities which are likely to materialise after the year end till finalisation of accounts and have material effect on the position stated in the Balance Sheet.

**i. Retirement Benefits:**

The Company contributes to recognised Provident Fund for its employees. Provision for Gratuity has been made as per actuarial valuation at the year-end.

**j. Leave Encashment :**

Leave Encashment liability is accrued on the basis of actuarial valuation at the year-end.

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**k. Taxes on Income :**

Current Tax is determined as the amount of tax payable in respect of taxable income for the period. Deferred tax asset and liability are recognised for the expected future tax consequences attributable to differences between accounting income and taxable income for a period, that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax assets and liabilities are measured using the tax rates and tax laws that have been enacted or substantively enacted at the Balance Sheet date.

Deferred tax assets are recognised and carried forward only if there is a reasonable/virtual certainty of its realisation.

**l. Borrowing Costs :**

All borrowing costs are charged to revenue.

**m. Miscellaneous Expenditure:**

The company amortises preliminary expenses in ten equal installments commencing from the year in which they are incurred.

**2. Contingent Liabilities:**

Income tax demands **Rs. NIL** (Previous Year Rs. 84,217,085/-)

3. The Company operates only in one segment – Investment Management Services.
4. Scheme expenses are shown net of marketing/load charges reimbursed Rs. 90,901,792/- (Previous Year Rs. 69,753,991/-)
5. The tax effects of significant timing differences are reflected through deferred tax asset (net), which is included in the Balance Sheet.  
The deferred tax asset of Rs. 1,571,403/- is on account of depreciation

**6. Payment to Auditors:**

	<b>Current Year Rs.</b>	Previous Year Rs.
a. As Auditors	<b>84,000</b>	84,000
b. Tax Audit fees	<b>31,500</b>	30,187
c. As advisor or in any other capacity		
i) Taxation matters	<b>336,500</b>	-
ii) Certification etc.	<b>55,650</b>	57,619

7. Total of future minimum lease rental payments relating to Operating Lease taken by the Company is Rs. 1,802,779/- (Previous Year Rs. 3,034,834/-) comprising of
  - a. Lease rentals falling due within one year Rs. 818,100/- (Previous Year Rs. 979,668/-)
  - b. Lease rentals of Rs. 984,679/- falling due between 1–5 years (Previous Year Rs. 2,055,166/-)  
Lease payments recognised in the Profit/(Loss) Account amounts to Rs. 876,526/- (Previous Year Rs. 1,088,247/-)

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**8. Earnings per share (EPS)**

The earnings per share, computed as per the requirement under Accounting Standard –20 issued by the Institute of Chartered Accountants of India, is as under

	Current Year	Previous Year
Net Profit (Rs. '000)	24,684	25,090
Weighted average number of shares	20,000,000	20,000,000
Basic and Diluted EPS( Rs.)	1.23	1.25

**9. Related Party Disclosures:**

**I) List of Related Parties with whom transactions have taken place and relationships:**

Sr. No	Name of the Related Party	Relationship
1.	DSP Merrill Lynch Ltd.	Holding Company
2.	DSP Merrill Lynch Trustee Company Pvt. Ltd.	Associates
3.	DSP Merrill Lynch Mutual Fund	
4.	DSP Merrill Lynch Asset Management India Ltd. Employees Provident Fund.	

**II) Transactions during the year with Related Parties:**

Sr. No	Nature of the Transaction	Holding Company Rs.	Associates Rs.	Total Rs.
1.	<b>Investments</b>			
	Purchases in, during the year (Previous Year )	-	573,000,000 559,246,229	573,000,000 559,246,229
	Sales of, during the year (Previous Year)	-	548,272,522 547,783,946	548,272,522 547,783,946
	Balance as at 31 <sup>st</sup> December, 2002 (Previous Year)	-	168,000,000 130,000,000	168,000,000 130,000,000
		-		

