



# management discussion & analysis

**Infrastructure Development Finance Company Limited ('IDFC' or 'the Company') has been at the forefront of supporting private sector infrastructure development in India, which is critical to the country's long-term sustainable economic growth.**

## OVERVIEW

There are two facets to this criticality. First, the quantum of investments into infrastructure development required to support the sustained high growth of the Indian economy is increasing rapidly. The Planning Commission's XIth Five-Year Plan (2007-2012) estimates a steady rise in infrastructure investments as a ratio to GDP from 5.71% in FY 07 to 8.37% in FY 12. Second, within the infrastructure space, the private sector has an increasingly larger role. The share of the private sector investments has increased rapidly and is estimated to go up even more. While in the Xth Plan, the private sector accounted for 24.9% of investments, during the XIth Plan, it is expected to contribute 36.2% of the proposed investments. Already, between FY 08 and FY 10, the private sector has contributed to 34.3% of the investments. Clearly, the private sector infrastructure finance space in India is on track for compounded growth.

Such rapid growth is naturally accompanied by greater market complexities. So, while the market provides much greater opportunities, it brings with it greater exposure to more varied types of risks. A proper understanding and planning for risk-return profiles of different

projects become even more important for the success of financial intermediaries like IDFC that operate in this domain. As a group, IDFC has always focused on this aspect of its business. The Company continuously invests in developing its intellectual capital and promotes a business model that leverages the competitive strength of its internal domain knowledge. The emphasis is on growing the business by providing appropriate financing solutions to its diverse customer base.

This guiding strategic intent has translated into different operational prerogatives in line with the needs of a changing business environment. The challenge has been to lead the evolving infrastructure finance landscape in India and position the Company to best utilise the opportunities. Pursuing this endeavour, IDFC has evolved in a calibrated manner through certain distinct phases of development since its inception in 1997. This development path can be broadly divided into three phases.

## IDFC: THE EVOLUTION PATH

During the initial days, IDFC focused on the core business of project finance and

government advisory. The focus was on enhancing its existing highly proficient internal knowledge base and fine tuning it to the needs of infrastructure development in India. Essentially, this was a phase when the Company developed deep understanding of risks and opportunities associated with different infrastructure projects across the various stages of their project life-cycles. IDFC created a distinct market position for itself by devising innovative products and financing structures for successful infrastructure financing. This resulted in the delivery of good value propositions to its customer base, and established IDFC as a credible and leading player in infrastructure finance in India.

In the second phase, IDFC diversified into several businesses through organic and inorganic routes. As a result, businesses like asset management (both private and public), loan syndication, corporate advisory, investment banking and institutional brokerage were added to its portfolio. This diversification helped strengthen non interest income for the Company. More importantly, the wider presence across different products and services contributed significantly in positioning IDFC as a 'complete solutions provider' in the infrastructure finance space in India. This widened the scope of engagements with customers and enhanced the Company's competitive strength in the market.

Having created a diversified conglomerate, IDFC, in its third phase of growth, was focused on consolidating its different businesses. In the backdrop of a tough domestic and global business environment, the Company focused on further improving its execution skills and stressed on cost management. In addition, it focused on creating a common organisation that leveraged the synergies between different businesses to generate a series of revenue streams by catering to the entire infrastructure financing value chain. In this pursuit, the Company initiated a major internal programme to integrate various different businesses within the IDFC group to create a 'One Firm' culture across all its entities. Although this initiative continues to be 'work-in-progress', the Company witnessed considerable success across various aspects surrounding the 'One Firm'.



**MUNDRA PORT** IDFC ASSISTED TO BUILD STATE OF THE ART FACILITIES FOR HANDLING AND WAREHOUSING OF DRY CARGO

## EMBARKING ON THE NEXT GROWTH PHASE

Having evolved as a Company through these different phases, by the beginning of FY 11, IDFC was well positioned in terms of internal capabilities as well as armed with the confidence of over a decade of successful delivery, to push for a new round of accelerated growth. And, FY 11 signalled the beginning of this phase. With a significant growth in infrastructure development projects in India, IDFC is now focused on aggressively leveraging opportunities and rapidly increasing its business size. This translates into acceleration in project finance activities and a significant growth in the loan book. At the beginning of FY 11, the Company stated its goal of tripling its balance sheet over the next 3-4 years to reach a size of ₹ 100,000 crore by March 31, 2013/2014.

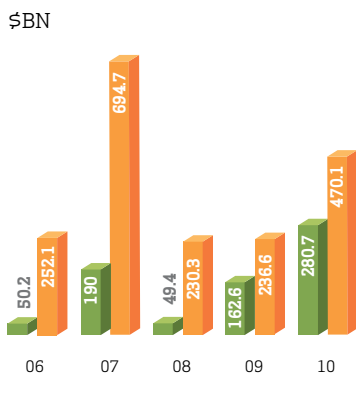
There have been certain specific developments in FY 11 that highlight the beginning of this new phase of growth for IDFC. Some of the major developments during FY 11 include:

- **INCREASING THE COMPANY'S EQUITY BASE:** IDFC augmented its Tier-1 capital by ₹ 3,494 crore through a Qualified Institutional Placement (QIP) and a preferential issue during the second quarter. Through the QIP, it raised

**A** Net Private Financial Inflow

EMERGING ECONOMIES

DEVELOPING ASIA



SOURCE: International Monetary Fund

₹ 2,654 crore at a share price of ₹ 168.25 per share. The remaining ₹ 840 crore was raised through Compulsorily Convertible Cumulative Preference Shares (CCCPS), which were preferentially issued to two investors – Khazanah (₹ 380 crore), an existing shareholder and Actis (₹ 460 crore), a founder investor who after exiting IDFC was reinvesting. The CCCPS involves a cash dividend of 6% per annum and can be converted to equity shares any time during the next 18 months at a conversion price of ₹ 176 per share. This increased equity base will help further leverage the Company to support its balance sheet growth in the future.

■ **RAISING DIRECT RETAIL BONDS FROM THE PUBLIC:** For the first time in its history, IDFC raised bonds directly from the Indian public by floating long-term IDFC Infrastructure bonds in three tranches. This bond was positioned to leverage market opportunities arising out of the ₹ 20,000 income tax exemption under Section 80CCF of the Income Tax Act, 1961 provided to individuals by the Government of India (GoI) for investments in long-term infrastructure debt issued by Infrastructure Finance Companies (IFCs). The total money raised from the three tranches was over ₹ 1,400 crore from over 7.3 lakh investors. This not only facilitated diversification of the Company's sources for mobilising long-term funds but also provided retail investors an opportunity to connect with India's infrastructure development and progress. The various communication efforts of the Company surrounding the bonds played a meaningful role in creating brand IDFC amongst relevant constituencies.

■ **FINANCIAL DEVELOPMENTS:** Driven by a 106% growth in gross disbursements to ₹ 26,702 crore in FY 11, the net loans increased by 50% to ₹ 37,652 crore. Consequently, the balance sheet has grown by 42% from ₹ 33,562 crore to ₹ 47,554 crore.

In addition, as was discussed in the Annual Report for FY 10, the Company was notified as an infrastructure finance company by the Reserve Bank of India. IDFC became the first Company to get this status. Amongst other things, this means that since April 2010, the Company could now avail of the automatic route for External Commercial Borrowing (ECBs) for up to 50% of its net worth and also, very significantly, issue infrastructure bonds to retail investors.

**THE EXTERNAL ENVIRONMENT AND IDFC**

Essentially, as a financial intermediary, IDFC's role is to mobilise global capital – debt and equity – for investments in infrastructure related projects in India. It also provides certain other financial services, which are all related to infrastructure financing. Therefore, on the supply side, the Company is affected by global developments that affect international capital flows and the signalling effect that they have on India's domestic financial markets. On the demand side, it caters to the financing needs of private sector infrastructure developers in India, which is directly related to the pace of new project development in the economy. In addition, IDFC also caters to the refinancing requirements of long-term project investments.

The global recovery is gaining strength with world output recovering from 0.6% contraction in 2009 to 5% growth in 2010. However, the growth is two-paced. The developing and emerging economies witnessed 7.1% growth in 2010 compared to 2.6% in 2009, while the advanced economies recovered from a 3.6% contraction in output during 2009 to a growth of 3% in 2010. Consequently, unemployment remains high in advanced economies, and new macroeconomic risks are building in emerging market economies. In advanced economies, the handoff from public to private demand is advancing, reducing concerns that diminishing fiscal policy support might cause a "double-dip" recession. Financial conditions continue to improve, although they remain fragile. In many emerging market economies, demand is robust and overheating is a growing policy concern. Rising food and commodity prices pose a threat to inflationary pressures on economies across the world. In addition, oil prices have increased significantly since January 2011 and the Middle East and North Africa are going through widespread social unrest since the beginning of 2011.

During 2010, global financial conditions broadly improved, amid lingering vulnerabilities. Equity markets rose, risk spreads continued to tighten and bank lending conditions in major advanced economies eased, even for small and medium-sized firms. Nonetheless, pockets of vulnerability persisted; real estate markets and household income were still weak in some major advanced

## The global recovery is gaining strength with world output recovering from 0.6% contraction in 2009 to 5% growth in 2010.

economies like the United States, and securitisation remained subdued. Financial turbulence re-emerged in the periphery of the Euro area in the last quarter of 2010. Concerns about banking sector losses and fiscal sustainability – triggered this time by the situation in Ireland – led to widening spreads in these countries, in some cases reaching highs not seen since the launch of the European Economic and Monetary Union. During this bout of turbulence, markets have been more discriminating. Measures of risk aversion have not risen, equity markets in most regions have posted significant gains, and financial stresses have been limited.

