

# directors' report

Your Directors have pleasure in presenting the Fourteenth Annual Report together with the audited accounts for the year ended March 31, 2011.

## DIRECTORS' REPORT TO THE SHAREHOLDERS

Your Directors have pleasure in presenting the Fourteenth Annual Report together with the audited accounts for the year ended March 31, 2011.

### Financial Results (Standalone)

(Figures in ₹ crore)

Particulars	FY 2010-11	FY 2009-10
Operating Income	4,545.96	3,569.98
Other Income	14.40	27.13
Total Income	4,560.36	3,597.11
Less: Administrative Expenses*	208.45	199.38
Less: Provision for assets and losses	234.94	130.36
Profit Before Interest and Taxes	4,116.97	3,267.37
Less: Interest and Other Charges	2,386.52	1,950.23
Profit Before Tax	1,730.45	1,317.14
Less: Provision for Tax**	453.30	304.30
Profit After Tax	1,277.15	1,012.84

\* Administrative expenses include staff expenses; travelling & conveyance; postage, telephone & telex; establishment expenses; other expenses and depreciation as reduced by shared service cost recovered from subsidiaries.

\*\* Provision for Tax is net of Deferred Tax.

Income from operations increased by 27.34% from ₹ 3,569.98 crore in FY 10 to ₹ 4,545.96 crore in FY 11. Other income reduced by 46.92% from ₹ 27.13 crore in FY 10 to ₹ 14.40 crore in FY 11. IDFC's total income, increased by 26.78% from ₹ 3,597.11 crore in FY 10 to ₹ 4,560.36 crore in FY 11.

Profit Before Tax (PBT) increased by 31.38% from ₹ 1,317.14 crore in FY 10 to ₹ 1,730.45 crore in FY 11. Profit After Tax (PAT) increased by 26.10% from ₹ 1,012.84 crore in FY 10 to ₹ 1,277.15 crore in FY 11.

IDFC's quality of assets continued to be good with Net NPAs at ₹ 38.91 crore as on March 31, 2011.

## DIVIDEND

Your Directors are pleased to recommend a dividend of ₹ 2/- per share (i.e. 20%) for the year ended March 31, 2011 on equity shares.

The Company will pay a dividend @ 6% on Compulsorily Convertible Cumulative Preference Shares as per the terms of issue.

## OPERATIONS REVIEW

The global economy witnessed two speed growths. While the emerging economies grew by 7% in 2010, the advanced economies grew by 3% in 2010. World output, which had fallen by 0.6% in 2009 grew by 5% in 2010. Clearly, the global economy is in recovery mode. With the financial turbulence firmly behind it, global financial markets also recovered and capital flows re-emerged with increase in flows into emerging economies. However, issues with Government finances in the Euro area provided vulnerability to the system. Overall, while the global financial system is improving from the debacle of 2008, there are still some uncertainties and volatility in the system. The other factor has been growing commodity and oil prices, which is leading to inflation and a higher interest regime. In this environment, IDFC has had to be very proactive in raising capital and managing liquidity for the operations of its financing business.

While domestic GDP is expected to record an impressive 8.5% growth in FY 11, there were some issues with the infrastructure sector. Consequently, after a flurry of activity in the first half, project development opportunities in the market reduced substantially in the second half. The slowdown was particularly apparent in the road and power sectors. However, the slowdown was primarily due to administrative issues while the intrinsic demand for infrastructure continues to grow.

Leveraging the opportunities provided by a growing economy, the Company adopted a high growth model focused on significantly increasing the project finance operations by growing the balance sheet. Gross approvals increased by 40% to ₹ 42,716 crore (₹ 427 billion) in FY 11. Gross disbursements, increased by 106% to ₹ 26,702 crore (₹ 267 billion) in FY 11.



GMR ENERGY - 220 MW BARGE MOUNTED POWER PLANT

- Net loans increased by 50% to ₹ 37,652 crore, while the balance sheet has grown by 42% to ₹ 47,367 crore.
- As on March 31, 2011, IDFC's total exposure to infrastructure projects was ₹ 58,273 crore of which Energy was the highest 45.8%, followed by Transportation 28.7%, Telecommunication & IT 15.8% and Commercial & Industrial sector 9.7%.

