

Morgan Stanley

**Investment Management  
Private Limited**

**Annual Report**  
March 31, 2009

**Morgan Stanley**

# AUDITORS' 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 March 31, 2009, 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 sub-section (4A) of Section 227 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 March 31, 2009 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2009 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 March 31, 2009; 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,

June 29, 2009

# 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) In our opinion, the Company has an internal audit system which is commensurate with the size of the Company and the 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 non-deposit with appropriate authorities of disputed dues of income-tax/sales-tax/wealth-tax/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,  
June 29, 2009

# BALANCE SHEET

## MORGAN STANLEY INVESTMENT MANAGEMENT PRIVATE LIMITED

Balance Sheet as at 31st March, 2009

|   | Schedule<br>Ref. | As at<br>31-Mar-09<br>Rs. | As at<br>31-Mar-08<br>Rs. |
|---|------------------|---------------------------|---------------------------|
| <b>SOURCE OF FUNDS</b>  |                  |                           |                           |
| <b>Shareholders' Funds:</b>   |                  |                           |                           |
| Share Capital   | A                | 2,194,414,730             | 2,194,414,730             |
| Reserves and Surplus  | B                | 335,581,769               | 288,155,758               |
| <b>TOTAL</b>  |                  | <b>2,529,996,499</b>      | <b>2,482,570,488</b>      |
| <b>APPLICATION OF FUNDS</b>   |                  |                           |                           |
| <b>Fixed Assets:</b>  |                  |                           |                           |
| <b>C</b>  |                  |                           |                           |
| Gross block   |                  | 22,133,942                | 12,271,872                |
| Less: Depreciation  |                  | 8,657,470                 | 3,744,361                 |
| Net block   |                  | 13,476,472                | 8,527,511                 |
| Capital Work - in - Progress  |                  | 360,045                   | 2,808,000                 |
|   |                  | <b>13,836,517</b>         | <b>11,335,511</b>         |
| <b>Investments</b>  | <b>D</b>         | <b>1,985,500,000</b>      | <b>1,985,500,000</b>      |
| <b>Deferred Tax Assets (Net)</b>  |                  | <b>13,835,713</b>         | <b>24,819,273</b>         |
| <b>Current Assets, Loans and Advances:</b>                                  |                  |                           |                           |
| Sundry Debtors  | E                | 48,466,913                | 112,625,458               |
| Cash and Bank Balances  | F                | 399,847,732               | 465,941,924               |
| Loans and Advances  | G                | 138,313,486               | 109,088,422               |
|   |                  | <b>586,628,131</b>        | <b>687,655,804</b>        |
| <b>Less: Current Liabilities and Provisions:</b>                            |                  |                           |                           |
| Current Liabilities   | H                | 51,267,701                | 173,032,586               |
| Provisions  | I                | 18,536,161                | 53,707,514                |
|   |                  | <b>69,803,862</b>         | <b>226,740,100</b>        |
| <b>Net Current Assets</b>   |                  | <b>516,824,269</b>        | <b>460,915,704</b>        |
| <b>TOTAL</b>  |                  | <b>2,529,996,499</b>      | <b>2,482,570,488</b>      |
| <b>Notes to Financial Statements</b>  | <b>M</b>         |                           |                           |
| 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, June 29, 2009

