

FINANCIALS



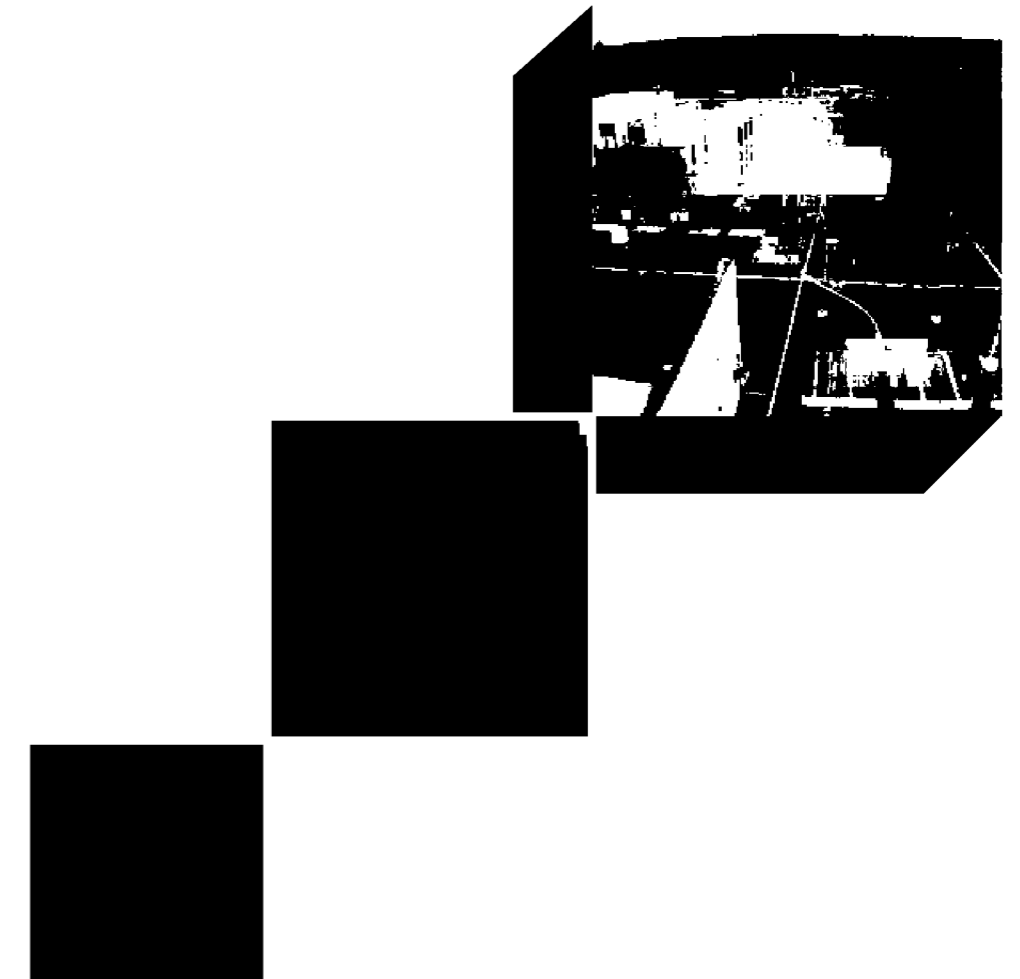
**Pune - Sholapur Road Project,
Maharashtra**

This project under construction, includes the development of four lanes with an aggregate length of approximately 571 Lane km on the Pune - Sholapur stretch of National Highway-9 in the State of Maharashtra

The Concessionaire, Pune Solapur Road Development Company Limited (PSRDCL) awarded the concession for this project to IL&FS Transportation Networks Limited (ITNL) as Developer, on a DBFOT (Toll) basis for a period of 20 years, including an initial construction period of two and a half years

ITNL entered into an agreement with IL&FS Engineering and Construction Company Limited for Engineering, Procurement and Construction of the Pune Solapur Road Project

IL&FS Transportation Networks Limited (ITNL) is a leading Indian surface transportation infrastructure company and one of the largest private sector BOT road operators engaged in developing, designing, operating, maintaining and facilitating surface transportation infrastructure projects





**Cotton Technical Assistance Programme,
Africa**

The Department of Commerce, Ministry of Commerce & industry, Government of India is implementing The Cotton Technical Assistance Programme (Cotton TAP) in eight African countries namely - Benin, Burkina Faso, Chad, Malawi, Mali, Nigeria & Uganda. The Programme will be implemented by premier institutions under Indian Council of Agricultural Research (ICAR), Directorate for Cotton Development during 2012-14. IL&FS Clusters has been appointed by Department of Commerce for implementation, overall coordination and monitoring of the Programme

The objective of the Programme is to implement capacity development interventions and technology transfer to enhance upstream and downstream capabilities in cotton and assist respective Governments to design programs to improve the competitiveness of the sector. The project would also have interventions in the area of IT enabled mechanisms for cotton crop and an enabling policy framework for the host countries

To ensure inclusive growth the Cotton TAP programme will aim to improve the scientific skill sets through training of over 600 scientists, technical & extension officials from Africa and capacity building of over 2500 farmers, government officials & industry representatives over the project period

IL&FS Education is the social infrastructure arm of IL&FS group, working towards creating shared value with sustainability and profitability as core. As one of the leading Education and Skills company in India, IL&FS Education is working to strengthen the 'Education, employability and Employment' highway by engaging youth. Through a variety of initiatives implemented by our three main businesses - Skills, Education and Clusters - we work with some of the most vulnerable client groups as well as difficult geographies like LWE areas, J&K and North East

DIRECTOR'S REPORT



The Shareholders
Infrastructure Leasing & Financial Services Limited

Your Directors take pleasure in presenting the Twenty-Sixth Annual Report along with the Audited Accounts for the year ended March 31, 2013