Credit growth remains very subdued in the advanced economies. Bank lending conditions in the major advanced economies, including those of the Euro area, are slowly easing after a prolonged period of incremental tightening. In the meantime, credit growth has again reached high levels in many emerging market economies, particularly in Asia and Latin America. Global capital flows rebounded sharply, following the collapse during the crisis, especially into emerging markets. Chart A tracks the growth of net private capital inflow into emerging economies and especially into developing Asia, including India. There has been steady growth in 2010 over 2009 and for developing Asia, it has surpassed pre-crisis levels.

Accordingly, stock markets and credit in emerging market economies have rebounded unusually fast from deep falls during the crisis of 2008. Strong growth prospects and relatively high yields are attracting flows into emerging markets. Sluggish activity and damaged financial systems continue to depress flows between advanced economies.

The recovery has been led so far by portfolio and bank flows, with a falling share of foreign direct investment inflows. These developments mark a departure from earlier experience and may raise the risk of future instability, including capital outflows in an environment where advanced economies tighten their monetary policy and raise interest rates. However, during fall 2010, the capital flow-

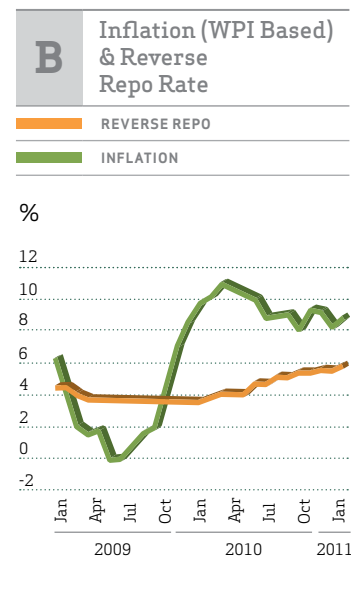
driven rally in emerging market assets slowed again. While long-term signs are positive, there is still much uncertainty in the global financial system including widespread sovereign risk issues, particularly in Europe. So, given the global cues, while signs were positive for the Indian financial system, it remained exposed to significant volatility.

India, too, is facing the pressure of food and commodity price-based inflation. Given the continuously high levels of inflation through FY 11, the Reserve Bank of India (RBI) has had no option but to tighten monetary policies. This has resulted in an increase in domestic interest rates. Chart B shows the gradual increase in benchmark interest rates in line with the high levels of inflation. One can see that inflation continues to be over 8% for most of FY 11, while the repo rate (benchmark interest rate) has increased from 4.75% in January 2010 to 6.5% in January 2011.

The environment of high interest rates has a negative impact on sentiments of developers who are investing long-term in infrastructure projects. Such an interest rate scenario also affects the profitability of long-term infrastructure projects and if this continues for a while, there could be an adverse impact on investments.

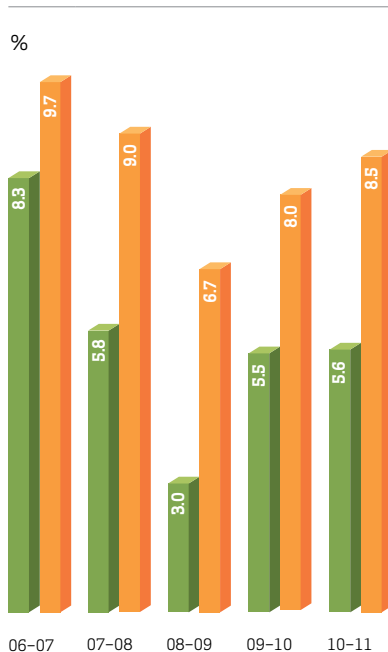
On a positive note, India continued to maintain its high growth trajectory – advanced GDP estimates suggest a growth of 8.5% in FY 11 compared to 8.0% in FY 10. The growth in the core infrastructure sectors in FY 11 continued to be in line with the over 5.5% growth in FY 10 (Chart C).

The sustained economic growth has led to positive sentiments amongst infrastructure developers in India and there is a strong propensity to invest. The fact that the core infrastructure sectors have grown by over 5.5% shows that there has been implementation of past projects. However, given the needs of an economy growing by over 8% on a sustained basis, there is much greater scope of growth in infrastructure development. The impetus in new project development seen in the last quarter of FY 10 and in the first half of FY 11 started slowing down as the year progressed.



SOURCE: Reserve Bank of India

## G GDP & Infrastructure Growth



April to January for Infrastructure Growth

SOURCE: CSO, Finance Ministry (Government of India)

In a political environment where several past irregularities related to private-public dealings came to light in the infrastructure sector, there was very little progress in infrastructure development in India during the second half of FY 11. Importantly, there was a dampener in the two large sectors – roads and power. The roads sector witnessed some administrative problems with the nodal agency – National Highways Authority of India (NHAI), and the pace at which it planned and developed projects was not in sync with the proposed targets announced at the beginning of 2010. The new power projects are also facing certain developmental issues, especially to do with coal linkages. Also, there has been an increase in risk perception of these power projects, given the continuous deterioration in the financial health of their principal clients – the State Electricity Boards. Having said so, given the needs of a growing economy, there continue to be large market opportunities in these businesses.

Given the prevailing business environment and the positioning of the Company, IDFC accelerated the growth of its loan book. Some of this growth had already started in the second half of FY 10, when approvals increased significantly. Much of these also translated into disbursements during the first half of FY 11. While emphasising balance sheet growth, IDFC took care to maintain its standards of credit selection. Its portfolio of assets are reviewed periodically during the year at the Board level and reviews are also carried out to stress test the health of the portfolio for current issues. Impact of fuel linkages and offtaker risk on the health of the power portfolio were assessed when these issues began to threaten the power growth story. This business growth thrust was supported by an aggressive, multi-pronged fund raising programme, which also tapped the retail market for the first time. As discussed before, the Company has enhanced its equity base, which can be further leveraged in the future. Across the entire group, there was strong focus on controlling costs and reducing operating expenses to enhance profitability. These developments are reflected in the financial performance of the Company during FY 11.

## FY 11: IDFC'S PERFORMANCE HIGHLIGHTS

The Company's business performance is given in Highlights of Consolidated Performances given on next page.

2011 was the year of the balance sheet. The balance sheet size increased by 42% to ₹ 47,554 crore and net loans increased by 50% to ₹ 37,652 crore.

Operating income increased by 21% to ₹ 2,547 crore in FY 11. This growth has been the result of a significant increase in lending activities – net interest income increased by 47% to ₹ 1,645 crore in FY 11. On the other hand, due to headwinds in the public markets, asset management business and lower principal gains in FY 11, non-interest fee based businesses witnessed some slowdown – non interest income decreased by 8% to ₹ 875 crore in FY 11. Although loan related and other fees increased by 35% to ₹ 194 crore, income from the Company's subsidiaries which have been transferred to IDFC Foundation (a Section 25 Company) is no longer included under this revenue line. Normalised for this structural change, the increase in loan related and other fees would have been 81%.

Alongwith the growth, IDFC maintained its focus on the quality of its assets. As of March 31, 2011, IDFC had only 0.2% gross Non-Performing Assets (NPA) and 0.1% net Non-Performing Assets (NPA).

The balance sheet continues to be strong and well positioned to support the growth trajectory ahead. IDFC has guided the market towards tripling its balance sheet over the next 3-4 years (₹ 100,000 crore balance sheet by March 31, 2014). With the infusion of equity, the Company's capital adequacy ratio increased from 20% as of March 31, 2010 to 24% as of March 31, 2011, out of which Tier I capital increased from 17% to 22%. As of March 31, 2011, leverage was at 4.2x, which is reflective of the fact that IDFC can grow the balance sheet to its guided path of ₹ 100,000 crore.

Operating expenses declined by 3% to ₹ 533 crore. The creation of a Section 25 Company, i.e. IDFC Foundation, resulted in expenses of subsidiaries transferred to the Foundation not being included. On a normalised basis, operating expenses increased by 3%. The focus on streamlining costs and optimisation of its operating leverage translated to cost/ income

ratio declining to 20.9% in FY 11 from 24.5% (normalised) in FY 10. These efforts also contributed to improved margins at the pre-provisioning PBT (Profit before Tax) level – PBT/Operating income increased from 74% in FY 10 to 79% in FY 11. And, PBT has grown by 25%, while PAT (Profit after Tax) increased by 21%.

## STRATEGIC BUSINESS UNITS (SBUs)

Today, IDFC is essentially a multiple portfolio of businesses, which together serve the needs of infrastructure development in India. It is a conglomeration of 11 direct subsidiaries, 12 indirect subsidiaries and IDFC Foundation which encapsulates 3 Joint Ventures (JVs) and 2 Trusts. While the individual businesses have their own operational models and financial deliverables, they provide specific focused services, often working in conjunction to support IDFC's overall 'complete solutions provider' offering.

The different SBUs are structured into 4 broad platforms – **Corporate and Investment Bank (CIB), Alternative Asset Management (AAM), Public Market Asset Management (PAM) and Other Businesses**. In addition, the Company also does policy advisory, Corporate Social Responsibility (CSR) and Private Public Partnership (PPP) advisory through the IDFC Foundation, which was incorporated in FY 11, as a Section 25 Company. The activities of this Foundation are detailed out in a separate chapter in this Annual Report.

