

Morgan Stanley
Investment Management
Private Limited

Annual Report
2007-2008

Morgan Stanley

AUDITOR'S REPORT

To the Members of

Morgan Stanley Investment Management Private Limited

1. We have audited the attached Balance Sheet of Morgan Stanley Investment Management Private Limited as at 31st March 2008, and also the Profit and Loss Account for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003, issued by the Central Government in terms section 227 (4A) of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to above, 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 purposes 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 the books;
 - (c) the Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account;
 - (d) in our opinion, the Balance Sheet and Profit and Loss Account dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
 - (e) on the basis of written representations received from the directors, as on 31st March 2008 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March 2008 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
 - (f) in our opinion and to the best of our information and according to the explanations given to us, the said accounts read with the significant accounting policies and notes thereon, give the information required by the Companies Act, 1956, in the manner so required, and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March 2008; and
 - (ii) in the case of the Profit and Loss Account, of the profit for the year ended on that date.

For **Deloitte Haskins & Sells**

Chartered Accountants

Sd/-

A. Siddharth

Partner

Membership no. 31467

Mumbai, July 30, 2008

ANNEXURE TO THE AUDITOR'S REPORT

Re: Morgan Stanley Investment Management Private Limited

(referred to in paragraph 3 of our report of even date)

- (i) The requirements of clauses (ii), (viii), (xiii) and (xiv) of paragraph 4 of the Order are not applicable to the Company for the year.
- (ii) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets;
(b) the fixed assets have been physically verified by the management during the year. According to the information and explanations given to us, no material discrepancies were noticed on such verification;
(c) the Company has not disposed off substantial part of fixed assets during the year.
- (iii) The Company has not granted or taken loans, to/ from companies, firms or other parties covered in the Register maintained under section 301 of the Companies Act, 1956. Consequently, requirement of clauses (iii a) to (iii g) of paragraph 4 of the Order are not applicable.
- (iv) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of fixed assets and sale of services. The Company being a service company does not purchase inventory or sell goods. During the course of our audit, we have not noticed any continuing failure to correct major weaknesses in the internal control system.
- (v) In our opinion and according to the information and explanations given to us, there are no contracts or arrangements referred to in section 301 of the Companies Act, 1956, particulars of which need to be entered into the Register maintained in pursuance of that section. Consequently, the question of commenting on reasonableness of prices in respect of transactions made in pursuance of such contracts or arrangements exceeding the value of rupees five lakhs in respect of each party does not arise.
- (vi) The Company has not accepted deposits from the public within the meaning of sections 58A, 58AA or any other relevant provisions of the Companies Act, 1956 and the Rules framed thereunder. We are informed that no Order has been passed by the Company Law Board or the Reserve Bank of India or any Court or any other Tribunal.
- (vii) The Global Internal Audit Department of Morgan Stanley periodically carries out internal audits of Morgan Stanley entities worldwide (including the Company). During the year, audit was conducted in respect of certain processes of the Company. Considering this, in our opinion, the Company has an internal audit system commensurate with its size and nature of its business.
- (viii) (a) In our opinion and according to the information and explanations given to us, the Company has generally been regular in depositing undisputed statutory dues, including provident fund, investor education and protection fund, employees' state insurance, income tax, sales-tax, wealth-tax, service tax, customs duty, excise duty, cess and other material statutory dues, where applicable, with the appropriate authorities. There are no arrears of outstanding statutory dues as at the last day of the financial year for a period of more than six months from the day they became payable;
(b) according to the information and explanations given to us, there are no cases of nondeposit with appropriate authorities of disputed dues of income-tax / sales-tax / wealthtax / service tax / customs duty / excise duty / cess.
- (ix) The Company has no accumulated losses at the end of the financial year. The Company has not incurred cash losses during the current and in the immediately preceding financial year.
- (x) The Company does not have borrowings from financial institutions or banks and has not issued debentures. Consequently, the question of commenting on default in repayment of dues does not arise.
- (xi) The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xii) In our opinion and according to the information and explanations given to us, the Company has not given any guarantee for loans taken by Others from banks or financial institutions.
- (xiii) There were no term loans obtained by the Company during the year and hence the question of commenting on application thereof does not arise.
- (xiv) 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 raised on short-term basis have been used for long term investments.
- (xv) During the year, the Company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the Companies Act, 1956.
- (xvi) There are no debentures issued and outstanding during the year and hence the question of creating security or charge in respect thereof does not arise.
- (xvii) During the year, the Company has not raised money by public issue(s).
- (xviii) To the best of our knowledge and belief, and according to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year.