FINANCIAL RESULTS

₹ in million

For the Year Ended March 31,	2013	2012
Total Revenue	13,777.74	10,874.55
Total Expenses	9,354.83	6,578.50
Profit Before Tax	4,422.91	4,296.05
Provision for Taxation		
- Current Tax	(858.00)	(915.50)
- MAT Credit Entitlement	-	-
- Deferred Tax	(37.00)	94.00
Net Profit for the Year	3,527.91	3,474.55
Balance of Profit b/f	9,497.61	7,951.62
Excess Provision for Dividend Tax	140.49	120.32
Profit available for Appropriation	13,166.01	11,546.49
APPROPRIATIONS		
Special Reserve I	705.58	694.91
Special Reserve II	70.00	-
General Reserve	352.79	347.45
Dividend (including Dividend Tax)	1,094.38	1,006.52
Balance of Profit	10,943.26	9,497.61
	13,166.01	11,546.49

DIVIDEND

Your Directors have recommended :

- payment of dividend @ 80% ie, ₹ 8 per share in respect of fully Paid-up Equity Shares and a proportionate amount on partly Paid-up Shares outstanding as at the end of FY 2013, amounting to ₹ 1,093.51 million, inclusive of dividend tax; and
- payment of dividend @ 2% ie, ₹ 0.20 per share in respect of fully Paid-up Redeemable Cumulative Preference Shares for the proportionate period for which the Shares remained paid-up during FY 2013, amounting to ₹ 0.87 million, inclusive of dividend tax

The above dividend would be subject to approval by the Members in the forthcoming Annual General Meeting

SHARE CAPITAL

The Members of the Company, at their Meeting held on August 11, 2008, had authorized issue of 5,451,650 equity shares to the IL&FS Employees' Welfare Trust (IL&FS EWT)

The third tranche of 1,362,912 partly paid-up equity shares of ₹ 10 each paid-up to the extent of ₹ 1 each, issued to the IL&FS EWT on June 30, 2011, has been converted into fully paid shares on December 31, 2012 on payment of final call money by the IL&FS EWT. The fourth and final tranche of 1,362,914 equity shares of face value of ₹ 10 each, paid up to the extent of ₹ 1 per share has been issued to the IL&FS EWT on June 29, 2012

Pursuant to the approval of the Members of the Company at the General Meeting held on October 24, 2011 and upon receipt of approval of the Reserve Bank of India, the Company has allotted 5,000,000 – 2% Redeemable Cumulative Preference Shares of ₹ 10 each at par to ORIX Corporation, Japan on July 5, 2012

OPERATING ENVIRONMENT

(1) **Global Economy :**

Global economic conditions remained weak though some signs of recovery were evidenced in few economies

- Economic activity in the US picked up gradually during the year with improvements in the Labor Market and Housing Sector. By the end of March 2013, the unemployment rate had fallen to 7.6%. The US Federal Reserve reiterated its commitment to maintain its Quantitative Easing strategy until the unemployment rate dropped below 6.5%
- In the Euro Region, recovery remains fragile as the GDP growth shrank for all the four quarters. The European Central Bank announced that it would launch an unlimited Bond buying program called 'Outright Monetary Transactions' for the survival of the Euro region
- In Japan, the newly elected Liberal Democratic Party called for bolder action. The Bank of Japan is pursuing an aggressive monetary policy to spur a revival in the economy. This resulted in the Yen falling approximately 14% against the Dollar
- The new leadership in China sought to boost infrastructure investment and industrial output through a stimulus program. As a result, the Chinese economy posted a growth rate of over 7% pa

(2) **Indian Economy :**

- Growth in the Indian economy posted a decade low 4.5% for the third quarter of FY 2013 whilst posting 5% for the full year. Efforts to debottleneck structural issues in sectors such as infrastructure, services and agriculture are taking time to materialize
- The Current Account Deficit increased to 5.4% of GDP during the first nine months of FY 2013 on account of higher trade deficit arising from high crude oil prices and the global slowdown impacting exports. As a result, the Indian Rupee depreciated by 6.7% during the year
- The overall slowdown in the economy has prompted RBI to reduce interest rates. During FY 2013, the RBI reduced interest rates from 8.5% to 7.5% and CRR was reduced from 4.75% to 4%
- During the second half of FY 2013, the Government initiated a spate of reforms like partial de-regulation of fuel prices, restructuring of SEB's, direct transfer of subsidies, disinvestment in PSU's, opening up of FDI in sectors like Retail, Aviation, Power Trading etc. This led to some improvement in business sentiment

OPERATIONS :

(1) **IL&FS Financial Services Limited (IFIN) :**

IFIN, a Subsidiary of your Company, is registered with the Reserve Bank of India (RBI) as an NBFC. It is a leading financial services company and provides the entire gamut of financial services including structured financial products, with a primary focus on infrastructure initiatives. Despite a challenging economic environment, all its business verticals delivered a satisfactory performance during FY 2013

IFIN set up wholly owned subsidiaries at London, Dubai, Singapore and Hong Kong in the past four years to focus on international business. These subsidiaries also play an important role as financial advisors for the IL&FS Group's international forays

IFIN has been awarded the highest rating for its Long Term borrowing program by CARE and India Ratings & Research (IRR) and Short Term Borrowing Program by CARE, ICRA and IRR. These ratings have been revalidated by the respective Credit Rating Agencies on an ongoing basis

With the object of attracting long term funds for infrastructure development, the Ministry of Finance, Government of India has encouraged the setting up of Infrastructure Debt Funds (IDF). IDFs are specifically designed to channelize foreign funds in the infrastructure sector and would complement efforts to increase available financing for infrastructure development in India. To tap the opportunities stemming from the above, IFIN has established an IDF in Joint Venture with LIC, and as a first step, has set up its Asset Management Company and Trustee Company. Significant progress has been made in fund raising and it is expected that the Fund would mobilise USD 1 bn in FY 2014