For and on behalf of the Board of Directors

Sd/-  
**Joseph Clifford D'Souza**  
Director

Sd/-  
**Sanjay Asher**  
Director

Sd/-  
**Sonali Bendke**  
Company Secretary  
Mumbai, June 29, 2009

# PROFIT AND LOSS ACCOUNT

## MORGAN STANLEY INVESTMENT MANAGEMENT PRIVATE LIMITED

### Profit and Loss Account for the year ended 31st March, 2009

|  | Schedule<br>Ref.<br>Rs. | Year ended<br>31-Mar-09<br>Rs. | Year ended<br>31-Mar-08<br>Rs. |
|--|-------------------------|--------------------------------|--------------------------------|
| <b>INCOME</b>  |                         |                                |                                |
| Asset Management Fees                                      |                         | 245,078,590                    | 356,619,803                    |
| Recovery for support services                              |                         | 87,454,855                     | 94,335,706                     |
| Other Income   | J                       | 55,737,246                     | 72,624,359                     |
| <b>Total</b>   |                         | <b>388,270,691</b>             | <b>523,579,868</b>             |
| <b>EXPENDITURE</b>   |                         |                                |                                |
| Payments to and Provisions for Employees                   | K                       | 150,412,099                    | 266,912,034                    |
| Operating and Administration expenses                      | L                       | 153,548,314                    | 215,049,554                    |
| Loss on sale of Investments, (Long term, non trade)        |                         | -                              | 4,165,748                      |
| Fund Accounting Fees                                       |                         | 5,407,625                      | 9,560,898                      |
| Depreciation   |                         | 4,913,109                      | 1,553,640                      |
| Interest - Others  |                         | 114,188                        | 162,109                        |
| <b>Total</b>   |                         | <b>314,395,335</b>             | <b>497,403,983</b>             |
| <b>Profit before Tax</b>                                   |                         | 73,875,356                     | 26,175,885                     |
| Provision for Tax:   |                         |                                |                                |
| - Current Tax  |                         | 13,500,000                     | 16,000,000                     |
| - Deferred Tax   |                         | 10,983,560                     | (369,473)                      |
| - Fringe Benefit Tax                                       |                         | 1,700,000                      | 3,213,000                      |
|  |                         | 26,183,560                     | 18,843,527                     |
| <b>Profit after Tax</b>                                    |                         | 47,691,796                     | 7,332,358                      |
| Short provision for tax in respect of earlier years        |                         | 265,785                        | -                              |
|  |                         | 47,426,011                     | 7,332,358                      |
| Balance brought forward from previous year                 |                         | 288,155,758                    | 326,266,624                    |
| <b>Balance available for appropriation</b>                 |                         | <b>335,581,769</b>             | <b>333,598,982</b>             |
| <b>Appropriations</b>                                      |                         |                                |                                |
| Proposed Dividend on Preference shares                     |                         | -                              | 38,842,022                     |
| Dividend Distribution Tax on Dividend on Preference Shares |                         | -                              | 6,601,202                      |
| Balance carried to balance sheet                           |                         | 335,581,769                    | 288,155,758                    |
|  |                         | <b>335,581,769</b>             | <b>333,598,982</b>             |
| <b>Earnings Per Share</b>                                  |                         |                                |                                |
| Basic (Rs.)  |                         | 2.27                           | (1.82)                         |
| (Refer note 2(x) of Schedule M)                            |                         |                                |                                |

#### Notes to Financial Statements

M

The schedules referred to above form an integral part of the Profit and Loss Account

As per our attached report of even date

**For Deloitte Haskins & Sells**  
Chartered Accountants

Sd/-  
**A. Siddharth**  
Partner  
Mumbai, June 29, 2009

For and on behalf of the Board of Directors

Sd/-  
**Joseph Clifford D'Souza**  
Director

Sd/-  
**Sanjay Asher**  
Director

Sd/-  
**Sonali Bendke**  
Company Secretary  
Mumbai, June 29, 2009

# DIRECTORS' REPORT

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 Sixteenth Annual Report, together with the audited accounts of your Company for the year ended March 31, 2009.

## Financial Results

Highlights of the Company's financial results ended on 31st March, 2009 are as follows:

| Particulars                        | Rupees in Millions |                |
|------------------------------------|--------------------|----------------|
|                                    | March 31, 2009     | March 31, 2008 |
| Gross Income                       | 388.27             | 523.58         |
| Profit before Depreciation and Tax | 78.78              | 27.72          |
| Depreciation                       | 4.91               | 1.55           |
| Provision for Taxation             | 26.45              | 18.84          |
| Profit after Tax                   | 47.42              | 7.33           |

## Performance of the Company

The Company earned an income of Rs. 388.27 million during the year ended March 31, 2009 as compared to Rs. 523.58 million in the previous year.

The Company has made a profit after tax (PAT) of Rs. 47.42 million as compared to PAT of Rs. 7.33 million during previous year.

The assets under management of the schemes of Morgan Stanley Mutual Fund (**'the Fund'**) as of March 31, 2009 stood at Rs.14,527.21 million. The Company earned Investment Management fees to the tune of Rs. 245.08 million for managing the assets of the Fund.

During the year, the Company continued to invest resources to enable launch of more products. 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 Fund's flagship fund, Morgan Stanley Growth Fund (MSGF) which was launched as a close ended scheme in 1994 was converted in to an open ended fund with effect from January 19, 2009. The open ending of MSGF gave the investors the opportunity to continue with their investments in MSGF and avail advantages associated with open ended funds for e.g. daily subscriptions, redemptions, switches, Systematic Investment Plans etc.

Performance of Morgan Stanley Growth Fund [MSGF] vis-à-vis benchmark index as of March 31, 2009:

| Period                                     | [Figures in %] |         |
|--|----------------|---------|
|  | MSGF Returns*  | BSE 100 |
| Returns during the trailing year [(+) (-)] | -41.32         | -39.97  |
| Compounded Annualised Returns              |                |         |
| (i) Last 3 years                           | -12.45         | -5.75   |
| (ii) Last 5 years                          | 9.06           | 10.75   |
| (iii) Since inception [February 18, 1994]  | 9.90           | 6.52    |

Past performance may or may not be sustained in future, and may not necessarily provide basis for comparison with other investments.