### CORPORATE AND INVESTMENT BANK

This platform comprises the following SBUs – project finance, fixed income and treasury and investment banking and institutional brokerage.

The first two SBUs – project finance and fixed income and treasury – have strong direct inter-linkages. They are capital intensive businesses whose activities have a direct bearing on the Company's own balance sheet. These SBUs are the primary source of interest income for the Company. The other businesses mainly generate fee based income and are much less capital intensive. These businesses have very strong correlation with developments in the Indian financial markets.

A more detailed description of the different SBUs are given below:

**1. PROJECT FINANCE:** Project Finance is the core of the Company's business model, meeting the debt requirements of projects and companies dominant focus. At times, the SBU opportunistically invests in equity of projects/ Companies. The increased capital base of the Company has facilitated the SBU's engagement with the larger infrastructure groups in a more meaningful manner. The SBU also provides opportunities to other SBUs to better leverage the Company's equation with various groups focused on infrastructure. Going forward, the thrust will be on symbiotic harvesting of strong client relationships across the platform. The 'One Firm' initiative should manifest itself both internally and externally.

**2. FIXED INCOME AND TREASURY:** This SBU focuses on the fixed income market. It comprises treasury business which relates to active management of liquidity and investment in debt instruments and debt capital markets business (was earlier a part of investment banking) which focuses on advising clients on their debt fund raising and helps them mobilise debt capital from the market. This SBU also manages a small proprietary equity trading book focused on harvesting equity trading opportunities that the listed market could offer.

**3. INVESTMENT BANKING AND INSTITUTIONAL BROKERAGE:** These businesses were earlier under the IDFC-SSKI platform. Today, the investment banking is carried out by IDFC Capital Limited, while IDFC Securities undertakes the institutional brokerage business. Both these businesses are impacted by capital market volatility as the investment bank focuses on advisory fees primarily for raising equity and the institutional brokerage business generates transaction based brokerage fees.

### ALTERNATIVE ASSET MANAGEMENT

This includes alternative asset management businesses including project equity and private equity. Returns are typically in the form of fund management fees – which have a fixed element and may be supplemented by a 'carry'. IDFC typically invests 5-10% in the funds it manages in the alternative space. Going forward, IDFC's participation in the equity space would dominantly be through its various alternative funds and/or through co-investments.

## Highlights of Consolidated Performances

(₹ in Crore)

<b>NET LOANS</b>	FY 10 25,031
<b>↑ 50%</b>	FY 11 <b>37,652</b>
<b>OPERATING INCOME</b>	FY 10 2,107
<b>↑ 21%</b>	FY 11 <b>2,547</b>
<b>NET INTEREST INCOME</b>	FY 10 1,117
<b>↑ 47%</b>	FY 11 <b>1,645</b>
<b>NON INTEREST INCOME</b>	FY 10 950
<b>↑ 8%</b>	FY 11 <b>875</b>
<b>PROFIT BEFORE TAX</b>	FY 10 1,429
<b>↑ 24%</b>	FY 11 <b>1,779</b>
<b>PROFIT AFTER TAX</b>	FY 10 1,062
<b>↑ 21%</b>	FY 11 <b>1,282</b>
<b>DILUTED EARNING PER SHARE</b>	FY 10 8.12
<b>↑ 7%</b>	FY 11 <b>8.71</b>

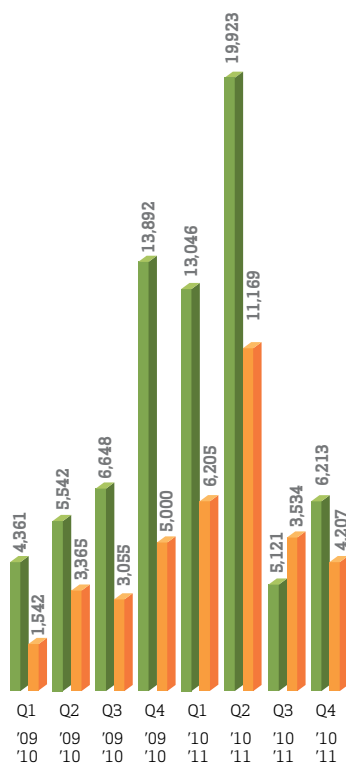
Diluted Earning Per Share is in ₹

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### Gross approvals & Gross disbursements (09-10 & 10-11)

■ GROSS APPROVALS  
■ GROSS DISBURSEMENTS

(₹ in Crore)



### PUBLIC MARKETS ASSET MANAGEMENT

This primarily comprises IDFC's mutual funds business, which is operated through the IDFC Asset Management Company – IDFC (AMC). This business was acquired from Standard Chartered Bank. Here, the Company manages different mutual fund products for institutional and retail investors. Income is generated through asset management fees and the focus is on growing the assets under management by offering suitable products and channelling private and corporate savings into the debt and equity markets. IDFC is in the process of doing a strategic alliance by divesting 25% of its stake in the AMC to Natixis Global Asset Management, a French company, which is a large asset manager in Europe. The divestment is awaiting regulatory approvals.

These business platforms are well supported by a shared services platform that includes Information Technology (IT), Human Resource (HR), Compliance, Secretarial, Risk

Management, Corporate Communication and Accounts.

### RETURN ON ASSETS (RoAs)

IDFC has consistently delivered the best-in-class RoAs. The RoA analysis tracks the profitability of the consolidated IDFC platform and the revenue contribution of various businesses.

The Net Interest Income (NII) increased from 3.6% in FY 10 to 3.8% in FY 11. NII infrastructure increased from 3.3% to 3.5% whereas NII treasury was stable at 0.3% over the two years.

Contribution from Non Interest Income declined from 3.0% to 2.0%. Contributions to RoA from Principal Investment, Asset Management and Investment Banking & Broking were at 0.8%, 1.2% and 0.6% respectively in FY 10 and they declined to 0.4%, 0.7% and 0.5% respectively in FY 11. Contribution to RoA from loan related

## 1 Return on Average Total Assets (RoA) tree

PARTICULARS	2010-2011	2009-2010
	% OF DAILY AVERAGE TOTAL ASSETS	
<b>Net Interest Income</b>	3.7	3.5
Infrastructure	3.4	3.2
Treasury	0.3	0.3
<b>Non Interest Income</b>	2.1	3.1
<b>Principal Investment</b>	0.4	0.8
<b>Asset Management</b>	0.7	1.2
Management Fees	0.6	0.9
Mutual Funds	0.3	0.4
Alternatives	0.3	0.5
Capital Gains & Carry	0.1	0.3
<b>Investment Banking &amp; Broking</b>	0.5	0.6
Investment Banking	0.3	0.4
Institutional Broking	0.2	0.2
<b>Loan Related &amp; Other Fees</b>	0.5	0.5
<b>Other Income</b>	0.1	0.1
<b>Operating Income</b>	5.9	6.7
<b>Operating expenses</b>	1.2	1.7
<b>Pre Provision Profits</b>	4.7	5.0
<b>Provisions</b>	0.5	0.4
<b>Profit Before Tax</b>	4.2	4.6
<b>Less: Provision for Tax, Profit in Associate Co, Minority Interest</b>	1.2	1.2
<b>Profit After Tax (RoA)</b>	3.0	3.4

## While there has been significant focus on growth, IDFC has continued to maintain its prudent measures on risk exposure.

and other fees was stable at 0.5% across the two years. Operating expenses and provisions in FY 10 were at 1.7% and 0.4% respectively versus 1.2% and 0.5% respectively in FY 11. Impact of tax across the two years was stable at 1.2%. Return on Assets declined from 3.4% in FY 10 to 3.0% in FY 11.

The cost to income ratio decreased from 26.0% in FY 10 to 20.9% in FY 11 reflecting the operating leverage in the Company and the focus on streamlining expenses. Effective tax rate increased from 25.6% in FY 10 to 28.0% in FY 11. Leverage as on March 31, 2011 was 4.2 times and RoE decreased from 15.8% in FY 10 to 12.9% in FY 11.

In the next section, we will do a more detailed evaluation of performance and developments of the different business platforms in FY 11.

### CORPORATE AND INVESTMENT BANK

#### PROJECT FINANCE

The project finance SBU undertakes the fundamental role of evaluating projects and financing customers by developing different financing structures through using various financial instruments.

FY 11 saw a significant growth in the project funding business, both in terms of disbursements and approvals. Chart D tracks the gross approvals and disbursements on a quarterly basis over FY 10 and FY 11. As discussed in last year's Annual Report, IDFC had witnessed a quantum increase in approvals in Q4, FY 10. Many of these actually translated into disbursements in the first half of FY 11. In addition, gross approvals continued to maintain its high levels in Q1 and Q2 of FY 11. Consequently, the first half witnessed a massive 116% increase in disbursements compared to the second half of FY 10. Clearly, the secular growth trend witnessed in Q4, FY 10 continued through the first half of FY 11. Subsequently, in the second half, there has been a slight slowdown in both approvals and disbursements. There has been a slight tempering to the flurry of activities seen at the

beginning of the year. Essentially, FY 11 has been a year when there has been a good flow of approvals and past approvals have been converted to disbursements. Consequently, the underlying project finance asset base has reached a different level in terms of size.