IFIN has also set up IL&FS Capital Advisors (ICAP), a 100% subsidiary for undertaking Merchant Banking Services. The intent of setting up ICAP is to leverage on the existing vast relationship network of IL&FS and to build a platform for undertaking Institutional Broking at a later stage during FY 2014

With these initiatives, IFIN would act as a one stop solution for all the funding, syndication and advisory needs of the corporate sector

(2) IL&FS Investment Managers Limited (IIML) :

IIML, a Subsidiary of your Company and the Fund Management arm of the IL&FS Group, is focusing on investments in three distinct segments : Private Equity (PE), Infrastructure and Real Estate

The PE industry continued to see a difficult year from a fund raising perspective : a 40% contraction in new fund raising plans announced in 2012 as compared to 2011. Further, Fund raising timelines continue to be stretched as regulatory uncertainty continue to impact investor sentiment. Recent steps by Government have stemmed the current slowdown and negative perception surrounding industry and have created a positive sentiment

During the year under review, IIML invested ₹ 8.1 billion across its focus areas of Private Equity, Infrastructure and Real Estate. Despite adverse market conditions, IIML achieved partial/complete divestments to the tune of ₹ 4.7 billion across all three verticals. Further, IIML managed funds also earned interest income from risk adjusted structured investments to the tune of ₹ 1.6 billion. IIML is also in the market for raising new Funds. It is expected that a few of them will close successfully in the current fiscal

(3) IL&FS Securities Services Limited (ISSL) :

Despite the challenging environment, there were a few indications of improving sentiments. The Derivatives segment witnessed an increase in the volumes of options in FY 2013. Despite a difficult environment, ISSL continued its efforts to scale up the business model

In order to enhance and integrate customer serving competencies, a merger with IL&FS Trust Company Limited was initiated during the year. The Scheme of Arrangement has been approved by the Honourable High Court of Bombay and other regulatory approvals are in the process of being obtained

With a view to sharpening management focus, ISSL segregated its SEBI regulated businesses from unregulated businesses. The service centric, unregulated businesses are in the process of being domiciled in a step down subsidiary with the objective of scaling up the service play in the business model. A new initiative in Capital Markets Offshore Processes, that would leverage on core competencies of ISSL and further enhance them to create globally competitive offerings for international markets, is being set up

The performance of the core products of ISSL improved during the year. In the Equity segment of NSE, ISSL maintained a leadership position and increased its market share to 13% during the year. The rates, however, continued to be under pressure as private sector banks increased their presence in this segment

The Custody segment saw subdued activity on the customer segment of Portfolio Management Services. A new segment of Alternate Investment Funds (AIF) under AIF guidelines of SEBI remained active and bullish with ISSL adding customers on Custody, Fund Accounting and Clearing

With regard to Depository activities, the regulatory guidelines placed a ceiling on certain categories of Accounts during the year. As a result, the pace of Account acquisition was slow. An emerging retail segment of Accounts in NPS, NPS lite and NSR remained the focus of marketing activities during the year

The Lending Book for NBFCs saw an increase of 63% during FY 2013. The Asset Book increased on a sustained basis through the year despite retail participation in markets being low

During the year, a number of new products were introduced : Capital Markets Process Hub for offshore markets, products for Qualified Foreign Investors and a product for servicing Outbound Capital Flows from the Country to offshore markets

(4) IL&FS Trust Company Limited (ITCL) :

ITCL, a Subsidiary of your Company, is one of the largest integrated Trust Service providers in India offering Trusteeship and Fiduciary services to the infrastructure and financial services sectors, industry, governments, funds, families and high networth individuals

As of December 31, 2012, ITCL serviced USD 58 billion (₹ 3,320 billion) in outstanding debt under a gamut of Corporate and Family Trusteeship services from its headquarters in Mumbai and offices in Delhi, Bangalore and Kolkata. ITCL grew by more than 25% in new business

The Corporate Trust business of ITCL utilizes its pan India footprint and expertise to deliver a full range of issuer and related investor services and to develop customized and market-driven solutions

ITCL is also one of the largest providers of Multi-Family Offices services in India for High Networth Individuals and Families, providing a combination of legal structures for protecting wealth from personal and legal risks

ITCL's Document Preserve Business caters to a wide range of solutions for Records and Data Management for Corporates, Banks, Financial Institutions and the Government

The merger of ITCL and ISSL has been approved by the Honourable High Court of Bombay. The merged entity would provide a robust platform for end-to-end services for clients

(5) IL&FS Infrastructure Development Corporation Limited (IIDC) :

IIDC, a wholly owned Subsidiary of your Company, has established its leadership position in project development advisory in the PPP infrastructure space. IIDC is currently restructuring its business model, with a focus on advisory mandates and identifying and incubating new opportunities for IL&FS Group. IIDC also aims to create new business for the Group under the Managed Assets framework, and is looking at project development opportunities in other sectors

Keeping in view the growth potential and the growing infrastructure needs in the MENA region, IIDC is actively pursuing project development, implementation and strategic investment opportunities in the Africa and Gulf Cooperation Council (GCC) Region. To tap these emerging opportunities, IIDC is in the process of establishing Project Development Companies in Africa and GCC region in Joint Venture with suitable strategic partners

(6) IL&FS Transportation Networks Limited (ITNL) :

ITNL, a Subsidiary of your Company, continues to maintain its growth momentum and held its position as the leader in the Surface Transport Sector with 25 projects in its portfolio aggregating to over 13,161 lane kilometers, of which 6,318 lane kilometers are under operation. All the projects that were awarded during 2009-10 are in advanced stages of construction with one of the projects achieving commercial operation, 4.5 months ahead of schedule

The Metro Rail project in Gurgaon undertaken by ITNL through its subsidiary, Rapid MetroRail Gurgaon Limited, is nearing completion and is scheduled to commence operations in the coming year. It has also secured the 7 km long Phase II of the Metro project in the region