\*Performance of MSGF [Growth Option] has been calculated based on the assumption that all dividends during the period have been re-invested in the scheme at the then prevailing NAV. "Since Inception" returns are calculated on Rs. 10/- invested at inception.

The net asset value of MSGF, as on March 31, 2009 was Rs. 31.012 per unit for Growth Plan and 10.104 per unit for Dividend Plan (introduced on Jan. 19, 2009) as compared to Rs. 52.85 per unit as on March 31, 2008. The Net assets of MSGF as of March 31, 2009, were Rs.13,785 million with outstanding corpus of 446.39 million units. The net Deficit for the year transferred from Revenue Reserve was Rs. 7,782.59 million as against surplus of Rs. 8,191.785 million last year.

# DIRECTORS' REPORT (Contd.)

## Performance of Morgan Stanley A.C.E. Fund

During the year in April, the Fund launched Morgan Stanley A.C.E. Fund (MSACE), an open ended equity scheme which proposes to generate long term capital growth from an actively managed portfolio of equity and equity-related securities including equity derivatives. The fund management approach of MSACE fund is to be flexible across capitalizations and choose stocks/sectors/themes on individual merit.

Performance of Morgan Stanley A.C.E. [Across Capitalisations Equity] Fund [MSACE] vis-à-vis benchmark index as of March 31, 2009:

| Period                          | MSACE Returns* | [Figures in %] |
|---------------------------------|----------------|----------------|
|                                 |                | BSE 200        |
| Since inception [April 3, 2008] | -38.42         | -41.52         |

Past performance may or may not be sustained in future, and may not necessarily provide basis for comparison with other investments.

\*Absolute returns of MSACE [Growth Option] are computed. "Since Inception" returns are calculated on Rs. 10/- invested at inception.

Since inception, the scheme has outperformed its benchmark (BSE 200) by 3.10%.

The net asset value of MSACE, as on March 31, 2009 was Rs. 6.159 per unit for Growth and Dividend Plan. The Net assets of MSACE as of March 31, 2009, were Rs. 742.21 million with outstanding corpus of 120.52 million units. The net Deficit for the year transferred from Revenue Reserve was Rs. 439.09 million. Since the fund was launched (allotment date) on April 03, 2008, there are no corresponding numbers for 2008.

## Investor Services

During the year, the number of official points of acceptance of transactions increased significantly to about 51 locations. In addition to the offices of the transfer agent, the company has Investor Service Centers in 9 locations at its own offices - namely Ahmedabad, Bangalore, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai, New Delhi, Pune. The internal standards on redemption payouts have been consistently met, with very few exceptions. The number of locations for the ECS Auto Debit facility for investments through Systematic Investment Plan stands at 80 as on March 31, 2009.

On the distribution front, the number of empanelled distributors stood at 4160 as of March 31, 2009. During the year, the number of online channel partner tie-ups for distribution of the Fund's schemes stood at 14 as of March 31, 2009.

Call centre operations have been extended to cover the entire country. The Company has outsourced certain back office services including call centre services to Karvy Computer Share Private Limited.

## Dividend

The Directors do not recommend dividend for the year ended March 31, 2009.

## Particulars of Employees

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 a statement showing the names and other particulars of employees are set out in the annexure to this Report.

Particulars regarding Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Expenditure 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

During the financial year, Mr. Dorab Sopariwala resigned as a Director effective November 15, 2008. Mr. Nagesh Alai was appointed as an Additional Director effective November 14, 2008. As required by Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 the Board of Directors of the Company comprises of 50% directors who are not associate or associated in any manner with, the Sponsor of Morgan Stanley Mutual Fund.

# 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:**

- 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 judgments 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 Statutory Auditors, M/s. Deloitte Haskins and Sells, Chartered Accountants, Mumbai, hold office until the conclusion of the ensuing Annual General Meeting and are eligible for 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 would like to place on record their appreciation for the valuable contribution made by the staff to the progress made by the Company. The Directors wish to place on record their deep appreciation for support and co-operation received from the Company's Bankers.

**For and on behalf of the Board of Directors**

Sd/-  
**Joseph Clifford D'Souza**  
Director

Sd/-  
**Sanjay Asher**  
Director

## **Registered Office:**

Forbes Building,  
Charanjit Rai Marg, Fort,  
Mumbai 400 001

Place: Mumbai

Date: June 29, 2009