While the investment strategy for treasury operations continues to ensure adequate levels of liquidity to support core business requirements, it has started focusing on optimising levels of return and functioning as a profit centre investing in fixed income assets, while maintaining prudent safety norms. Net interest income from treasury operations for IDFC increased by 61% from ₹ 75 crore in FY 10 to ₹ 121 crore in FY 11.

The financial markets were volatile during FY 11. Consequently, there was a fall in fee-based non interest income. The investment banking business under IDFC Capital and the institutional brokerage business under IDFC Securities witnessed a drop in incomes. The mutual fund business that was acquired in FY 09 and operated by IDFC-AMC also saw a

reduction in assets under management and management fees.

The Policy Advisory Group and CSR activities have been brought under one umbrella with the formation of IDFC Foundation in FY 11. This SBU continued to contribute to IDFC's mandate of leading private capital to infrastructure projects, by providing impetus to rationalisation of policy and regulatory frameworks, promoting PPP models, policy advocacy and direct CSR activities.

IDFC Private Equity and IDFC Project Equity continue to be committed to the development of infrastructure in the country. IDFC Private Equity manages three funds – India Development Fund, IDFC Private Equity Fund II and IDFC Private Equity Fund III having a total capital commitment of ₹ 5,735 crore or ₹ 57.3 billion and IDFC Project Equity manages the ₹ 3,837 crore India Infrastructure fund. The focus on asset management was on maintenance of the funds.

During the year, fee income from managing third party asset decreased by 14% from ₹ 290 crore in FY 10 to ₹ 249 crore in FY 11.

Detailed analysis of the performance of the Company and its businesses, including initiatives in the area of Information Technology, has been presented in the section on Management Discussion & Analysis of this Annual Report.

## SUBSIDIARY COMPANIES

IDFC has eleven direct wholly owned subsidiary companies – IDFC Private Equity Company Limited, IDFC Trustee Company Limited, IDFC Project Equity Company Limited, IDFC Finance Limited, IDFC Securities Limited, IDFC PPP Trusteeship Company Limited, IDFC Projects Limited, IDFC Asset Management Company Limited, IDFC AMC Trustee Company Limited, IDFC Foundation (a Section 25 Company) and Uniquet Infra Ventures Private Limited. In addition IDFC Securities Limited has three wholly owned subsidiary companies namely, IDFC Capital Limited (earlier known as IDFC-SSKI Limited), IDFC Distribution Company Limited (earlier known as IDFC-SSKI Stock Broking Limited) and IDFC Capital USA Inc. IDFC Capital Limited has three wholly owned subsidiaries called IDFC Capital (Singapore) Pte. Limited, IDFC Fund of Funds Limited and IDFC General Partners Limited.

During the year, Jetpur Somnath Highway Limited (earlier known as IDFC Capital Company Limited and a direct subsidiary of IDFC) has become a subsidiary of IDFC Projects Limited. A company under the name of Jetpur Somnath Tollways Limited, has been incorporated as a Subsidiary of IDFC Projects Limited. IDFC Projects, alongwith the other companies, has further floated Dheeru Powergen Limited, which was converted from Private Limited Company to a Public Limited Company.

IDFC Asset Management Company Limited has further floated IDFC Pension Fund Management Limited, one of the Pension Fund Managers appointed by the Pension Fund Regulatory and Development Authority (PFRDA) to manage retirement funds under the New Pension Scheme (NPS) open to individuals in the private sector, and IDFC Investment Advisors Ltd. A company under the name of IDFC Investment Managers (Mauritius) Limited, has been incorporated as a Subsidiary of IDFC Asset Management Company Limited.