In furtherance of its international initiatives, ITNL has established offices in Dubai and Nigeria

ITNL has ensured that the routine functioning was in line with the certified Quality Management System (ISO 9001:2008). During the year, ITNL implemented its Environmental, Health and Safety Management System (ISO 14001:2004 and OHSAS 18001:2007) across its projects. It also subscribes to the Environmental & Social Policy Framework of IL&FS and is moving towards an environmentally sustainable business model in the long run

(7) IL&FS Energy Development Company Limited (IEDCL) :

IEDCL, a Subsidiary of your Company with a vision to catalyze reliable and environment friendly power at an affordable cost, continues to make investments in various energy assets with a suitable mix of projects based on fossil fuels and renewable sources

On the renewable front, IEDCL, presently has operational wind power projects with aggregate capacity of 363 MW and has a target of operationalising additional 650 MW in FY 2014. The operational biomass power portfolio comprises of 80 MW of bagasse based cogeneration power projects and 25 MW of biomass based power projects. Out of the 80 MW bagasse based cogeneration power projects, 44 MW of power projects was successfully commissioned during FY 2013

During FY 2013, one unit of 363 MW of the 1,090 MW Tripura Gas Power Project domiciled in ONGC Tripura Power Company Limited, was tested for trial runs. The unit is expected to begin commercial operations by June 2013. Presently, IEDCL holds 49.52% equity stake in OTPC, which was to be diluted to bring in strategic investors. OTPC is now proposing to raise further funds by making an initial offer to public which may result in dilution of equity stake of IEDCL to 24.5%. In addition to the above, IEDCL is engaged in several projects of which a few key ones are :

- (a) 3,840 MW Coal based thermal Power Project at Cuddalore in Tamil Nadu, of which 1,200 MW (Phase-1) is expected to be commissioned in FY 2015
- (b) 4,000 MW Coal based Thermal Power Project at Nana Layja, Gujarat
- (c) 2,000 MW Gas based Power Project at Nana Layja, Gujarat
- (d) 12 MW Waste-to-Energy Project at Ghazipur, New Delhi
- (e) 400 KV D/C Muzaffarpur-Dhalkebar Indo-Nepal Cross Border Transmission Line Project

IEDCL is also establishing its presence in the Solar Power Sector. Presently, IEDCL is pursuing development of Solar Power Projects through various initiatives including participation in the State Solar Bids and on a bilateral basis with Private Sector Power Purchasers. IEDCL is also in discussions with various solar panel manufacturers for selecting suitable manufacturer(s) with the ability to supply solar panels at attractive prices to provide solar power at affordable tariffs

(8) IL&FS Maritime Infrastructure Company Limited (IMICL) :

IMICL, a subsidiary of your Company, has been set up with the objective of consolidating the existing Maritime segment investments of the Group and to create a value-added business platform for the maritime sector

IMICL is creating a diversified portfolio of assets, services and strategic alliances through development and implementation of marine infrastructure projects. As per Maritime Agenda 2020, the traffic at Indian ports is expected to grow exponentially at a CAGR of around 14% in the next 10 years due to strong demand led by infrastructure and trade growth

To cater to this, IMICL is currently working on developing and implementation of select projects

(a) Projects Under Implementation :

- (i) Berth at Dighi Port, Maharashtra
- (ii) Cuddalore Captive Port, Tamil Nadu
- (iii) Liquid Storage Tank Terminal, Fujairah, UAE
- (iv) Fertilizer Handling Berth at Visakhapatnam Port

(b) Projects Under Development :

- (i) Nana Layja Integrated Maritime Complex, Gujarat, comprising of a Shipyard and a SEZ with captive port and a LNG terminal
- (ii) A Port in Gujarat
- (iii) Inland Container Depot in Tanzania

Besides the above, IMICL also holds a strategic stake in Pipavav Defence & Offshore Engineering Company Limited. In a short span of 6 years, IMICL has established a foothold in the Indian maritime domain, with a footprint across 4 maritime States of India

(9) IL&FS Environmental Infrastructure & Services Limited (IEISL) :

IEISL, a subsidiary of your Company, has established a track record in the Environmental and Waste Management space with successful implementation of pioneering projects. During the year, IEISL has consolidated its portfolio in asset based Integrated Waste Management services by increasing its waste management mandates

- (a) The capacity of compost production has increased from 1,275 TPD to 2,045 TPD due to addition of Municipal Solid Waste (MSW) processing plants at Jaipur, Mangalore, Trichy and expansion at Okhla, Delhi. The Okhla facility is also the first MSW plant in the Country to receive 'ORGANIC' certification for its compost
- (b) IEISL has established a niche in Construction & Demolition (C&D) waste management and has been mandated to set up an additional facility to manage 500 TPD of C&D waste at East Delhi. Being a pioneering initiative, there is keen interest from municipalities for C&D waste management wherein construction debris is recycled into useful products
- (c) The Ghazipur Waste-to-Energy facility at Delhi is expected to generate 12 MW of Green Power by processing 2,000 TPD of MSW by December 2013. The plant has commenced trial production of Refused Derived Fuel (RDF) from April 1, 2013. The facility will be amongst the few in Asia to be compliant with Euro norms for emissions

IEISL has successfully implemented Energy Efficiency projects reducing the energy consumption by 50% for client companies. IEISL is also implementing an Enterprise Geographic Information System for a leading FMCG Company for its Retail Distribution System. It has developed a forest boundary database for Governments of Andhra Pradesh and Rajasthan. The Geo-spatial technology platform has been developed to become an innovative and unique product with data analytics that optimizes product and project location to mitigate environmental and social impacts. It would also improve revenue earnings for client companies