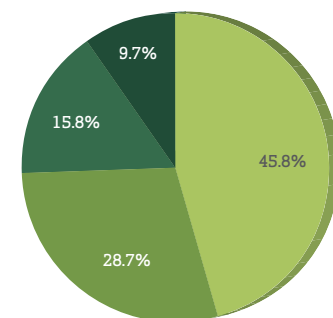
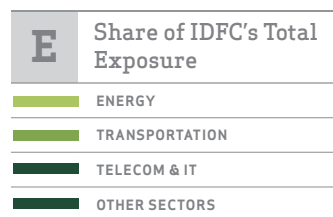
■ Annual gross approvals, including equity and non-funded assistance, increased by 40% to ₹ 42,716 crore (₹ 427.1 billion) in FY 11, while net approvals grew by 29% to ₹ 27,424 crore (₹ 274.2 billion).

■ Annual gross disbursements, including equity, rose by 106% to ₹ 26,702 crore (₹ 267.0 billion) in FY 11, while net disbursements grew by 184% to ₹ 14,009 crore (₹ 140.0 billion).

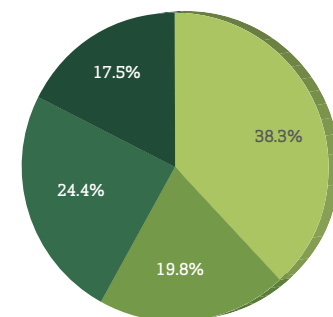
■ Net interest income from infrastructure lending activities increased by 47% from ₹ 1,021 crore (₹ 10.2 billion) in FY 10 to ₹ 1,501 crore (₹ 15.0 billion) in FY 11.

While there has been significant focus on growth, IDFC has continued to maintain its prudent measures on risk exposure. The financial instruments used to structure project finance include corporate loans, project loans, subordinated debt, and loans against shares, mezzanine finance, and equity. Each of these instruments has a different risk profile. While loans and quasi-debt have lower risk exposure, equity and quasi-equity have higher risk exposure. Having said so, the higher risk instruments naturally have higher potential returns on an upside.

IDFC has stated that going forward, its participation in the equities space would essentially be through its various alternative funds or through co-investments. Consequently, proportion of loans and sub-debt in IDFC's total exposure continues to grow at the expense of equity and equity related instruments. Share of loans and sub-debt increased from 91.2% as on March 31, 2010 to 91.7% as on March 31, 2011, while that of equity and preference shares have reduced from 6.6% as on March 31, 2010 to 4.7% as on March 31, 2011. Within loans, too, the relatively riskier loans against shares reduced from 3.3% as on March 31, 2010 to 1.1% as on March 31, 2011.



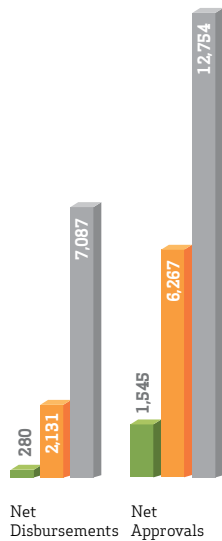
10-11



09-10

<b>F</b>	<b>Net approvals &amp; Net disbursements - Energy (08-09, 09-10 &amp; 10-11)</b>
	2008-09
	2009-10
	2010-11

(₹ in Crore)



These activities led to a 50% increase in the net loan book from ₹ 25,031 crore (₹ 250.3 billion) in FY 10 to ₹ 37,652 crore (₹ 376.5 billion) in FY 11.

IDFC's project finance business concentrates on four infrastructure sectors – Energy, Transportation, Telecom and IT and Others.

Total exposure increased by 32.9% to ₹ 58,273 crore. It is evident from Chart E that the two traditionally dominant sectors – Energy and Transportation – continued to increase its share in IDFC's total exposure during FY 11. The Energy sector share increased significantly from 38.3% in FY 10 to 45.8% in FY 11, while that of Transportation also increased from 19.8% in FY 10 to 28.7% in FY 11. In contrast, the share of Telecom and IT decreased significantly from 24.4% in FY 10 to 15.8% in FY 11, while that of Others reduced from 17.5% in FY 10 to 9.7% in FY 11. Others include industrial, commercial and tourism, new players in steel and cement and some equity investments. These trends are in line with IDFC's risk return based investment philosophy and the business environment.

Essentially, the Energy and Transportation sectors are witnessing large new investments, while Telecom and IT has large players who are well entrenched in their business. The risk profiles of the other sectors, on average, are higher.

### ENERGY

There is a vast opportunity for growth in the field of power generation, transmission, and distribution in India, as there remains a large supply-demand gap.

Within this sector, IDFC focuses on financing electricity generation. By the end of 2012, estimates suggest that the country needs an additional 100000 MW of generation capacity. Meeting such demand requires huge capital investments, and numerous power generation companies both domestic and from across the globe, have been establishing their operations in the country. Most of these have adopted Private Public Partnership (PPP) models. Thus, it is a market with major opportunities. However, two factors have slowed down the sector to some extent. First, new power generation projects are finding road blocks in getting adequate coal linkages. Often, this is also hampered due to environmental



**JAS TOLL ROAD** ONE OF THE EARLIEST BOT ROAD PROJECTS IN INDIA FINANCED BY IDFC

reasons. Second, most of the PPP models are based on purchase guarantees from State Electricity Boards (SEBs). The SEBs are witnessing financial problems and this in turn is increasing the risk of the power generation projects that rely on SEB off-takes. The hydro-electric sector is also witnessing several issues related to environment degradation and the pace of development has been thwarted.

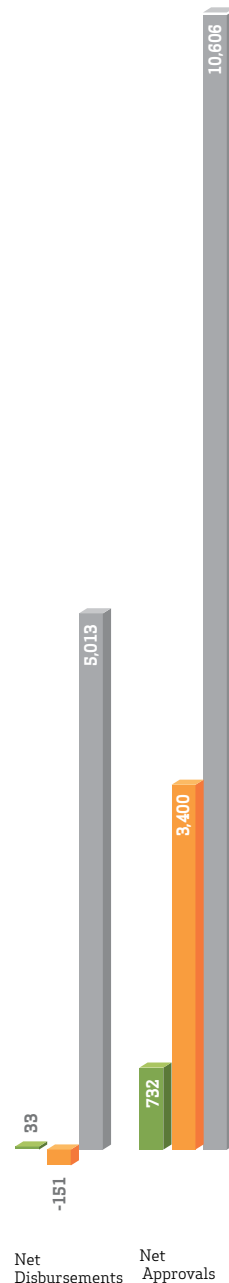
IDFC has mainly catered to the thermal power generation projects. It has made an entry into the hydro-electric sector. However, as stated above, these projects have slowed down significantly. Renewable energy generation is another area where the Company has been actively partnering players, especially in the wind energy space. Riding on market growth, IDFC has significantly increased its play in financing energy projects.

■ As on March 31, 2011, IDFC's total exposure in the Energy sector was ₹ 26,707 crore (₹ 267.0 billion).



**G** Net approvals & Net disbursements - Transportation (08-09, 09-10 & 10-11)

(₹ in Crore)



- Gross approvals increased by 98% from ₹ 9,131 crore (₹ 91.3 billion) in FY 10 to ₹ 18,081 crore (₹ 180.8 billion) in FY 11.
- Gross disbursements rose by 137% from ₹ 4,113 crore (₹ 41.1 billion) in FY 10 to ₹ 9,750 crore (₹ 97.5 billion) in FY 11.

Chart F plots the secular trend in growth in net approvals and net disbursements in the Energy sector in the last 3 years.

## TRANSPORTATION

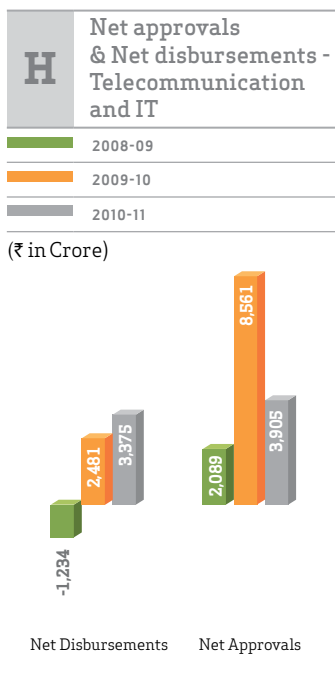
In Transportation, IDFC works on the financing of roads, airports, ports, container terminals, and gas and oil pipelines. While the roads development programme gained momentum at the beginning of the year with several large projects being developed, as the year progressed, there was virtual stagnation. There has again been some pick-up in the last quarter of FY 11. IDFC made most of the opportunities in the last quarter of FY 10 and Q1, FY 11

and evaluated and approved several projects. Consequently, there has been a significant increase, both in terms of approvals and disbursements in this sector. Chart G plots the growth in net approvals and net disbursements in Transportation sector in the last 3 years.

- As on March 31, 2011, IDFC's total exposure in the Transportation sector was ₹ 16,717 crore (₹ 167.1 billion).
- Gross approvals increased by 188% from ₹ 4,912 crore (₹ 49.1 billion) in FY 10 to ₹ 14,154 crore (₹ 141.5 billion) in FY 11.
- Gross disbursements grew by 317% from ₹ 1,793 crore (₹ 17.9 billion) in FY 10 to ₹ 7,475 crore (₹ 74.7 billion) in FY 11.

## TELECOMMUNICATION AND IT

The Telecommunication (telecom) industry in India has witnessed one of the most successful growth stories in infrastructure development in



modern India. Today, the industry is dominated by some very large players who have very strong balance sheets and own investing capacities. There is, however, scope of financing projects that deal with technology upgradation in this space like the advent of 3G and mobile applications. The industry has witnessed some turmoil given the allegations on discrepancies arising out of the process used in allocating 2G spectrum licenses to certain new players in FY 08. However, IDFC's telecom portfolio is comfortably positioned and is not affected by the new 2G licenses issue.