During the year, IDFC Foundation (a Non-Profit Organisation) was incorporated under Section 25 of the Companies Act, 1956, as a wholly owned subsidiary company of IDFC. Further, the shares of the three Joint ventures namely, Infrastructure Development Corporation (Karnataka) Limited (iDeCK), Uttarakhand Infrastructure Development Company Limited (UDeC) and Delhi Integrated Multi-Modal Transit System Limited (DIMTS), which were initially held by IDFC, have been transferred to IDFC Foundation and similarly, the units of the Trust, namely India Infrastructure Initiative Trust & India PPP Capacity Building Trust which were initially held by IDFC have also been transferred to IDFC Foundation. Further during the year, Uniquet Infra Ventures Private Limited was incorporated as a direct subsidiary of the Company and IDFC Capital USA Inc. was also incorporated as a subsidiary company of IDFC Securities Limited.

A statement of particulars of IDFC's subsidiaries is annexed to this Annual Report.

Detailed analysis of the performance of IDFC and its businesses – financing and advisory, including initiatives in the area of Human Resources, Information Technology, and Risk Management has been presented in the

Leveraging the opportunities provided by a growing economy, the Company adopted a high growth model focused on significantly increasing the project finance operations by growing the balance sheet.

section on Management Discussion & Analysis of this Annual Report.

In view of the General Circular no. 2/2011 dated February 8, 2011 issued by the Ministry of Corporate Affairs, granting a general exemption under Section 212(8) of the Companies Act, 1956, copies of Balance Sheet, Profit and Loss Account, Reports of the Board of Directors and Auditors of each of the subsidiary companies have not been attached to the accounts of the Company for the FY 11. The Company undertakes to make available these documents/details upon request by any member of the Company at any point of time. These documents/details will be available on the Company's website [www.idfc.com](http://www.idfc.com) and will also be available for inspection by any of the members of the Company at its Registered and Corporate Offices and also at the Registered Office of the concerned subsidiaries. In accordance with the requirements of Accounting Standard 21 (Consolidated Financial Statements), Accounting Standard 23 (Accounting for Investment in Associates in Consolidated Financial Statements) and Accounting Standard 27 [Financial Reporting of Interests in Joint Ventures notified by the Companies (Accounting Standards)] Rules, 2006, the Consolidated Accounts of IDFC and its subsidiaries have been prepared and the same are annexed to this Annual Report.

## **/// PARTICULARS OF EMPLOYEES**

IDFC had 586 employees as on March 31, 2011. Particulars of Employees as required to be furnished pursuant to Section 217(2A) of the Companies Act, 1956, read with the rules thereunder, forms part of this Report. However, as per the provision of Section 219(1)(b)(iv) of the Companies Act, 1956, the reports and accounts are being sent to all the shareholders of the Company excluding the statement of particulars of employees. Any shareholder interested in obtaining a copy of the same

may write to the Company Secretary of the Company.

## **/// EMPLOYEE STOCK OPTION SCHEME (ESOS)**

Pursuant to the resolution passed by the members at the Annual General Meeting held on August 2, 2006, IDFC has introduced Employee Stock Option Scheme 2007 (referred to as "the Scheme") to enable the employees of IDFC and its subsidiaries to participate in the future growth and financial success of the Company. Out of the 16,548,268 options outstanding at the beginning of the year, 673,790 options lapsed on account of resignations and 2,583,065 options were exercised during the year.

Additionally, during the year, 7,459,308 options were granted to eligible employees under the Scheme. Accordingly, 20,750,721 options remain outstanding as of March 31, 2011.

All options vest in graded manner and are required to be exercised within a specific period. The Company has used the intrinsic value method to account for the compensation cost of stock to employees of the Company. Intrinsic value is the amount by which the quoted market price of the underlying share on the date prior to the date of the grant exceeds the exercise price on the option.

Disclosures as required by Clause 12 of the Securities & Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 are annexed to this Report.

## **/// CORPORATE GOVERNANCE**

Separate detailed chapters on Corporate Governance, Additional Shareholder Information and Management Discussion & Analysis are attached herewith and form part of this Annual Report.

While the investment strategy for treasury operations continues to ensure adequate levels of liquidity to support core business requirements, it has started focusing on optimising levels of return and functioning as a profit centre investing in fixed income assets, while maintaining prudent safety norms.