For **Deloitte Haskins & Sells**

Chartered Accountants

Sd/-

A. Siddharth

Partner

Membership no. 31467

Mumbai, July 30, 2008

BALANCE SHEET

MORGAN STANLEY INVESTMENT MANAGEMENT PRIVATE LIMITED

Balance Sheet as at 31st March, 2008

	Schedule Ref.	As at 31-Mar-08 Rs.	As at 31-Mar-07 Rs.
<u>SOURCE OF FUNDS</u>			
<i>Shareholders' Funds :</i>			
Share Capital	A	2,194,414,730	208,914,730
Reserves and Surplus	B	288,155,758	326,266,624
TOTAL		<u>2,482,570,488</u>	<u>535,181,354</u>
<u>APPLICATION OF FUNDS</u>			
<i>Fixed Assets</i>			
Gross block	C	12,271,872	3,551,859
Less : Depreciation		3,744,361	2,190,721
Net block		8,527,511	1,361,138
Capital Work - in - Progress		2,808,000	-
		<u>11,335,511</u>	<u>1,361,138</u>
<i>Investments</i>	D	1,985,500,000	50,763,447
<i>Deferred Tax Assets (Net)</i>		24,819,273	24,449,800
<i>Current Assets , Loans and Advances :</i>			
Sundry Debtors	E	97,086,963	88,642,411
Cash and Bank Balances	F	465,941,924	397,679,393
Loans and Advances	G	124,626,917	61,211,522
		<u>687,655,804</u>	<u>547,533,326</u>
<i>Less : Current Liabilities and Provisions :</i>			
Current Liabilities	H	173,032,586	87,855,379
Provisions	I	53,707,514	1,070,978
		<u>226,740,100</u>	<u>88,926,357</u>
<i>Net Current Assets</i>		<u>460,915,704</u>	<u>458,606,969</u>
TOTAL		<u>2,482,570,488</u>	<u>535,181,354</u>
Notes to Financial Statements	M		

The schedules referred to above form an integral part of the Balance Sheet.

As per our attached report of even date

For **Deloitte Haskins & Sells**
Chartered Accountants

Sd/-
A. Siddharth
Partner

Mumbai, July 30, 2008

For and on behalf of the Board of Directors

Sd/-
Narayan Ramachandran
Director

Sd/-
Dorab Sopariwala
Director

Sd/-
Sonali Bendke
Company Secretary

Mumbai, July 30, 2008

REVENUE ACCOUNT

MORGAN STANLEY INVESTMENT MANAGEMENT PRIVATE LIMITED

Profit and Loss Account for the year ended 31st March, 2008

	Schedule Ref.	Year ended 31-Mar-08 Rs.	Year ended 31-Mar-07 Rs.
<u>INCOME</u>			
Asset Management Fees		356,619,803	282,022,728
Recovery for support services		94,335,706	82,115,316
Other Income	J	72,624,359	38,335,543
Total		523,579,868	402,473,587
<u>EXPENDITURE</u>			
Payments to and Provisions for Employees	K	266,912,034	173,553,124
Operating and Administration expenses	L	215,049,554	40,976,186
Provision for diminution in the value of Investment, (Long term, non trade)		-	421,204,917
Loss on sale of Investments, (Long term, non trade)		4,165,748	-
Fund Accounting Fees		9,560,898	10,742,434
Depreciation		1,553,640	563,535
Interest - Others		162,109	128,590
Total		497,403,983	647,168,786
Profit / (Loss) before Tax		26,175,885	(244,695,199)
Provision for Tax :			
- Current Tax		16,000,000	81,500,000
- Deferred Tax		(369,473)	(21,042,080)
- Fringe Benefit Tax		3,213,000	445,000
		18,843,527	60,902,920
Profit / (Loss) after Tax		7,332,358	(305,598,119)
Balance brought forward from previous year		326,266,624	631,864,743
Balance available for appropriation		333,598,982	326,266,624
Appropriations			
Proposed Dividend on Preference shares		38,842,022	-
Dividend Distribution Tax on Dividend on Preference Shares		6,601,202	-
Balance carried to balance sheet		288,155,758	326,266,624
Earning Per Share		(1.82)	(14.63)
Basic / Diluted (Rs.) (Refer note 2(xi) of schedule M)			

The schedules referred to above form an integral part of the Revenue Account.