IEISL has successfully established a scalable model in Waste Processing which combines high quality operations in an integrated manner. The combined impact of scarcity of land and increased waste generation due to rapid urbanization, provides IEISL the opportunity for exponential growth with rising profitability while undertaking an activity that India critically needs. The advisory business is also poised to grow in the coming years as IEISL has established successful revenue models in Energy Efficiency and Geo-spatial solutions and can now scale up significantly

(10) IL&FS Township & Urban Assets Limited (ITUAL) :

ITUAL, a subsidiary of your Company, has been mandated to spearhead the development of new cities, affordable housing and other urban assets of the Group

India is witnessing a rapid growth in urbanization. This opens a number of opportunities in development of urban infrastructure and new cities. ITUAL is currently working on the following major initiatives:

- (a) **Investment in Gujarat International Finance Tec-City (GIFT):** As a co-developer and anchor investor in GIFT, ITUAL has subscribed to the development rights of 7.77 million square feet (MSF) in GIFT. It is currently developing two 30-storey commercial buildings of international standards, with an aggregate built-up area of 1.5 msf at an estimated investment of about ₹ 8 billion. The first commercial building is ready whereas the second one was expected to be completed in the near term and thereafter, it is proposed to launch a residential project in GIFT
- (b) **Stadium:** ITUAL is developing a multi-purpose stadium at Karyavattom near Trivandrum, Kerala on a BOT basis. The facility is proposed to be used for hosting the 35th National Games. The project has achieved financial closure and key project approvals have been obtained. The design and construction work are under progress and the project is scheduled to be completed by December 2014
- (c) **Bhutan Education City:** The Royal Government of Bhutan proposes to develop an Education City Project on a 1,000 acre land parcel, located between Paro and Thimpu, on a 90-year BOT basis. The project also permits development of commercial real estate and residential units on 30% of the developed land. A Consortium of ITUAL and Infinity Infotech Parks Limited has been awarded the project and the Concession Agreement has been executed. The project is presently at the planning stage, and is expected to achieve financial closure by June 2014
- (d) **Housing:** ITUAL is in the process of finalising a plan for development of housing projects in the land banks available with Group companies, including land parcels owned by Maytas Properties Limited
- (e) **Industrial Parks:** ITUAL has executed a JV Agreement with Construction Products Holding Company for co-development of industrial parks in India. The JV has identified a 250 acre land parcel at Wada for its first project and the due diligence for the land is currently underway

(11) IL&FS Engineering and Construction Company Limited (IECCL) :

Despite a difficult operating environment, IECCL achieved the following milestones during the year under review :

- (a) Restructuring under a Scheme of Arrangement approved by the Honourable High Court of Andhra Pradesh
- (b) Settled previous years accumulated losses against Share Premium Account and Credit balance in Profit and Loss Account
- (c) Issued Equity Shares by converting 6% Optionally Convertible Cumulative Redeemable Preference Shares to the CDR Banks as per terms of CDR
- (d) New order book in India and overseas and across sectors has improved significantly. As a result, IECCL is performing successfully and has built up a healthy order book

The Saudi Binladin Group (SBG) has continued to support the Company as a major shareholder and as a JV partner in Saudi Arabia. IECCL successfully executed works awarded to it and is seeking a large portfolio of projects to implement. Overall, IECCL expects to significantly enhance its operations in the current fiscal

(12) Maytas Properties Limited (MPL) :

Pursuant to induction of the IL&FS Group in MPL vide an Order of the Company Law Board (CLB) dated January 13, 2011, your Company has taken all requisite steps to comply with the conditions laid down in the CLB Order

Your Company is currently working on a revival plan for MPL, which inter-alia, includes :

- (a) Working on a strategy to reduce the overall liability to render MPL a going concern
- (b) Settlement with Private Equity Investors, subject to regulatory approvals
- (c) A comprehensive settlement with the Bankers
- (d) Delivery of villas and apartments at Hill County and settlement with customers

In addition to the foregoing, MPL is working to complete the flagship Hill County Project by June 30, 2013

(13) IL&FS Education & Technology Services Limited (IETS) :

IETS activities are grouped into four business verticals : Education, Skill Development, Cluster Development and Health Initiatives. These businesses are operated through IETS and its subsidiaries viz. IL&FS Skills Development Corporation Limited (ISDC), which is a Joint Venture initiative with National Skill Development Corporation (NSDC) and IL&FS Cluster Development Initiative Limited (ICDI)

(a) Education :

- (i) **ICT@Schools:** During the year, the ICT Practice which involves establishment of Computer Aided Learning (CAL) labs in Government schools and sale of Kyans (an interactive computer-cum-multimedia group learning device) was consolidated. IETS is a market leader in CAL solutions and along with Kyan based solutions, covers 25,000 schools across the Country. New projects for CAL have been implemented in Bihar, Odisha and West Bengal, while Kyan based projects have been implemented in Punjab and Bihar
- (ii) **Private Schools Solutions:** IETS consolidated its private schools solution viz. K-Class, which is a multimedia based learning solution. It has been sold to 325 schools so far in five States viz. Maharashtra, Andhra Pradesh, Karnataka, Tamil Nadu and Delhi
- (iii) **School Infrastructure:** IETS has finalized the business plan for its first Knowledge Resource Cluster (KRC) to be established in Bolangir, Odisha. The Bolangir KRC is a flagship project for the establishment and running of IL&FS Institutional Schools and Government of Odisha has committed financial support of ₹ 95 million for the project
- (iv) **Teacher Training:** Teacher training is an area of strategic importance for the education sector. IETS has taken up mandates for UNICEF and other development institutions and also for Government of India under the Rashtriya Madhyamik Shiksha Abhiyan (RMSA), with a key mandate for training 12,000 teachers in Assam under implementation

(b) Skills Development :

IETS made further progress in its skills business by launching new programs, diversifying the beneficiary profile and establishing new multi-skills schools