#### **/// PUBLIC DEPOSITS**

During the year FY 11, your Company has not accepted any deposits from the public within the meaning of the provisions of the Non-Banking Financial Companies (Reserve Bank) Directions, 1998.

#### **/// FOREIGN EXCHANGE**

The particulars regarding foreign exchange earnings and expenditure are furnished at Item Nos. 24 & 25 in the Notes to the Accounts. Since the Company does not own any manufacturing facility, the other particulars in the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1998 are not applicable.

#### **/// FUND RAISING**

During the year, the Company had issued and allotted 157,752,090 equity shares of ₹ 10/- each to Qualified Institutional Buyers (QIBs) under Chapter VIII of the Securities & Exchange Board of India (Issue of Capital & Disclosure Requirements) Regulations, 2009 at a premium of ₹ 158.25 per equity share aggregating to ₹ 2,654.18 crore.

During the year, the Company had issued 84,000,000 Compulsorily Convertible Cumulative Preference Shares (CCCPS) having face value of ₹ 100 each of the Company on preferential basis in terms of Chapter VII of the Securities & Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 aggregating to ₹ 840 crore.

During the financial year, the Company also made a fresh issue aggregating to ₹ 1,451.76 crore by way of issuance of long-term infrastructure bonds of face value of ₹ 5,000 each, in the nature of secured, redeemable, non-convertible debentures, having benefits under Section 80 CCF of the Income-tax Act, 1961, under the applicable SEBI Guidelines.

#### **/// LISTING OF SHARES**

The Company's shares are listed on National Stock Exchange of India Limited (NSE) and Bombay Stock Exchange Limited (BSE).

#### **/// DIRECTORS**

Ministry of Finance, Government of India, nominated Mr. Bimal Julka, Director General, Currency, Department of Economic Affairs, Ministry of Finance and Additional Secretary to Government of India, Ministry of Finance, as a Nominee Director on the Board of IDFC in place of Mr. G. C. Chaturvedi, Additional Secretary, Department of Financial Services. Accordingly, Mr. G. C. Chaturvedi ceased to be Director with effect from November 07, 2010. The Board placed on record its appreciation of the invaluable guidance provided by Mr. G. C. Chaturvedi to the Company.

The Board, at its meeting held on November 08, 2010, appointed Mr. Bimal Julka, as a Director with effect from November 08, 2010 and he holds office up to the date of the ensuing Annual General Meeting (AGM). The Company has received notice from a Member of the Company under Section 257 of the Companies Act, 1956 proposing the candidature of Mr. Bimal Julka as a Director.

In accordance with the Articles of Association of the Company and provisions of the Companies Act, 1956, Dr. Omkar Goswami, Mr. Shardul Shroff and Mr. S. H. Khan would retire by rotation and being eligible, offer themselves for re-appointment at the AGM.

The Board of Directors recommends appointment/re-appointment of all the above Directors at the ensuing AGM.

#### **/// INTERNAL CONTROL SYSTEMS**

The Company has in place adequate systems of Internal Control to ensure compliance

with policies and procedures. Internal Audits of all the units of the Company are regularly carried out to review the internal control systems. The Internal Audit Reports alongwith implementation and recommendations contained therein are constantly reviewed by the Audit Committee of the Board.

## **AUDITORS**

Messrs Deloitte Haskins & Sells, Chartered Accountants, will retire as the statutory auditors of the Company at the ensuing AGM. The Board at its meeting held on April 29, 2011, has proposed their re-appointment as Auditors to audit the accounts of the Company for the financial year ending March 31, 2012.

Messrs Deloitte Haskins & Sells, the retiring auditors, have confirmed that their re-appointment, if made, would be in conformity with the provisions of Sections 224 and 226 of the Companies Act, 1956, and also indicated their willingness to be re-appointed.

## **DIRECTORS' RESPONSIBILITY STATEMENT**

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 profits of the Company for the year;
- 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; and
- they have prepared the annual accounts on a going concern basis.

