Revenue from Operations of Infrastructure Development Finance Company Limited (IDFC) increased by 34.71% from `4,524.00 crore in FY11 to `6,094.32 crore in FY12. Other Income increased by 179.75% from `36.35 crore in FY11 to `101.69 crore in FY12. Total Income increased by 35.87% from `4,560.35 crore in FY11 to `6,196.01 crore in FY12.

Profit Before Tax (PBT) increased by 27.21% from `1,730.44 crore in FY11 to `2,201.36 crore in FY12. Profit After Tax (PAT) increased by 25.51% from `1,277.14 crore in FY11 to `1,602.96 crore in FY12.

IDFC’s quality of assets continued to be good with net NPAs at `71.43 crore as on March 31, 2012.

Your Directors are pleased to recommend a dividend of `2.30 per share (i.e. 23%) for the year ended March 31, 2012 on equity shares. Above dividend would be paid subject to approval by the Members in the ensuing Annual General Meeting (AGM).

On February 11, 2012, 84,000,000 Compulsorily Convertible Cumulative Preference Shares having a face value of `100 each (CCCPS), issued by the Company in August 2010, were converted into 47,727,272 equity shares of `10 each at a conversion price of `176 per share. As per the terms and conditions of CCCPS, the Company paid dividend @ 6% p.a. to the preference shareholders, at the time of conversion of CCCPS into equity shares, for the period starting from April 1, 2011 to February 10, 2012.
More cost-effective sources of borrowings such as Commercial Paper, Bonds, Infrastructure Bonds having tax benefits under Section 80CCF of the Income-tax Act, 1961, Foreign Currency Loans, were utilised, which resulted in lower increase in cost of funds.

**OPERATIONS REVIEW**

The Company is engaged in financing infrastructure projects in sectors like energy, telecommunication, transportation, commercial and industrial projects including hospitals, education, tourism and hotels.

Balance Sheet grew by 24% Year on Year (YoY) to reach ₹60,706 crore and Net Loans at ₹48,185 crore witnessed an increase of 28% YoY.

As on March 31, 2012, IDFC’s total exposure was ₹69,718 crore, of which Energy was highest 41%, followed by Transportation 28%, Telecommunication 21% and Others 10%.

Net Interest Income from Treasury operations for IDFC increased by 78% from ₹121 crore in FY11 to ₹216 crore. During the year, IDFC reduced its dependence on bank borrowings. More cost-effective sources of borrowings such as Commercial Paper, Bonds, Infrastructure Bonds having tax benefits under Section 80CCF of the Income-tax Act, 1961, Foreign Currency Loans, were utilised, which resulted in lower increase in cost of funds. Investment Banking and Institutional Broking Income was at ₹72 crore in FY12.

For Alternative business, Assets Under Management (AUM) were YoY increased by 33% to ₹28,037 crore in FY12.

**SUBSIDIARY COMPANIES**

During the year, IDFC sold 25% plus one equity share each in IDFC Asset Management Company Limited and IDFC AMC Trustee Company Limited to Natixis Global Asset Management Asia Pte. (a 100% subsidiary of Natixis Global Asset Management “NGAM”). By virtue of this, IDFC now owns approximately 75% stake in the following two companies:

1. IDFC Asset Management Company Limited
2. IDFC AMC Trustee Company Limited

IDFC’s effective ownership in IDFC Investment Advisors Limited and IDFC Investment Managers (Mauritius) Limited is reduced from 100% to 75% and the proportion of effective ownership in IDFC Pension Fund Management Company Ltd. is reduced from 100% to 87.5%.

During the year, the following direct / indirect subsidiaries of IDFC have ceased to be its subsidiaries:

- The name of Jetpur Somnath Highway Limited has been struck off from the register by the Registrar of Companies.
- Uniquest Infra Ventures Private Limited (UIVPL) was a wholly owned subsidiary company of IDFC. During the year, Ghir Investment (Mauritius) Limited invested in the equity shares of UIVPL and accordingly, IDFC’s equity stake in UIVPL has been reduced to 19.9%.
- Jetpur Somnath Tollways Limited (JSTL) was a subsidiary of IDFC Projects Limited. Further, 48% equity stake of JSTL held earlier by IDFC Projects Limited was transferred to UIVPL and consequently, the equity stake of IDFC Projects Limited in JSTL is reduced to 26%. During FY13, the status of JSTL was converted from a public company to a private company.