Naturally, given the market, IDFC's exposure to this sector reduced in FY 11. However, many of the large approvals in the last quarter of FY 10 were disbursed in the first half of FY 11 contributing to a large growth in disbursements. IDFC also continued to focus on other opportunities in the telecom infrastructure space, especially telecom towers and those dealing with technology advancements.

■ As on March 31, 2011, IDFC's total exposure in the telecommunication sector was ₹ 9,222 crore (₹ 92.2 billion).

■ Gross approvals reduced by 23% from ₹ 12,401 crore (₹ 124.0 billion) in FY 10 to ₹ 9,510 crore (₹ 95.1 billion) in FY 11.

■ Gross disbursements increased by 139% from ₹ 3,670 crore (₹ 36.7 billion) in FY 10 to ₹ 8,761 crore (₹ 87.6 billion) in FY 11.

Chart H plots net approvals and net disbursements in the telecommunication and IT sector in the last 3 years.

### OTHER SECTORS

This segment used to rely a lot on real estate. However, given the fact that real estate does not qualify as infrastructure and hence, as an IFC IDFC can only have a very limited exposure to this space and given the uncertainties in the real estate sector – primarily commercial real estate – IDFC is cautious in this segment. However, in a calibrated manner, and based on the past record of various promoters, the Company does make some investments.

■ As on March 31, 2011, IDFC's total exposure to Other Sectors was ₹ 5,626 crore (₹ 56.2 billion).

■ Gross approvals decreased by 76% from ₹ 3,998 crore (₹ 39.9 billion) in FY 10 to ₹ 971 crore (₹ 9.7 billion) in FY 11.

■ Gross disbursements decreased by 79% from ₹ 3,385 crore (₹ 33.8 billion) in FY 10 to ₹ 717 crore (₹ 7.1 billion) in FY 11.

Chart I plots the net approvals and net disbursements in Commercial and Industrial Infrastructure sectors, forming part of Other Sectors, in the last 3 years.

### INVESTMENT BANKING AND INSTITUTIONAL BROKERAGE

This SBU is the erstwhile IDFC-SSKI platform that focuses on investment banking and institutional brokerage. In this business, positioning and quality delivery is critical. The SBU utilises the in-house expertise and brand positioning of IDFC to create a niche for itself in the market place. Total income from this SBU increased by 9% from ₹ 183 crore (₹ 1.8 billion) in FY 10 to ₹ 199 crore (₹ 1.9 billion) in FY 11.

In the investment banking part of the operations, it provided a gamut of advisory services across different areas like syndication, structured finance, corporate debt and equity market advisory. As discussed before, at the end of the year there has been an internal restructuring to provide better focus and support to the SBUs, where the debt capital market business has been hived out of the investment banking business and positioned with the treasury function. Consequently, the investment bank will have concerted focus mainly on the equity markets. As a SEBI-registered Category-1 merchant banker, IDFC Investment Banking has already led initial public offerings (IPOs) of some of the most prominent Indian companies. It also undertakes activities like private equity syndication, QIPs, international offerings like GDRs, ADRs, FCCBs, and project advisory and merger and acquisition services.

Given the volatility in markets, there was a slowdown in primary market activities in the middle of the year. In this environment, income from investment banking activities increased by 28% from ₹ 101 crore (₹ 1.0 billion) in FY 10 to ₹ 129 crore (₹ 1.3 billion) in FY 11.

IDFC Institutional Equities caters to most of the prominent financial institutions, foreign

and domestic, investing in Indian equities. This institutional brokerage business is based on strong research-led investment ideas, superior client servicing track record and exceptional execution skills. It caters to a wide variety of investors including Pension Funds, Long-only Funds, Hedge Funds, Mutual Funds, Banks, Insurance companies and Portfolio Management companies and has a client base of over 100 large clients spread across India, Far East, UK and USA. Market volatilities during FY 11 resulted in higher risk perception and lower participation in the Indian equity market. Consequently, transactions were lower and the business, which is based on transaction fees, was affected. Income from the institutional brokerage business (net of statutory dues) decreased by 24% from ₹ 70 crore (₹ 0.7 billion) in FY 10 to ₹ 53 crore (₹ 0.5 billion) in FY 11.

Notwithstanding the volatility in the capital markets, FY 11 witnessed the SBU being ranked as the number 2 investment bank in the private sector as per Bloomberg League Table for 2010. Also, two of the research team analysts were ranked in the Top 10 by Asia Money for 2010.

#### FIXED INCOME AND TREASURY

After the recent restructuring, this SBU now includes treasury management, the proprietary equity trading book for equity trading. In addition, with the integration, it will also include the corporate bond underwriting book for active participation in the primary corporate bond market and the structured finance book to originate, structure and sell-down or distribute structured products.

#### TREASURY

As the focus of the Company shifted to high growth based on expanding the balance sheet, much of treasury function's challenge was to raise capital and maintain sufficient liquidity to support the project finance operations. In an environment of higher costs of finance, by developing effective duration relationships between its assets and liabilities, the treasury function successfully supported the objective of balance sheet growth and maintained interest spread.

■ As on March 31, 2011, the asset duration was 2.07 years while the liability duration was 2.74 years. This bears testimony to the business' ability to forecast and take appropriate calls in the fixed income markets without taking undue risks.

■ Treasury assets increased by 28% from 5,049 crore (₹ 50.4 billion) on March 31, 2010 to ₹ 6,464 crore (₹ 64.6 billion) on March 31, 2011.

■ Net interest income from treasury operations increased by 49% from ₹ 96 crore (₹ 0.96 billion) in FY 10 to ₹ 144 crore (₹ 1.4 billion) in FY 11.

#### DEBT CAPITAL MARKETS

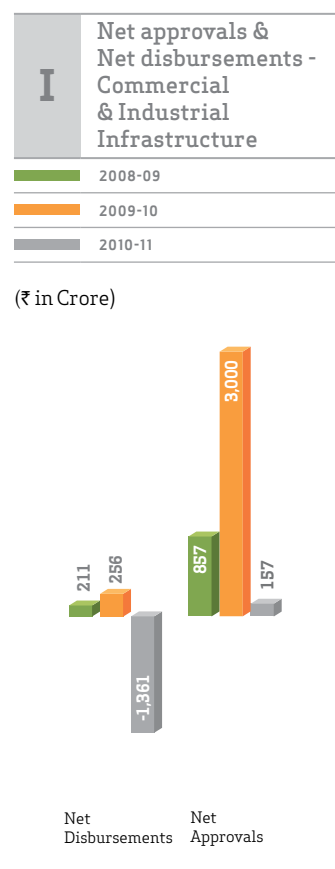
During FY 11, this business was carried out through the investment bank – IDFC Capital. Since bond underwriting and structured finance activities require active balance sheet support, at the end of the year, it has been integrated into the fixed income and treasury SBU. It generated an operating income of around ₹ 30 crore (₹ 0.3 billion) in FY 11.

#### PRINCIPAL INVESTMENTS

Principal investments are directly made from the Company's own balance sheet, which form part of proprietary investments. There are different objectives with which principal investments are made. Most of these are to support the larger IDFC business platform. There are some investments that have long-term exit plans, which can be termed active and generate most of the returns, while others are more passive. The relatively more active parts of the proprietary equity book are the:

■ **INFRASTRUCTURE INVESTMENTS**, which are generally made to build longer term relationships with sponsors by supplementing project finance with some direct equity stake in projects and supporting them by sharing risks. This is essentially intrinsically linked to the project finance business. Even here given the Company's focus on creating more stable asset base, there is less emphasis on making equity investments while financing projects.

The other 3 broad categories of investments are fairly passive. These include:





**IIR 2010 RELEASE** SHRI SURESH PRABHU, CHAIRMAN OF COUNCIL OF ENVIRONMENT, POWER & WATER, WITH DR. LALL, MD & CEO, IDFC, RELEASING THE IIR 2010 "INFRASTRUCTURE DEVELOPMENT IN A LOW CARBON ECONOMY"

- **STRATEGIC INVESTMENTS**, where IDFC picks up stake in entities to further strengthen its business offering or for some strategic purpose that is central to the Company's long-term objectives. These investments total ₹ 1,365 crore (₹ 13.6 billion) as on March 31, 2011.
- **FINANCIAL INVESTMENTS**, includes investments in NSE, STCI and ARCIL. These investments total ₹ 373 crore (₹ 3.7 billion) as on March 31, 2011.
- **INVESTMENT IN VENTURE CAPITAL UNITS**, for funds which are sponsored and managed by IDFC. These investments total ₹ 454 crore (₹ 4.5 billion) as on March 31, 2011.

Given the volatility in equity markets, the returns in terms of capital gains and dividends decreased during FY 11.

- **As on March 31, 2011, total exposure on IDFC's equity asset book, excluding strategic investments, was ₹ 2,936 crore (₹ 29.3 billion).**

- **Outstanding disbursements, or the equity book, decreased by 1% from ₹ 2,057 crore (₹ 20.5 billion) as on March 31, 2010 to ₹ 2,042 crore (₹ 20.4 billion) as on March 31, 2011.**
- **Income from the Company's principal investments, which includes dividends and capital gains, decreased by 27% from ₹ 261 crore (₹ 2.6 billion) in FY 10 to ₹ 191 crore (₹ 1.9 billion) in FY 11.**

#### **ALTERNATIVE ASSET MANAGEMENT**

The SBU focuses on mobilising and managing third party equity based funds. There are two broad groups – private equity and project equity. As of March 31, 2011, the total Assets Under Management (AUM) across private equity and project equity business was ₹ 8,681 crore (US\$ 2 billion at exchange rate of US\$ 1 = ₹ 44.59).