- (i) **Placement Linked Skill Development Program:** IETS, through its subsidiaries, ICDI and ISDC, crossed the 200,000 mark in training and placing youth from weaker sections of the society in the organized sector. It is continuing to implement projects for the Ministry of Rural Development, Government of India. IETS has also developed and implemented programs which are targeted at candidates who are disabled or hearing/visually impaired and has trained more than 1,500 individuals during the year
- (ii) **Skills Infrastructure:** ISDC, which has been promoted by IETS for creating skills infrastructure and also for launching new programs, has established 31 multi-sectoral training institutes. These institutes are branded as IL&FS Institutes of Skills (IIS) and are providing vocational training in 42 trades across 10 sectors. ISDC has launched specialized training programmes in telecom infrastructure, health care skills, etc in partnership with industry. It has also launched partnership with UK-India Education Research Initiatives for improvement of ITIs

(c) Clusters Group :

- (i) **Program Management of Cluster Development Schemes:** ICDI's intervention in scheme implementation for Government of India has resulted in implementation of 33 textile parks, 20 mega food parks, 60 cold chain projects and 7 traditional medicine clusters. Further, at the State level, ICDI has facilitated investments in food sector in Bihar and textile industry in Karnataka
- (ii) **Area Development:** ICDI has bagged mandates for 3 projects in Rajasthan and Uttarakhand for implementation of the PURA (Provision of Urban Amenities in Rural Areas) Scheme of the Ministry of Rural Development, an innovative model of rural development that combines economic development activities with infrastructure provisioning on a cluster approach. These projects will also include economic development by establishment of commercial projects related to the locations and social development by setting up of schools by IETS
- (iii) **Africa Initiatives:** ICDI has deepened its engagement in Africa. It is currently implementing projects in 9 countries, including a Technical Assistance Program for Cotton in 7 countries (Benin, Burkina Faso, Mali, Chad, Nigeria, Uganda and Malawi). It has been providing services to Ministry of External Affairs, Government of India, for project development in Ethiopia and Nigeria in the areas of textiles, food processing, etc. These initiatives are being leveraged for selling of education products by IETS

(d) Health Initiatives :

IETS has successfully implemented a unique telemedicine project in Tripura for providing preventive eye care to the remote location population by diagnosis conducted virtually. The project has now been extended and a similar project has also been awarded to IETS in West Bengal. IETS is also implementing a project for training 38,000 ASHA workers in Bihar for the Department of Health Services

(14) IL&FS Technologies Limited (ITL) :

ITL is mandated to develop e-Governance projects on a commercial format such as Build-Own-Operate-Transfer (BOOT). ITL has developed significant expertise in developing and delivering citizen centric IT projects in Public Private Partnership mode in the domestic and international markets

The progress on various ongoing projects is as under :

- (a) **Land Titling & Computerization Project, Philippines:** 117 sites of Phase I to Phase IV are operational and earning revenue. Balance sites have also been delivered and are under government testing
- (b) **e-Registration Services in Odisha, Bihar and Assam:** The e-Registration project in Odisha has been implemented on a BOOT basis and is operational at all locations in the State. All components of the e-Registration project in Bihar have been delivered and the project has gone live. The e-Registration project in Assam under ADB funding has also been delivered and gone live
- (c) **Madhya Pradesh Cyber Record Rooms project:** The project is part of National Land Record Management Program and it comprises of conversion of the existing Record Rooms into Cyber Record Rooms. The program is to be implemented in 346 Tehsils of Madhya Pradesh. During the year, work has been completed in 136 sites and balance sites would be completed in FY 2014
- (d) **Madhya Pradesh Border Check Posts:** The project is for implementation of IT portion for "Modernization of 24 Border Check Posts in the State of Madhya Pradesh". During the year, two check posts and two Control Command facilities are live. Other check-posts would be made live in FY 2014

During the year, ITL has received mandate from the Commissioner, Land Records & Settlement, Madhya Pradesh, for implementing "Enterprise Web based solution for Managing Land Records" on BOOT basis for five years. Implementation has begun and the project is expected to go live by end of FY 2014

(15) Gujarat International Finance Tec-City Company Limited (GIFT) :

GIFT is a 50:50 Joint Venture of your Company with Government of Gujarat (GoG) represented by Gujarat Urban Development Company Limited (GUDC), for implementing a global financial centre in a Special Economic Zone (SEZ) and Domestic Area. The GIFT Project is a first-of-its-kind development in the Country in terms of its scale, scope and quality of offerings using state of the art physical/social/IT infrastructure and world class connectivity. The Project demonstrates an example of a Public Private Partnership in creating a unique value proposition for all stakeholders

Major infrastructure works under Phase-I of GIFT are in various stages of development and 85% of the Phase I Development Rights have already been tied up. Allotments for a state of the art International Exhibition Centre, School and Hotel project have been made and are being developed by reputed agencies. The first commercial building ie GIFT ONE, which is the tallest commercial tower of Gujarat, developed by ITUAL was inaugurated by the Hon'ble Chief Minister, GoG on January 10, 2013 and the construction of the second building is expected to be completed in the first quarter of FY 2014

GIFT Special Economic Zone (SEZ) is the only Multi Service SEZ with the status of an International Financial Service Centre (IFSC) accorded by Ministry of Commerce & Industry (MoCI). Various units have already commenced operations from GIFT SEZ

The GIFT Project, when fully developed, would bring immense benefit to the State of Gujarat and to the Country as a whole

(16) Tirupur Area Development Project :

New Tirupur Area Development Corporation Limited (NTADCL) was promoted by the Government of Tamil Nadu (GoTN) and IL&FS, to implement and operate an integrated water supply and sewage project at Tirupur in the State of Tamil Nadu. During FY 2011, the Madras High Court had ordered closure of all dyeing and bleaching units in Tirupur based on public interest litigation. This had an adverse effect on the operations and finances of the Project. Consequently, NTADCL issued a Force Majeure Event Notice to GoTN and Tirupur Municipality