As per our attached report of even date

For **Deloitte Haskins & Sells**
Chartered Accountants

Sd/-
A. Siddharth
Partner

For and on behalf of the Board of Directors

Sd/-
Narayan Ramachandran
Director

Sd/-
Dorab Sopariwala
Director

Sd/-
Sonali Bendke
Company Secretary

Mumbai, July 30, 2008

Mumbai, July 30, 2008

DIRECTORS' REPORT

MORGAN STANLEY INVESTMENT MANAGEMENT PRIVATE LIMITED

To the Members of
Morgan Stanley Investment Management Private Limited

The Board of Directors of Morgan Stanley Investment Management Private Limited (the "Company") have pleasure in presenting the Fifteenth Annual Report, together with the audited accounts of your Company for the year ended March 31, 2008.

Financial Results

Highlights of the Company's financial results ended on 31st March, 2008 are as follows :

Particulars	(Rupees in Millions)	
	March 31, 2008	March 31, 2007
Gross Income	523.58	402.47
Profit before Depreciation and Tax	27.72	(244.13)
Depreciation	1.55	0.56
Provision for Taxation	18.84	60.90
Profit after Tax	7.33	(305.59)

Performance of the Company

The Company earned an income of Rs. 523.58 million during the year ended March 31, 2008 as compared to Rs. 402.47 million in the previous year.

The Company has made a profit after tax (PAT) of Rs. 7.33 million as compared to loss of Rs. 305.59 million during previous year. During the year, the Company invested considerable resources in developing an open end platform. These resources were deployed across Investments, Sales, Infrastructure and Customer Service to enable launch of open end funds. The Company also embarked on a brand building platform to enhance the awareness of the fund amongst retail clients. In the near future, the focus will be to build out the product suite, in order to offer the full range of products to both retail and institutional clients.

Performance of Morgan Stanley Growth Fund

The net asset value of Morgan Stanley Growth Fund (MSGF) the equity scheme of Morgan Stanley Mutual Fund (to which your Company acts as an Investment Manager), as on March 31, 2008 was Rs. 52.85 per unit as compared to Rs. 47.56 per unit as on March 31, 2007. The Net assets of MSGF as of March 31, 2008 were Rs. 31,722 million with outstanding corpus of 600.18 million units. The net surplus / (Deficit) for the year transferred to Revenue Reserve was Rs. 8,191.785 million as against Rs. (379.369) million last year.

Dividend

The Directors do not recommend any equity dividend for the year ended March 31, 2008. The Directors recommend a dividend at the rate of 4% per cent per annum on 198,550,000 non-cumulative, compulsorily convertible preference shares having a face value of Rs. 10/- (Rupees Ten only) to the preference shareholders of the Company.

Statutory Information

As required under the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules 1975, as amended, the names and other particulars of employees are set out in the annexure to this Report.

Particulars under the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 on Conservation of Energy and Technology Absorption are not applicable to your Company. The foreign exchange outflow and inflow of the company are as per disclosures made in Schedule M of the audited accounts of the Company.

Directors

There was no change in the Directors of the Company.

DIRECTORS' REPORT (Contd.)

Directors' Responsibility Statement

Pursuant to Section 217(2AA) of the Companies (Amendment) Act, 2000, the Board of Directors of your Company state :

The Directors Confirm that :

- in the preparation of the annual accounts, the applicable accounting standards have been followed;
- they have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the company for that period;
- they have taken proper and sufficient care 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;
- they have prepared the annual accounts on a going concern basis.

Auditors and Auditor's Report

The retiring Auditors, M/s. Deloitte Haskins and Sells, Chartered Accountants, Mumbai, hold office until the conclusion of the ensuing Annual General Meeting and are seeking re-appointment. Members are requested to consider their appointment at a remuneration to be decided by the Board.

Considering the nature of business activities and the operations of the Company, your Directors were of opinion that an internal audit system was not warranted.

Appreciation

The Directors wish to place on record their deep appreciation of support and co-operation received from the Company's Bankers. The Directors would like to place on record their appreciation of the contribution made by the staff to the progress made by the Company.

For and on behalf of the Board of Directors

Sd/-
Narayan Ramachandran
Director

Sd/-
Dorab Sopariwala
Director

Registered Office :
Forbes Building,
Charanjit Rai Marg, Fort,
Mumbai 400 001.

Place : Mumbai
Date : July 30, 2008