## PRIVATE EQUITY

The private equity business is carried out through the Company's wholly owned subsidiary – IDFC Private Equity Company Limited ('IDFC Private Equity'). Its activities are centred on mobilising private equity into infrastructure centric funds and providing equity-based risk capital to early stage as well as fast growing infrastructure companies. Returns are generated through asset management fees and a 'carry' on capital appreciation.

Given the volatile global financial market conditions, IDFC Private Equity continued to focus on maintaining the existing funds. The three funds under management are:

■ **INDIA DEVELOPMENT FUND:** This manages assets worth ₹ 265 crore (US\$ 0.1 billion). The original corpus of the fund has been already paid back to investors.

■ **IDFC PRIVATE EQUITY FUND II:** Assets Under Management (AUM) is ₹ 1,677 crore (US\$ 0.4 billion), which has been fully invested.

■ **IDFC PRIVATE EQUITY FUND III:** This has an AUM of ₹ 2,903 crore (US\$ 0.8 billion). With investment calls in FY 11, Fund III is now 51% committed.

Apart from pure fund management through the private equity platform, IDFC also supplements its project lending activities by providing critical equity capital to some of its clients.

■ As of March 31, 2011, total assets under IDFC Private Equity's management were US\$ 1.1 billion or ₹ 4,845 crore (₹ 48.4 billion at exchange rate of US\$1 = ₹ 44.59). Operating income from Private Equity reduced by 14% to ₹ 85 crore in FY 11.

## PROJECT EQUITY

IDFC's project equity invests in operating assets of infrastructure projects. Much of these investments are in the post-construction and stabilisation stage. Being investments in the post-implementation phase, these have lower risk-return profiles compared to the pure private equity plays.

It manages ₹ 3,837 crore (US\$ 0.9 billion) India Infrastructure Fund, which had achieved final closure in June 2009. As of March 31,

2011, total assets under IDFC Project Equity's management were US\$ 0.4 billion or ₹ 1,628 crore. IDFC has made a US\$ 100 million investment into this fund. The investment objective of this fund is to:

■ achieve attractive risk-adjusted returns over the long-term by investing in infrastructure in India

■ seek investments in infrastructure that are expected to deliver strong, predictable and stable cash flows in the form of dividend distributions with low volatility of returns and potential for capital growth.

To achieve this goal, it has deployed a strategy of focusing on infrastructure equity, attractive risk return equation, diversified portfolio, long-term investment horizon and active management and governance through investment rights.

While the focus was on fund maintenance, the India Infrastructure fund has called 44% of its total capital commitments as of March 31, 2011. The fund has invested ₹ 1,423 crore across 13 portfolio companies. Operating income from Project Equity reduced marginally by 2% to ₹ 60 crore in FY 11.

## PUBLIC MARKETS ASSET MANAGEMENT

This SBU is administered through the asset management company – IDFC AMC. Their primary business is the IDFC Mutual Fund, which was acquired from Standard Chartered Bank in 2008. The AMC offers a slew of funds that cater to the different investment needs of both institutions and individuals. These include equity schemes, income or liquid funds and hybrid products. It continues to focus on creating and nurturing wider and improved channels and offering a larger basket of products to target a wider customer base.

While the AMC continued with its aggressive growth efforts, market conditions were volatile in FY 11. Consequently, the assets under the Mutual Fund's management decreased from ₹ 25,775 crore (₹ 257.7 billion) as on March 31, 2010 to ₹ 23,702 crore (₹ 237.0 billion) as on March 31, 2011. IDFC Mutual Fund has the twelfth largest AUM amongst mutual funds in India.

IDFC AMC also manages a private wealth management company called IDFC Investment

Advisors (IDFC IA) that targets High Networth Individuals (HNIs) for personal wealth management. IDFC IA has an AUM of ₹ 690 crore as on March 31, 2011. Total operating income of IDFC AMC & IDFC IA decreased by 16% to ₹ 112 crore (₹ 1.1 billion) in FY 11.

In December 2010, IDFC and Natixis Global Asset Management (NGAM) entered into a strategic partnership for the public markets asset management business. This partnership will allow both players to mutually leverage their positioning. While IDFC AMC will get the opportunity to significantly enhance its international distribution and gain access to global investors who are keen to participate in India's growth and invest in Indian equity markets, NGAM will get to expand its global footprint. NGAM already has a significant presence in Asia, including Japan, Taiwan, Singapore and China. In addition, this partnership will give IDFC AMC the ability to offer domestic investors access to international investment opportunities through investment products managed by NGAM. As part of the deal, NGAM will acquire a 25% minority stake in IDFC AMC and the Trustee Company subject to regulatory approvals.

## RISK MANAGEMENT

IDFC is into the second year of implementing a comprehensive Enterprise Risk Management (ERM) framework that adopts an integrated approach to manage all the three types of risks – market risk, credit risk and operational risk. The ERM has been adopted across all entities in the IDFC group.

Traditionally, IDFC has had strong risk management practices related to market risk and credit risk front. Regarding market risk, there is focus on loan portfolio assessment, asset-liability management, and loan pricing. Given the rising volatility of interest rates as well as introduction of new products in the treasury portfolio, IDFC has also increased the level of monitoring of market risk. This involves measuring interest rate risk on a regular basis as well as testing newer models for analysis. In addition, the Company has been developing various market risk modules.

On the credit risk front, there is a comprehensive portfolio review of all project assets and equity investments of the Company on a semi-annual basis. Each credit risk is

analysed individually and then integrated at the portfolio level. The overall portfolio risk report is regularly presented to a Board Committee comprising entirely independent directors. The Risk Group also closely focuses on Asset-Liability Management (ALM). To enhance the effectiveness of the current process of regular monitoring of liquidity and interest rate risks, IDFC has sourced a sophisticated software-based ALM system.

Since FY 10 there has been a concerted effort to focus on an organisation-wide operations risk management framework. Initially, awareness was created at the Board level and downwards. However, the implementation process followed a bottoms-up approach that makes every unit across different business segments aware of the risks related to its operations. Post creating awareness, the focus is on managing some of the top risks in terms of probability of occurrence and impact. A system has also been devised to convert these into SBU-wise and unit-wise heat maps.

The risk management system is supported by customised software, which:

- allows real-time tracking and monitoring of all types of risks;
- provides precise information on activities, risks and controls to all;
- has the capability to track, understand and manage information across the organisation;
- generates risk heat maps at all levels of the business;
- shows the list of open issues at any point of time;
- sets up central repository for all policy and procedures;
- standardised policies and procedures;
- provides trend analysis on risk history to take proactive measures.

The entire Company, including the risk management system, is governed by a structure that cuts across the different businesses. At the top of this structure are six Board-level committees – the Executive Committee, the Audit Committee, the Compensation Committee, the Investors' Grievance Committee, the Risk Committee and the Nomination Committee. The terms of reference, mandate, constitution, quorum and periodicity of meetings has been re-defined in line with concepts of enterprise-wide risk management. These committees

are supported by sub-committees at the unit level and responsibilities and reporting structures are linked across all entities within IDFC.

Especially on risk management front, there are separate active sub-committees. These include the Portfolio Review Committee (for portfolio or credit risk), the Asset Liability Committee (for market risk) and the Operational Risk Committee (for operational risk). The Managing Director or his nominee and a Board member are part of these committees, in addition to other functional Managers.

## INFORMATION TECHNOLOGY

IDFC recognises Information Technology (IT) as a critical business enabler that connects people, offices, companies and all stakeholders through automation and applications. The IT function at IDFC has focused on providing end-user satisfaction by ensuring high uptimes, latest modes of communication, business aligned applications and proactive compliance to industry and regulatory needs.

In FY 11, focus was on communications channels, uptime, new business application deployment and new 'industry first' initiatives. To adopt latest technology and provide better computing experience some of the key infrastructure system software was improvised and the exchange services were upgraded. New communication channels were introduced to users to make information and network available to them inside as well as outside the office premise. In order to enhance user experience, multiple channels of communications like office communicator and wireless access across office facilities were established. In addition, a mechanism to work remotely in a secure manner was established on SSL VPN.

Many small and large application roll-outs during FY 11 not only addressed and improved transactional capabilities but also ensured higher levels of effectiveness across the IDFC group. One of the large implementations involved considerable enhancements in the enterprise wide e-business suite. New modules of asset management and procurement were introduced to support the group-wide centralised management of all

## 2 Financial Review

The abridged consolidated profit and loss accounts of IDFC for 2009-10 and 2010-11 are presented in Table 2.