Your Company initiated discussion with GoTN, NTADCL and Senior Lenders to revive the project. Based on the discussions, GoTN agreed to utilise upto 100 MLD of surplus water available with NTADCL for domestic purposes in the project area. It has also agreed to widen the catchment area of the Project and has committed equity infusion during the succeeding three years with attendant support from the stakeholders

Based on the above commitments given by GoTN, NTADCL started supplying additional water to the Tirupur Corporation. During the year under review, Tirupur Corporation has started taking additional water to the tune of around 15 MLD. NTADCL is hopeful that the Tirupur Corporation would increase the additional offtake of water during FY 2014 to around 50 MLD after installing certain balancing equipments needed for distributing additional water

NEW INITIATIVES :

(1) Model Economic Township :

The Model Economic Township (MET) development at Jhajjar, Haryana would comprise of Industrial Enclaves, Logistics Hub, SEZs supported by necessary residential and social infrastructure. The project is envisaged to be developed in over 12,500 acres to be developed in phases

The MET is being developed with the active support of the Government of Haryana. Phase I is planned to be developed in approximately 2,600 acres at Jhajjar district. Phase II would cover approximately 2,400 acres and the remaining area would be covered in Phase III

Your Company is a Co-Promoter of the Project and is working jointly with the Reliance Group for the development of the project. The major developments are :

- (a) Discrete parcels of land being developed under Industrial Colony Framework and Lease Agreements have been executed with some anchor clients including multinational companies for setting up industrial units
- (b) Environmental clearances for over 1,800 acres of land has been obtained
- (c) MET has been sanctioned 110 cusecs of water and requisite infrastructure to transport, treat and supply the same is in planning stage. In addition, a common effluent treatment for treatment and recycling of water is also planned
- (d) Discussions are in advanced stage with Northern Railways for providing connectivity between MET and Farukhabad

(2) Initiatives in Africa :

The African continent offers tremendous opportunities for infrastructure development in the areas of Power, Transport, Water and Mobile Communications. There is also great potential to build infrastructure based sectoral linkages between Africa and India. To unlock this potential, your Company is in the process of forming a consortium with leading Financial Institutions in India. The object is to establish presence in Africa and float a Project Development Company that would explore opportunities in the infrastructure sector in Africa

(3) Initiatives in Fujairah :

IL&FS Maritime Infrastructure Company Limited (IMICL), a Subsidiary of your Company, is engaged in the development of Storage Tank Terminals for oil and oil related products at Fujairah, UAE in consortium with Prime Terminals FZC. A Project SPV has been incorporated as IL&FS Prime Terminals FZC at UAE. The Project involves development, operation and maintenance of 26 tanks with an aggregate capacity of 600,000 cubic meters of petro product storage

The Land Lease Agreement has been executed for an initial period of 25 years with automatic renewal of another 25 years. The EPC contract has been awarded and the work has commenced. The project debt of USD 91 million has been syndicated

Follow on discussions are underway to implement additional projects in the Maritime and Transportation sectors

(4) Corporate Social Responsibility :

Your Company is a unique organisation engaged in development of a wide variety of infrastructure projects encompassing power, roads, water, airports, SEZs, townships, area development etc, integrating environmental and socio economic considerations in project development activities

Your Company is currently implementing its CSR initiatives through the Nalanda Foundation, a Not-for-Profit Trust of the IL&FS Group, and is in the process of :

- (a) Creating a framework for all initiatives of IL&FS to ensure that appropriate Governance and Compliance standards are established
- (b) Oversighting the socio-economic initiatives in the catchment areas of IL&FS projects with an intent to mitigate political and economic risks at the project/ regional level;
- (c) Providing employment linked skills focused on the environment sustainability; and
- (d) Formulating a CSR Policy in compliance with the proposed Companies Bill 2012

In order to build up the requisite corpus to drive the socio economic agenda, IL&FS currently contributes a portion of its profits towards the corpus of Nalanda Foundation

REGISTRATION AS A CORE INVESTMENT COMPANY :

Pursuant to Regulatory Framework for Core Investment Companies (CIC) of Reserve Bank of India (RBI), your Company had made an application for registration as a Systemically Important Non Deposit Accepting Core Investment Company (CIC-ND-SI). Accordingly, the RBI registered your Company as CIC-ND-SI on September 11, 2012

RESOURCES :

Your Company raises its financial resources principally through working capital facilities and term loans from banks, deposits from corporates including Public Sector Undertakings, issue of non-convertible debentures and commercial paper and loans from multilateral funding agencies. Resources that are raised by your Company are in line with the requirements of asset financing, keeping in mind the management of interest rate risk, potential asset liability mismatch and treasury operations. Your Company has developed and implemented a robust framework of compliance and risk management practices to ensure that these operations are undertaken in an integrated and cost efficient manner

RISK AND COMPLIANCE FRAMEWORK :

- (1) Your Company has an established practice of compliance reporting covering all operations and support functions; compliance reporting is also subject to internal audit and is periodically reviewed to ensure comprehensive coverage. Similar practices are being established in all major subsidiaries and associates with the coordination and support of the Credit & Risk Management Group
- (2) A Risk Adjusted Return on Capital (RAROC) model based on the rating models is also being developed to support estimation of capital requirement and capital allocation
- (3) Asset Liability Management was an area of high focus in the context of alignment of the Company's Balance Sheet with the guidelines for CIC, and consequent elongation in the maturity profile of assets. Despite constrained market liquidity, resource raising was concentrated at the longer end with issuances upto 25 years maturity, which enabled a balance of maturity profile across assets and liabilities

FIXED DEPOSITS :