## **ACKNOWLEDGEMENTS**

IDFC has developed close relationships with the Ministry of Finance (MoF), Banking Division, Ministry of Surface Transport, National Highways Authority of India, Ministry of Power, Department of Telecommunications,

Ministry of Petroleum and other Ministries of the Government of India involved with infrastructure development; Reserve Bank of India, Securities & Exchange Board of India and regulatory bodies, TRAI, the Central Electricity Regulatory Commission and State Electricity Regulatory Commissions; the Planning Commission; IIT (Kanpur); IIM (Ahmedabad); the State Governments and all IDFC's shareholders. The Board of Directors wishes to gratefully acknowledge the assistance and guidance received from all of them. IDFC could make the progress it has in these years due to the dedication and creativity of its staff at all levels. The Board of Directors wishes to place on record their warm appreciation for these efforts.

For and on behalf of the Board

**DEEPAK S. PAREKH**  
Chairman

Mumbai, June 13, 2011

## DISCLOSURE IN THE DIRECTORS' REPORT AS PER SEBI GUIDELINES

PARTICULARS	2010 - 2011
1 Options outstanding as at the beginning of the year	16,548,268
2 Options granted during the year	7,459,308
3 Pricing Formula	Options may be granted at a price not less than the face value per share. Options have been granted in the range of strike price of ₹ 115.91 to ₹ 212.60
4 Options Vested	6,297,356
5 Options Exercised during the year	2,583,065
6 Total no. of shares arising as result of exercise of Options	2,583,065
7 Options lapsed*	673,790
8 Variation in terms of Options	None
9 Money realised by exercise of Options (₹)	100,861,601
10 Total number of Options in force	20,750,721
* Lapsed Options includes options cancelled/lapsed	
11 Diluted Earnings Per Share pursuant to issue of shares on exercise of options calculated in accordance with AS 20 'Earnings Per Share' (₹)	8.68

## PROFORMA ADJUSTED NET INCOME AND EARNINGS PER SHARE

PARTICULARS	₹
12 <b>Net Income as Reported</b>	12,771,485,453
Add: Intrinsic Value Compensation Cost	167,493,624
Less: Fair Value Compensation Cost	(429,351,575)
<b>Adjusted Proforma Net Income</b>	12,509,627,502
<b>Earning Per Share: Basic</b>	
As Reported (₹)	8.74
Adjusted Proforma (₹)	8.56
<b>Earning Per Share: Diluted</b>	
As Reported (₹)	8.68
Adjusted Proforma (₹)	8.50
13 <b>Weighted average exercise price of Options granted during the year whose</b>	
(a) Exercise price equals market price	154.56
(b) Exercise price is greater than market price	NIL
(c) Exercise price is less than market price	115.91
14 <b>Weighted average fair value of Options granted during the year whose</b>	
(a) Exercise price equals market price	80.57
(b) Exercise price is greater than market price	NIL
(c) Exercise price is less than market price	88.33
15 <b>Description of method and significant assumptions used to estimate the fair value of options</b>	The fair value of the options granted has been estimated using the Black-Scholes option pricing Model. Each tranche of vesting has been considered as a separate grant for the purpose of valuation. The assumptions used in the estimation of the same has been detailed below:

VARIABLES	WEIGHTED AVERAGE VALUES FOR ALL GRANTS MADE DURING THE YEAR
Stock Price (₹)	154.55
Volatility	61.65%
Riskfree Rate	7.12%
Exercise Price (₹)	123.32
Time to Maturity (Yrs.)	4.12
Dividend yield	1.20%
<b>Weighted Average Value (₹)</b>	<b>86.85</b>

Stock Price: Closing price on NSE as on the date of grant has been considered for valuing the grants.

Volatility: The historical volatility from the date of listing till the date of grant has been considered to calculate the fair value.

Risk-free rate of return: The risk-free interest rate being considered for the calculation is the interest rate applicable for a maturity equal to the expected life of the options based on the zero-coupon yield curve for Government Securities.

Exercise Price: Price of each specific grant has been considered.

Time to Maturity: Time to Maturity/Expected Life of options is the period for which the Company expects the options to be live. The minimum life of a stock option is the minimum period before which the options cannot be exercised and the maximum life is the period after which the options cannot be exercised.