₹ CRORE			
PARTICULARS	FY 2011	FY 2010	%GROWTH
<b>Net Interest Income</b>	1,645	1,117	47%
Infrastructure	1,501	1,021	47%
Treasury	144	96	50%
<b>Non Interest Income</b>	875	950	(8%)
<b>Principal Investment</b>	191	261	(27%)
<b>Asset Management</b>	291	362	(20%)
<b>Management Fees</b>	248	290	(14%)
Mutual Funds	110	132	(17%)
Alternatives	138	158	(12%)
Capital Gains & Carry	43	72	(40%)
<b>Investment Banking &amp; Broking</b>	199	183	9%
Investment Banking	146	111	32%
Institutional Broking	53	72	(27%)
<b>Loan Related &amp; Other Fees</b>	194	144	35%
<b>Other Income</b>	26	40	(34%)
<b>Operating Income</b>	2,547	2,107	21%
<b>Operating expenses</b>	533	549	(3%)
<b>Pre Provision Profits</b>	2,013	1,558	29%
<b>Provisions</b>	235	130	81%
<b>Profit Before Tax</b>	1,779	1,429	25%
<b>Less: Provision for Tax, Profit in Associate Co, Minority Interest, etc.</b>	497	367	37%
<b>Profit After Tax</b>	1,282	1,062	21%

assets. Besides these, the entire platform supporting the application and database of e-business suite were also upgraded to enable better support and stability. The core treasury application underwent an upgrade and an integration of the front, mid and back office solutions was completed. An intranet platform, 'iConnect' was also developed. This is the startup portal for all employees. A few applications were also built for improvised operations in customer management, deal tracking, branch automation and business unit assessments in the asset management businesses.

Many office processes were also automated to enable better facilities management at all the key offices. The internal software development team has now started to deliver many new applications across the group, thereby providing better cost realisations in addition to improvised process orientation.

IDFC recognises that while technology provides considerable business enablement and efficiency, it comes with its own inherent risks. To mitigate these risks, IDFC adopts standards that help in deploying technology in a secure manner. One such initiative is the adherence to ISO 27001 standards. This year the IT operations of our securities and capital market businesses were certified as ISO 27001 compliant. With this, all critical businesses of IDFC are now certified according to global standards. As an annual process, the Company consistently engages a reputed IT audit firm to do a comprehensive audit of all IT equipment, networks, applications, processes and facilities supporting the IT infrastructure. This assurance by expert agencies helps in redefining security systems.

Higher reliability was built based on the organisation's disaster recovery strategies for all the critical real time systems. Regular testing to ensure stability of this process and minimal downtime during disaster scenarios was also ensured. With a focus on corporate responsibility, FY 11 saw IDFC's data centre become the first Data Centre in India to be certified as Green (Energy Efficient) by TUV Rheinland. Since inception of the project, the Data Centre has registered a 16% improvement in energy consumption.

### IDFC FOUNDATION

During the year, IDFC's development agenda was pursued through its dedicated division – IDFC Foundation, exclusively set up for this purpose. The Governing Board of IDFC Foundation met four times during the year to review the progress achieved in its core development areas, viz. Policy Advocacy, Capacity Building, Government Transaction Advisory Services and Corporate Social Responsibility (CSR) initiatives.

In March 2011, IDFC Foundation was incorporated as a not-for-profit company under Section 25 of the Companies Act, 1956. As on March 31, 2011, IDFC's shareholdings in its joint ventures with the Governments of Karnataka, Uttarakhand and Delhi [Infrastructure Development Corporation (Karnataka) Limited - iDeCK, Uttarakhand Infrastructure Development Company Limited – U-DEC and Delhi Integrated Multi-Modal

Transit System Limited – DIMTS] and its investments in India PPP Capacity Building Trust (I-Cap) and India Infrastructure Initiative Trust (Triple-I, set up in partnership with Feedback Ventures Private Limited) for project development and advisory services, were transferred to IDFC Foundation. The entire gamut of development activities being pursued by IDFC is now coordinated and overseen by IDFC Foundation.

### POLICY ADVOCACY

Since inception, IDFC has played a pivotal role in advising governments at various levels in developing policy, legal and regulatory frameworks that enable the sustainable growth and development of various infrastructure sectors, provide affordable and high quality services to users and encourage private investment in infrastructure. While much progress has been made in telecommunications, roads, ports and airports, the Foundation now focuses on energy, urban development, and sustainable and inclusive infrastructure development. Sectoral Advisory Boards have been constituted, comprising prominent and knowledgeable persons, to advise on private financing issues as well as to advocate policies to remove impediments to the growth of these sectors.

In the energy sector, the Foundation's focus continues to be on promoting market development and competition as well as in enlarging the scope of power generation from cleaner and renewable sources of energy. The Foundation is also looking into issues of increasing energy access. In the urban sector, the focus is on water supply and sanitation, land, and affordable housing. We are working with several Ministries and high-level Committees on transport, infrastructure finance, and urban issues.

A key initiative taken during the year was the development and launch of an Infrastructure Index that tracks physical infrastructure development over time across States and at the national level. IDFC also released the India Infrastructure Report (IIR) 2010 focusing on infrastructure development in a low carbon economy, a contemporary issue for a rapidly growing country with massive infrastructure requirements. In line with the Foundation's thrust of working on sustainable



➤ IDFC SUPPORTS EDUCATION OF THE UNDERPRIVILEGED GIRL CHILD THROUGH THE NANHI KALI PROGRAMME

and inclusive infrastructure development, the forthcoming IIR 2011 would focus on Water, in particular the challenges India faces in water security and sustainability.

#### CAPACITY BUILDING INITIATIVES

I-Cap is the executing agency for the Department of Economic Affairs, Ministry of Finance, Government of India, for implementing the National PPP Capacity Building Programme for officials of State governments, urban local bodies and select Central government departments, through existing institutes of public administration across fourteen States and three central training institutes. The first phase of this programme is largely funded by a grant from KfW Development Bank. Together with a consortium of consultants appointed by the World Bank, I-Cap developed the entire syllabus, training material and course schedules for the programme. I-Cap also conducted pilot programmes to test the material prior to finalisation.

The programme was formally launched with the release of the training material developed for the programme by the Union Finance Minister (FM) at the India PPP Conclave held in December 2010. Especially noteworthy is the fact that the programme found special mention in the FM's Budget speech in February 2011. Since then I-Cap has successfully conducted three Training of Trainers (ToT) programmes for selected trainers from these institutes. The programme roll out would commence in the current year, which is consequently expected to result in improved capacities among government officials in preparing and managing PPP projects across various infrastructure sectors in these States. I-Cap is also assisting the Naya Raipur Development Authority through a dedicated project support team based at Raipur to identify and develop infrastructure projects under PPP frameworks. During the year, it also conducted programmes for senior government officials in Chhattisgarh and Assam.

The IDFC/I-Cap combine was appointed by the Ministry of Urban Development (MoUD) as the Regional Capacity Building



**IDFC'S 13TH ANNUAL REPORT FINANCIAL YEAR 2009-2010 WINS SILVER SHIELD**

IDFC's Thirteenth Annual Report for FY 2009 - 2010 has received Silver Shield – 2nd best entry award for 'ICAI Awards for Excellence in Financial Reporting' under the Category VII – Service Sector (other than Banking & Insurance) (turnover equal to or more than ₹ 500 crore).

The awardees have been selected by the panel of judges on review of accounting practices adopted by the participating enterprises in the preparation of financial statements and the policies adopted for disclosure and presentation of financial statements and other information in the Annual Reports without regard to their financial condition and operating performance.

Shri Salman Khurshid, ex-Union Minister of State (I/C), Corporate Affairs, giving the award to Shri L. K. Narayan, ex-Group CFO, IDFC and Shri Bipin Gemani, Group Director - Finance.

Hub for developing and implementing a capacity building programme for elected representatives and municipal officials under the Jawaharlal Nehru National Urban Renewal Mission for mission cities in three regions. These include the Northern Region (States of Uttarakhand, Delhi, Rajasthan and Haryana), North Eastern Region (all eight North Eastern States) and Western Region (Gujarat and Madhya Pradesh). Stakeholder consultations with key state and city officials have been held in each region to finalise the modalities of roll-out, and to understand their current and future training needs. The first programme was conducted in Rajasthan in February 2011. Subject material is presently being customised to suit the needs of various cities and the roll-out is also expected to gain momentum in the current year. I-Cap has also been conducting capacity building programmes for the urban sector in partnership with the Administrative Staff College of India, Hyderabad.

**GOVERNMENT TRANSACTION ADVISORY SERVICES**

IDFC Foundation continued to pursue its strategy of providing transaction advisory services to governments and agencies which demonstrate a propensity to change as well as to promote private sector engagement in new areas of infrastructure, in order to provide improved standards of service to

users. The Foundation has been advising the Governments of Bihar, Chhattisgarh, Madhya Pradesh, Karnataka, Gujarat, Delhi, Maharashtra and Uttarakhand, the Andaman & Nicobar (A&N) Islands administration, agencies like the Central Warehousing Corporation, Gujarat Maritime Board, Andhra Pradesh State Road Transport Corporation and Tirupati Urban Development Authority and Central Ministries such as the Ministry of Home Affairs (Delhi Police) and Ministry of Rural Development.

Some of the projects where private investors have been identified/concession agreements have been signed for implementation of infrastructure projects include state highways in Bihar, Karnataka and Gujarat, bus concessions in Delhi, tourism properties in A&N Islands, integrated solid waste management facilities in an industrial estate in Hardwar and horticulture gardens and food parks in Karnataka. Some of the newer areas where private participation is being promoted include the mechanism for authentication/certification of payments to beneficiaries under the NREGA Scheme, projects in traditional areas of medicine (AYUSH), bus terminals, bus transit systems, management services for water distribution, police housing, amusement parks and animal husbandry projects.