In addition,

A. IDFC Securities Limited has three wholly owned subsidiary companies namely, IDFC Capital Limited, IDFC Distribution Company Limited and IDFC Capital (USA) Inc. Further, IDFC Capital Limited has three wholly owned subsidiaries called IDFC Capital (Singapore) Pte. Limited, IDFC Fund of Funds Limited and IDFC General Partners Limited.
B. IDFC Projects Limited has a subsidiary company, namely Dheeru Powergen Limited.
C. IDFC Asset Management Company Limited also has three subsidiaries, namely IDFC Pension Fund Management Company Limited, IDFC Investment Advisors Limited and IDFC Investment Managers (Mauritius) Limited.
D. IDFC Foundation is a Non-Profit Organisation. IDFC PPP Trusteeship Company Limited has changed to IDFC Alternatives Limited (IAL). It is proposed that the alternative asset management business, involving the project equity and private equity would be carried out through IAL and in future, the private and project equity funds would be managed through IAL.

IDFC has seven direct wholly owned subsidiary companies as follows:

1. IDFC Alternatives Limited (earlier known as IDFC Private Equity Company Limited)
2. IDFC Trustee Company Limited
3. IDFC Finance Limited
4. IDFC Securities Limited
5. IDFC Projects Limited
6. IDFC Foundation (Section 25 Company)
7. IDFC Primary Dealership Company Limited (Incorporated during the year on March 17, 2012)

During FY13, IDFC Private Equity Company Limited acquired the entire stake of IDFC Project Equity Company Limited from IDFC, making it a step down subsidiary of IDFC. Thereafter, the name of IDFC Private Equity Company Limited changed to IDFC Alternatives Limited (IAL). It is proposed that the alternative asset management business, involving the project equity and private equity would be carried out through IAL and in future, the private and project equity funds would be managed through IAL.

IDFC has seven direct wholly owned subsidiary companies as follows:

1. IDFC Alternatives Limited (earlier known as IDFC Private Equity Company Limited)
2. IDFC Trustee Company Limited
3. IDFC Finance Limited
4. IDFC Securities Limited
5. IDFC Projects Limited
6. IDFC Foundation (Section 25 Company)
7. IDFC Primary Dealership Company Limited

Directors’ Report 23
Limited which was hitherto a wholly owned subsidiary of IDFC has now become a wholly owned subsidiary of IDFC Foundation.

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 areas of Resource Raising, Human Resources, Information Technology and Risk Management has been presented in the section on Management Discussion & Analysis of this Annual Report.

The Ministry of Corporate Affairs (MCA) vide its General Circular No. 2/2011 dated February 8, 2011 has granted general exemption under Section 212(8) of the Companies Act, 1956, to companies from attaching accounts of its subsidiaries in its Annual Report subject to fulfillment of certain conditions prescribed therein. The Board of Directors of the Company at its meeting held on March 30, 2012, noted the provisions of the abovementioned circular of MCA and passed the necessary resolution granting the requisite approvals for not attaching copies of Balance Sheet, Statement of Profit and Loss, Reports of the Board of Directors and Auditors of each of the subsidiary companies to the accounts of the Company for FY12. The Company also undertakes that annual accounts of the subsidiary companies and the related detailed information will be made available to the shareholders of the holding and subsidiary companies seeking such information at any point of time. The annual accounts of the subsidiary companies will be available on the Company’s website: www.idfc.com and will also be available for inspection by any shareholders at the Registered and Corporate Offices of the Company and will also be available for inspection and any manufacturing facility, other particulars in the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1998, are not applicable.

**PARTICULARS OF EMPLOYEES**

IDFC had 575 employees as on March 31, 2012. 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 had 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 20,750,721 options outstanding at the beginning of the current financial year, 1,340,668 options lapsed on account of resignations and 3,687,948 options were exercised during the year.

Additionally, during the year, 22,248,000 options were granted to eligible employees under the Scheme. Accordingly, 37,970,105 options remain outstanding as of March 31, 2012.

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 and 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.

**PUBLIC DEPOSITS**

During FY12, your Company has not accepted any deposits from the public within the meaning of the provisions of the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998.

**FOREIGN EXCHANGE**

The particulars regarding foreign exchange earnings and expenditure are furnished at Item Nos. 28 & 29 in the Notes to Financial Statements. Since the Company does not own any manufacturing facility, other particulars in the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1998, are not applicable.

**PUBLIC ISSUE OF INFRASTRUCTURE BONDS**

During the financial year, your Company made a public issue aggregating to ₹ 1,387.46 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 80CCF of the Income-tax Act, 1961, under the applicable SEBI Guidelines. These funds have been utilised for the purpose of business as mentioned in the Prospectus for the issue.