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Sr. No	Nature of the Transaction	Holding Company Rs.	Associates Rs.	Total Rs.
2.	<b>Revenue</b>			
	Investment Management Fees (Previous Year)	-	200,261,179	200,261,179
		-	151,788,781	151,788,781
	Balance as at 31 <sup>st</sup> December, 2002 (Previous Year)	-	19,132,228	19,132,228
		-	14,794,726	14,794,726
3.	<b>Expenditure</b>			
	Broker Reallowance (Previous Year)	52,303,308	-	52,303,308
		55,524,409	-	55,524,409
	Balance as at 31 <sup>st</sup> December, 2002 (Previous Year)	10,221,656	-	10,221,656
		8,753,185	-	8,753,185
	Contribution to Provident Fund (Previous Year)	-	1,946,669	1,946,669
	-	1,556,426	1,556,426	
Balance as at 31 <sup>st</sup> December, 2002 (Previous Year)	-	-	-	
	-	284,466	284,466	
4.	<b>Reimbursement of expenses (net)</b>			
	(Previous Year)	4,057,280	(88,408,859)	(84,351,579)
		608,398	(69,630,683)	(69,022,285)
	Balance as at 31 <sup>st</sup> December, 2002 (Previous Year)	1,641,725	17,102,069	18,749,996
	322,980	7,047,216	7,370,196	
5.	<b>Income from Sale of Units of Mutual Funds</b>			
	(Previous Year)	-	-	-
		-	324,718	324,718
Balance as at 31 <sup>st</sup> December, 2002 (Previous Year)	-	-	-	
6.	<b>Deposits -Refund received of deposit</b>			
	(Previous Year)	19,000,000	-	19,000,000
		-	-	-
Balance as at 31 <sup>st</sup> December, 2002 (Previous Year)	-	-	-	

**10. Additional information pursuant to the requirements of Part II of Schedule VI of the Companies Act, 1956.**

	Current Year Rs.	Previous Year Rs.
a. Earnings in foreign Currency : Sub Advisory Fees	NIL	NIL
b. Expenditure in foreign Currency : Travel	NIL	67,922

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11. Quantitative Details of Trading in Securities – Units of Mutual Fund

Category	Current Year		Previous Year	
	Quantity	Amount Rs.	Quantity	Amount Rs.
Opening stock	NIL	NIL	6,764,202.931	100,000,000
Add : Purchases	NIL	NIL	NIL	NIL
Less : Sales	NIL	NIL	662,690.524	10,324,718
Less : Re-classified as Investment	NIL	NIL	6,101,512.407	90,000,000
Closing stock	NIL	NIL	NIL	NIL

12. Figures of the previous year have been regrouped, reclassified and/or recast wherever necessary.

13. Information pursuant to part IV of schedule VI to the Companies Act, 1956 :

**I. Registration Details**

Registration No.

9 9 4 8 3

State Code

1 1

(Refer Code List)

Balance Sheet Date

3 1

Date

1 2

Month

2 0 0 2

Year

**II. Capital raised during the year (Amount in Rs. Thousands)**

Public Issue

N I L

Right Issue

N I L

Bonus Issue

N I L

Private Placement

N I L

**III. Position of Mobilisation and deployment of Funds (Amount in Rs. Thousands)**

Total Liabilities

2 0 8 4 7 5

Total Assets

2 0 8 4 7 5

**Sources of Funds**

Paid-up Capital

2 0 0 0 0 0

Reserves & Surplus

7 6 0 7

Secured Loans

8 6 8

Unsecured Loans

N I L

**DSP Merrill Lynch Investment Managers Limited**
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**Application of Funds**

Net Fixed Assets								
				1	0	2	6	1

Investments									
				1	6	8	0	0	0

Net Current Assets								
				2	8	3	8	2

Misc. Expenditure									
							2	6	1

Accumulated Losses									
							N	I	L

Deferred Tax										
							1	5	7	1

**IV. Performance of Company (Amount in Rs. Thousands)**

Turnover									
				2	1	8	9	8	1

Total Expenditure									
				1	8	6	1	0	5

Profit/ (Loss) before Tax								
				3	2	8	7	6

Profit/ (Loss) after Tax								
				2	4	6	8	4

Earning per Share in Rs.							
				1	.	2	3

Dividend rate %									
							N	I	L

**V. Generic Names of three Principle Products/Services of Company (as per Monetary terms)**

Product Description

Item Code No.

I N V E S T M E N T

N O T

M A N A G E M E N T

A P P L I C A B L E

S E R V I C E S

Signatures to Schedules 1 to 17

As per our attached report of even date

**For Deloitte Haskins & Sells**  
 Chartered Accountants

**For and on behalf of the board**
**N.P. Sarda**  
 Partner

**H. M. Kothari**  
 Chairman

**K.R.V. Subrahmanian**  
 Director

**Alok Vajpeyi**  
 President

 Mumbai  
 10<sup>th</sup> March, 2003

 Mumbai  
 10<sup>th</sup> March, 2003