A substantial part of this work is accomplished through iDeCK, U-DeC and DIMTS. While iDeCK and U-DeC focus largely on project development and advisory services, DIMTS has, in addition, been assisting the Government of Delhi, Transport Department, in a range of project management, construction and O&M services. DIMTS has set up a state-of-art transportation monitoring and intelligent-signalling system and manages the issuance of driving licences on behalf of the Transport Department. It also manages a GPS-based vehicle tracking system for all the public buses in Delhi, which is currently one of the largest systems in the world. It has been acknowledged that the involvement of these agencies has made a substantial difference to the way infrastructure has been developed in these states. Especially gratifying was the public attestation of iDeCK's usefulness both by present and former officials of the Government of Karnataka at its tenth anniversary celebrations in July 2010 in Bangalore.

IDFC's mission statement setting out nation-building as a core theme has ensured that social responsibility is intrinsic to the Company's culture. In FY 2011, IDFC continued to take effective steps to make its internal operations more environmentally sustainable by obtaining, for its new registered office in Chennai, the US Green Business Council's LEED Gold Certification (Commercial Interiors), and for its central data centre, "Energy-Efficient Data Centre" certification from TUV Rheinland. It also obtained an assessment of the total carbon footprint of its internal operations from British Standards Institution (BSI) Management Systems, making it one of the few Indian companies to get such external assessment; this initial assessment will be refined and monitored in subsequent years, with the ultimate objective of making IDFC a carbon-neutral organisation.

IDFC continued to be a signatory to global initiatives on Environment, Social and Governance (ESG) issues such as the Carbon Disclosure Project ([www.cdproject.net](http://www.cdproject.net)), the United Nations Global Compact ([www.unglobalcompact.org](http://www.unglobalcompact.org)) and the UN-sponsored Principles for Responsible Investment ([www.unpri.org](http://www.unpri.org)). IDFC is one of the stocks listed on the National Stock Exchange which comprises the S&P ESG India Index, an index whose objective is to give investors exposure to 50 of the best performing stocks in the Indian market as measured on ESG parameters.

IDFC Foundation continued to support socially relevant initiatives in the infrastructure space. It invested in the equity of Pipal Tree Ventures Pvt. Ltd., a for-profit enterprise founded by professionals, engaged in providing vocational training to rural unemployed youth for semi-skilled work in the construction industry. Pipal Tree Ventures has technical partnerships with Technical & Further Education, NSW, Australia, one of the largest vocational training providers in the world, and SES, Germany and with equipment manufacturers such as Doosan, Schwing Stetter and Volvo. With its focus on rural unemployed youth and the construction sector, Pipal Tree Ventures is in a unique position to contribute to inclusive growth while also

### 3 Carbon Footprint for the financial year 2010 -2011

TYPE OF EMISSION	DESCRIPTION	IDFC'S EMISSION	AMOUNT
Scope 1	Direct GHG emissions from owned or controlled assets	Fuel used in Company vehicles, own DG sets	137 tCO <sub>2</sub> e
Scope 2	Indirect GHG emissions from the generation of energy procured from third parties for own consumption	Electricity purchased from the grid	3929 tCO <sub>2</sub> e
Scope 3 (optional reporting)	Indirect GHG emissions from the generation of energy consumed by third parties but which is a direct consequence of own activities	Fuel used in employee travel by air/train/local car hire, or energy used in the production of paper consumed by IDFC, printing of retail bond application forms, illumination of hoardings, etc.	3042 tCO <sub>2</sub> e

meeting a critical need of IDFC's clients in the construction sector.

IDFC Foundation also collaborated with Chennai City Connect Foundation, an NGO engaged in developing sustainable solutions for urban governance, to redesign two major road junctions adjacent to its Chennai office, so as to improve traffic flow, pedestrian mobility and safety; the detailed designs are under consideration by the Chennai Corporation for implementation, and would be used by CCCF as a template for other such studies.

#### CARBON FOOTPRINT

The carbon footprint of an entity is a measure of the impact its activities have on the environment in terms of the amount of greenhouse gases (GHG) produced, usually expressed in metric tonnes equivalent of carbon dioxide (tCO<sub>2</sub>e). We have measured our carbon footprint for the first time for FY 11, and this will constitute the baseline for subsequent monitoring and reduction. The carbon footprint covers all the entities and offices (with minor exceptions) controlled by IDFC, except for the joint ventures of IDFC Foundation engaged in providing government advisory services and the project SPVs/companies of IDFC Projects and IDFC Private Equity. The carbon footprint has been independently verified by BSI Management Systems India Ltd. (a subsidiary of the British Standards Institution, UK) and conforms to the ISO 14064-1 standard. Our carbon footprint for the FY 11 is given in Table 3.

## HUMAN RESOURCES

Last year we unveiled the One Firm strategy that would create a better aligned and more integrated organisation that has a sense of shared purpose and values.

Having launched this last year, this fiscal, the focus has been two pronged – first, to measure the effectiveness of our efforts in building a common culture and embedding our Values – INSPIRE across the organisation. Second, to align the senior leaders and enhance their ability to drive this initiative effectively across the entire Company.

The impact measurement and assessment of our progress in embedding the Values was done through a culture diagnostic run by YSC Inc., a leading change management consultancy, in Q1 this year. The diagnostic that was responded to by over 90% of the employees measured three elements, a) how well do we perform on the key drivers of employee engagement, b) are we building an organisation that will deliver sustainable business performance and social impact and finally c) are we living our Values.

The IDFC score of 4.57 (on a 5 point scale), puts us in the global top quartile on employee engagement, an organisation that delivers sustainable performance & social impact and living the Values. Within the overall results the relative areas of focus for development are, improving internal partnership and collaboration, focusing more sharply on talent development and creating inspirational leadership at all levels within the Company.

The results have been followed up with team level action planning to continue to enhance our effectiveness on these measures. This is a journey of continuous improvements. We truly believe that we have an opportunity to build IDFC into an iconic organisation that would be a beacon for the best talent around the world.

## STRENGTHENING LEADERSHIP

"Leadership is the capacity and will to rally men and women to a common purpose and the character which inspires confidence", so quoted the famous WWII British Field Marshal, Bernad Montgomery. Creating a strong and committed cadre of leaders who will inspire employees across the organisation to make this journey is a lynchpin in the

efforts of building a more integrated, aligned organisation that delivers an enhanced value proposition to clients and consequently, superior shareholder returns.

The IDFC Senior Leaders' Programme (ISLP), is a unique leadership development initiative launched this year in partnership with the First Ascent Group of UK. The programme is designed specifically for IDFC keeping in mind our growth plans and the transformation journey that we have embarked on. It will help senior managers sharpen their judgement, enhance their ability to influence others and help them improve on a range of leadership attributes such as self assurance, ambition and emotional intelligence.

The top 75 leaders across all businesses and functions have already completed the first phase of the leadership training. The second phase is planned in FY12.

## PROTECTING OUR KNOWLEDGE CAPITAL

IDFC has always been acknowledged as the last word on infrastructure development. This reputation, built on our deep insight and understanding of infrastructure development in India, is key to our competitive advantage. Ensuring that we retain this edge is critical. In FY 11, we have invested extensively in institutionalising a robust framework of identifying the key learning and development needs of the businesses. These development needs have been addressed through training programme that are co-designed with leading firms specialising in this area such as YSC, Franklin Covey, Strategic Decision Group, to name a few. In FY 11 we achieved a training intensity of 4 person days per annum and we expect to continue to invest in Learning and Development at a similar pace in the next year.

## ENHANCING PERFORMANCE

This year we rolled out an upgraded, technology enabled performance management framework in the organisation. The focus was on improving the alignment of individual businesses and employees with the overall Firm performance and driving clear, sharply defined metrics that would emphasise the focus that the Management has on driving a high performance culture at IDFC.

IDFC continued to be a signatory to global initiatives on Environment, Social and Governance issues such as the Carbon Disclosure Project, the United Nations Global Compact and the UN-sponsored Principles for Responsible Investment.

The entire exercise was facilitated by McKinsey. They worked with the MD & CEO and refined the success measures for all businesses and functions to create a scorecard that ensures that all aspects of the Firm performance are embedded in the performance metrics of the top management team and the individual teams across Company. The measures agreed, cover the 4 key elements – Financial Performance, Customer Engagement, Internal & External Standards and Employee Engagement, the achievement of which together results in a profitable and sustainable enterprise.

Using the technology enabled interface developed alongwith PwC, annual plans get cascaded across Company in a timely manner which ensures that all employees are clear about what is expected of them early in the year. Performance reviews have also become more effective (greater fairness and transparency), which results in more engaged employees, critical to building a high performance culture.

### **INTERNAL CONTROLS AND THEIR ADEQUACY**

The Company has a proper and adequate system of internal controls to ensure that all assets are safeguarded and protected against loss from unauthorised use or disposition, and that the transactions are authorised, recorded and reported correctly.

Internal controls are supplemented by an extensive programme of internal audits, review by management and documented policies, guidelines and procedures. These controls are designed to ensure that financial and other records are reliable for preparing financial information and other reports, and for maintaining regular accountability of the Company's assets.

### **CAUTIONARY STATEMENT**

Statements in this Management Discussion & Analysis describing the Company's objectives, projections, estimates and expectations may be 'forward looking statements' within the meaning of applicable laws and regulations. Actual results might differ substantially or materially from those expressed or implied. Important developments that could affect the Company's operations include unavailability of finance at competitive rates – global or domestic or both, reduction in number of viable infrastructure projects, significant changes in political and economic environment in India or financial markets abroad, tax laws, litigation, exchange rate fluctuations, interest and other costs. ■