**DIRECTORS**

The Board appointed Ms. Marianne Økland and Mr. Sunil Soni, as Additional Directors with effect from October 1, 2011 and May 8, 2012, respectively. Mr. S. S. Kohli, who was the nominee of the Government of India, was appointed in the category of an Independent Director on May 8, 2012. They will hold office up to the date of the ensuing AGM. The Company has received notices from Members of the Company under Section 257 of the Companies Act, 1956, proposing the appointment of Ms. Marianne Økland, Mr. Sunil Soni and Mr. S. S. Kohli as Directors at the ensuing AGM.

Mr. Dimitris Tsitsiragos and Mr. Bimal Julka, who were on the Board of the Company, resigned as Directors of the Company with effect from October 14, 2011 and May 8, 2012 respectively. The Board has placed on record its appreciation for the valuable
services rendered by them during their tenure as Directors of the Company.

In accordance with the Articles of Association of the Company and provisions of the Companies Act, 1956, Mr. Donald Peck and Mr. Gautam Kaji would retire by rotation and being eligible, offer themselves for re-appointment at the ensuing AGM.

The Nomination Committee (NC) of the Company, at its meeting held on May 8, 2012, recommended:

I. re-appointment of Mr. Deepak Parekh as the Non-Executive Chairman of the Company for a period of 3 years w.e.f. May 8, 2012;

II. re-appointment and re-designation of Dr. Rajiv Lall as Vice Chairman & Managing Director of the Company for a period of 3 years w.e.f. May 8, 2012;

III. re-appointment and re-designation of Mr. Vikram Limaye as Deputy Managing Director of the Company for a period of 3 years w.e.f. May 8, 2012;

IV. appointment of Mr. S. S. Kohli in the capacity of an Independent Director.

The Compensation Committee (CC) of the Company, at its meeting held on May 8, 2012, recommended the terms of re-appointment of Dr. Rajiv Lall and Mr. Vikram Limaye.

The Board of Directors, at its meeting held on the same day, based on the recommendation of NC and CC and subject to the approval of the members at the AGM, granted its approval for the re-appointment of Mr. Deepak Parekh as Non-Executive Chairman. It also approved re-appointment and re-designation of Dr. Rajiv Lall and Mr. Vikram Limaye.

The profiles of the above Directors are provided in the Notice convening the ensuing AGM.

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

SHAREHOLDERS’ UPDATE

A. ALTERATION OF ARTICLES OF ASSOCIATION

It is proposed to alter the Articles of Association (‘Articles’) by amending the Article No. 124 of the Articles, thereby reducing the number of nominees of domestic and foreign investors from 3 to 2 and by reducing the number of Whole-time / Executive Directors from 4 to 3 and increasing the number of independent directors from 5 to 7. It is also proposed that the number of directors under categories of independent directors and those nominated by domestic and foreign investors be interchangeable.

B. CHANGE OF NAME

The Board of Directors, as its meeting held on May 8, 2012 proposed to change the name of the Company from Infrastructure Development Finance Company Limited to IDFC Limited. The Company has received the no objection from the Reserve Bank of India for the proposed change of name. The Registrar of Companies, Tamil Nadu, Chennai has confirmed the availability of the proposed name ‘IDFC Limited’. Detailed background for the proposed change of name is provided in the Notice convening the ensuing AGM.

INTERNAL CONTROL SYSTEMS

The Company has in place adequate systems of Internal Control to ensure compliance with policies and procedures. It is being constantly assessed and strengthened with new/revised standard operating procedures and tighter Information Technology controls. Internal Audits of all the units of the Company are regularly carried out to review the internal control systems. The Internal Audit Reports along with the recommendations and implementation contained therein are regularly reviewed by the Audit Committee of the Board.

AUDITORS

M/s. Deloitte Haskins & Sells, Chartered Accountants, will retire as the Statutory Auditors of the Company at the ensuing AGM. The Members are requested to re-appoint M/s. Deloitte Haskins & Sells, Chartered Accountants, as Statutory Auditors of the Company for FY 13 and to authorise the Directors to fix their remuneration by way of Special Resolution as per Notice convening the AGM.

M/s. 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

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Directors confirm that:

- in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- appropriate accounting policies have been selected and applied consistently, and have made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at March 31, 2012 and of the profit of the Company for the year ended March 31, 2012;
- proper and sufficient care has been taken for 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;
- the annual accounts have been prepared on a going concern basis.

ACKNOWLEDGEMENTS

IDFC has developed close relationships with the Ministry of Finance, Banking Division, Department of Economic Affairs, 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 and Exchange Board of India and regulatory bodies; Telecom Regulatory Authority of India; the Central Electricity Regulatory Commission and State Electricity Regulatory Commissions; Planning Commission; State Governments and all IDFC’s shareholders and bondholders. The Board of Directors would like to thank all Banks and Financial Institutions for their ongoing co-operation and support. Your Directors wish to place on record their warm appreciation to employees at all levels for their dedication, commitment and creativity contributing to the growth of the Company.