Expected dividend yield: Expected dividend yield has been calculated as an average of dividend yields for three financial years preceding the date of the grant.

# IDFC awards & recognition

## IDFC

- **IDFC RANKED 7TH GLOBALLY AND 5TH IN ASIA IN THE PROJECT FINANCE MANDATED ARRANGER** category in 2 separate polls conducted by Dealogic and Thomson Reuters for the full year 2010.
- **IDFC RANKED 4TH GLOBALLY IN THE PUBLIC PRIVATE PARTNERSHIP (PPP) MANDATED ARRANGER** category league table published by Dealogic.
- **IDFC ENTERS THE LIST OF TOP 50 INDIAN COMPANIES** in the S&P ESG India Index.
- **IDFC WAS RANKED 4TH AS GLOBAL MANDATED LEAD MANAGERS** for the period January to September 2010 in the Project Finance League Table published by Thomson Reuters.
- **"THE BEST DEBT FINANCIER OF THE YEAR 2010"** award at Infrastructure Excellence Awards 2010.
- **I-CAP RECOGNISED AS THE EXECUTING AGENCY FOR THE NPCBP** launched by Mr. Pranab Mukherjee, FM – India.
- **IDFC WAS NAMED ASSET MANAGER OF THE YEAR** by AsianInvestor magazine, for our work in private equity, mutual funds and sustainable investments in emerging markets.
- **IDFC FINANCIAL RESULTS DECLARATION FORMAT AND PRESENTATION ACHIEVED SILVER SHIELD** – 2nd Best Entry Award from ICAI Awards for Excellence in Financial Reporting.

## IDFC Private Equity & IDFC Project Equity

- **IDFC PE AWARDED INDIAN PE FIRM OF THE YEAR** by Global M&A Network.
- Won awards by the Infrastructure Investor for the **ASIA INFRASTRUCTURE FUND MANAGER OF THE YEAR** and the **ASIAN INFRASTRUCTURE DEAL OF THE YEAR** and by **PRIVATE EQUITY INTERNATIONAL** for the Indian Private Equity Fund of the year.
- **Most Admired Equity Financier in Infrastructure Sector** awarded by KPMG and ASAPP Media.

## IDFC Capital Limited

### INVESTMENT BANKING

- Ranked 2<sup>nd</sup> Investment Bank in private sector as per Bloomberg League Table for 2010.
- IDFC Capital has been ranked 3<sup>rd</sup> in terms of number of deals as per Bloomberg League Table for 2010.
- In the Wall Street Journal Asia Best Analyst Survey 2011, Pathik Gandotra has been named Asia's Best Analyst for Financial Services.

## IDFC Asset Management Company Limited

### WEALTH FORUM AMC AWARDS 2010

- **BEST EQUITY FUND MANAGER:** 2010 – 3<sup>rd</sup> position Kenneth Andrade, IDFC
- **BEST EQUITY FUND:** 2010 – 3<sup>rd</sup> position IDFC Premier Equity Fund

### BUSINESSWORLD AWARDS 2010

- **IDFC PREMIER EQUITY - PLAN A:** Mid cap and small equity category

### ICRA MUTUAL FUND AWARDS 2010

- **IDFC PREMIER EQUITY FUND:** Ranked as a 7 Star Fund for its 3 year performance for the year ending December 31, 2010. The fund has been getting this award for 3 consecutive years now.

### CNBC-TV18-CRISIL MUTUAL FUND AWARDS WINNERS 2011

- **IDFC SUPER SAVER INCOME FUND:** Medium Term under Income Funds - Short Term category

### LIPPER FUND AWARDS 2010 INDIA

- **IDFC PREMIER EQUITY FUND - PLAN A, GROWTH:** Best Fund over 3 years Equity, India

### NDTV PROFIT MUTUAL FUND AWARDS 2010

- **IDFC IMPERIAL EQUITY PLAN A:** Runner up under **EQUITY: LARGE-CAP CATEGORY**
- **IDFC SUPER SAVER INCOME FUND:** Medium Term Plan A: Runner up under **DEBT: INCOME CATEGORY**