For and on behalf of the Board

DEEPAK S. PAREKH
Chairman

Mumbai, June 8, 2012
## Disclosure in the Directors’ Report As Per SEBI Guidelines

<table>
<thead>
<tr>
<th>Particulars</th>
<th>FY 2011–12</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Options outstanding as at the beginning of the year</td>
<td>20,750,721</td>
</tr>
<tr>
<td>2 Options granted during the year</td>
<td>22,248,000</td>
</tr>
<tr>
<td>3 Pricing Formula</td>
<td>Options may be granted at a price not less than the face value per share. Options have been granted in the range of ₹ 113.50 to ₹ 160.10</td>
</tr>
<tr>
<td>4 Options Vested during the year</td>
<td>4,458,712</td>
</tr>
<tr>
<td>5 Options Exercised during the year</td>
<td>3,687,948</td>
</tr>
<tr>
<td>6 Total no. of shares arising as result of exercise of Options</td>
<td>3,687,948</td>
</tr>
<tr>
<td>7 Options lapsed / cancelled</td>
<td>1,340,668</td>
</tr>
<tr>
<td>8 Variation in terms of Options</td>
<td>None</td>
</tr>
<tr>
<td>9 Money realised by exercise of Options (₹ in crore)</td>
<td>19.17</td>
</tr>
<tr>
<td>10 Total number of Options in force</td>
<td>37,970,105</td>
</tr>
<tr>
<td>11 Diluted Earnings Per Share pursuant to issue of shares on exercise of options calculated in accordance with AS 20 ‘Earnings Per Share’ (₹)</td>
<td>10.54</td>
</tr>
</tbody>
</table>

## Proforma Adjusted Net Income and Earnings Per Share

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹ in Crore</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 Net Income as Reported</td>
<td>1,602.96</td>
</tr>
<tr>
<td>Add: Intrinsic Value Compensation Cost</td>
<td>4.31</td>
</tr>
<tr>
<td>Less: Fair Value Compensation Cost</td>
<td>75.00</td>
</tr>
<tr>
<td>Adjusted Proforma Net Income</td>
<td>1,532.27</td>
</tr>
<tr>
<td>Earnings Per Share: Basic</td>
<td></td>
</tr>
<tr>
<td>As Reported (₹)</td>
<td>10.57</td>
</tr>
<tr>
<td>Adjusted Proforma (₹)</td>
<td>10.09</td>
</tr>
<tr>
<td>Earnings Per Share: Diluted</td>
<td></td>
</tr>
<tr>
<td>As Reported (₹)</td>
<td>10.54</td>
</tr>
<tr>
<td>Adjusted Proforma (₹)</td>
<td>10.06</td>
</tr>
<tr>
<td>13 Weighted average exercise price of Options granted during the year whose</td>
<td></td>
</tr>
<tr>
<td>(a) Exercise price equals market price</td>
<td>135.30</td>
</tr>
<tr>
<td>(b) Exercise price is greater than market price</td>
<td>NA</td>
</tr>
<tr>
<td>(c) Exercise price is less than market price</td>
<td>NA</td>
</tr>
<tr>
<td>14 Weighted average fair value of Options granted during the year whose</td>
<td></td>
</tr>
<tr>
<td>(a) Exercise price equals market price</td>
<td>56.54</td>
</tr>
<tr>
<td>(b) Exercise price is greater than market price</td>
<td>NA</td>
</tr>
<tr>
<td>(c) Exercise price is less than market price</td>
<td>NA</td>
</tr>
<tr>
<td>15 Description of method and significant assumptions used to estimate the fair value of options</td>
<td>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:</td>
</tr>
</tbody>
</table>

### Variables

<table>
<thead>
<tr>
<th>Description of method and significant assumptions used to estimate the fair value of options</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stock Price (₹)</strong></td>
</tr>
<tr>
<td><strong>Volatility</strong></td>
</tr>
<tr>
<td><strong>Riskfree Rate</strong></td>
</tr>
<tr>
<td><strong>Exercise Price (₹)</strong></td>
</tr>
<tr>
<td><strong>Time to Maturity (Yrs.)</strong></td>
</tr>
<tr>
<td><strong>Dividend yield</strong></td>
</tr>
<tr>
<td><strong>Weighted Average Value (₹)</strong></td>
</tr>
</tbody>
</table>

Stock Price: The closing market price on NSE one day prior to the date of grant has been considered for the purpose of option valuation.
Volatility: The daily volatility of the stock prices on NSE, over a period prior to the date of grant, corresponding with the expected life of the options 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 in 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 the five financial years preceding the date of the grant.