Your Company does not have any outstanding public deposits as on March 31, 2013. Your Company has been registered as a Core Investment Company (CIC) during the year. The Regulatory Framework of CIC in terms of RBI guidelines prohibits/ restricts the CICs from raising funds by way of public deposits. Accordingly, your Company has not accepted any public deposits nor intends to raise any money by way of public deposits

CORPORATE GOVERNANCE :

Your Company believes in providing full disclosures to the stakeholders, and adopting policies and procedures to remain transparent. Though IL&FS is a closely held and unlisted entity, it has voluntarily adopted SEBI prescribed Clause 49 of Standard Listing Agreement for sound corporate governance practices based on professionalism and accountability in building confidence among various stakeholders

Pursuant to the provisions of Securities & Exchange Board of India (Insider Trading) Regulations, 1992, the Company has formulated a comprehensive Code of Conduct for Prevention of Insider Trading to preserve confidentiality and prevent misuse of any price sensitive information. Every designated employee of the Company is required to safeguard the confidentiality of the information and not to misuse the information obtained during the course of their day-to-day work, for personal gain or benefit. The Compliance Officer appointed under the Code monitors adherence of the Code. Though your Company has ceased to be a SEBI regulated entity, the Code continues to be observed on a voluntary basis

(1) The Members of the Board and their Attendance at Board and General Meetings :

Four Board Meetings were held during the year under review. The attendance at these Board Meetings and the previous Annual General Meeting is as under :

Name of the Director	Number of Board Meetings Attended	Last AGM Attendance
Mr Ravi Parthasarathy	4	Yes
Mr Hari Sankaran	4	Yes
Mr Arun K Saha	4	Yes
Mr D K Mehrotra	3	No
Mr Sushobhan Sarker	4	No
Mr Yoshihiko Miyauchi	-	No
Mr Yuki Oshima (from November 21, 2012)	-	NA
Mr Hideo Ichida (upto November 5, 2012)	-	No
Mr K M Mistry	4	No
Mr Sanjeev Doshi	4	No
Mr K A Somayajulu	3	No
Mr S B Nayar	2	No
Mr R C Bhargava	4	Yes
Mr S B Mathur	4	No
Mr Michael Pinto	4	No
Mr Jaithirth Rao (from August 30, 2012)	1	No
Mr Makoto Shioda Alternate to Mr Y Miyauchi	4	Yes
Mr Harakazu Yamaguchi Alternate to Mr Y Oshima (from November 21, 2012) Alternate to Mr H Ichida (upto November 5, 2012)	-	No

NA = Not Applicable, since the Director was appointed after the AGM

(2) Committees of the Board :

(a) Audit Committee : The Audit Committee of the Board of Directors of the Company comprises of independent Directors viz, Mr R C Bhargava, Chairman, Mr K M Mistry and Mr Michael Pinto. The Audit Committee met four times during the year under review. The attendance status of the Members at these Meetings is provided below. The Internal Auditors as well as Statutory Auditors of the Company are invited and have remained present for all Audit Committee Meetings

Sr No	Name of the Member	Number of Meetings attended
(1)	Mr R C Bhargava	4
(2)	Mr K M Mistry	4
(3)	Mr Michael Pinto	3

The duties and responsibilities of the Audit Committee are as defined in Clause 49 of SEBI prescribed Standard Listing Agreement, which is voluntarily adopted by the Company

(b) Compensation Committee : The Compensation Committee comprises of Mr S B Mathur, Chairman, Mr K M Mistry and Mr Michael Pinto

The Compensation Committee had one meeting during the year under review. All three members of the Committee were present for the Meeting

The responsibilities of the Compensation Committee, inter-alia, include :

- (i) Reviewing the Remuneration Policy of the Company and the IL&FS Group;
- (ii) Approving the compensation payable to the Chairman, Managing Director and Senior Executives of the Company; and
- (iii) Endorsing the methodology and distribution of Performance Related Pay to the employees of the Company

(c) Risk Management Committee : The Risk Management Committee comprises of three Non-Executive Directors namely Mr D K Mehrotra, Chairman, Mr R C Bhargava, Mr Michael Pinto and Mr Arun K Saha

The Risk Management Committee met once during the year under review

The responsibilities of the Risk Management Committee, inter-alia, include :

- (i) Reviewing the adequacy of the risk management framework and operational procedures developed for new businesses and products from time to time
- (ii) Strengthening risk management practices to respond to emerging global and national market and regulatory developments
- (iii) Approving overall limits for management of credit risk, liquidity risk and market risks
- (iv) Reviewing asset liability management reports and provision of directions on improved management of liquidity and interest rate risk
- (v) Reviewing the capital adequacy requirements of the Company and provision of recommendations for the consideration of the Board in relation to the parameters to be considered in this regard
- (vi) Reviewing the Company's compliance program, as well as the status of any enquiry, investigation and other disciplinary action initiated by any regulatory agency

(d) Nomination Committee : In accordance with the RBI guidelines, your Company has constituted a Nomination Committee. The Committee comprises of Mr D K Mehrotra, Chairman, Mr K M Mistry and Mr Yuki Oshima

The Nomination Committee had one meeting during the year under review

The responsibility of the Nomination Committee is to ensure the fit and proper criteria in selecting the Whole Time and Independent Directors and recommending to the Board for approval

(e) Committee of Directors : The Committee of Directors of the Company comprises of Mr Ravi Parthasarathy, Chairman, Mr Hari Sankaran, Vice Chairman & Managing Director and Mr Arun K Saha, Joint Managing Director & CEO of the Company. The Committee is responsible for dealing with all on-going operational matters, including credits and investments, subject to the limits as specified by the Board of Directors of the Company from time to time, as well as the general management of the Company in its ordinary course of business

(f) **Management Board :** In view of the increase in the scale of operations of the Group, the Board of Directors of the Company had constituted a Management Board comprising of following Senior Executives of the IL&FS Group :

Mr Ravi Parthasarathy, Chairman

Mr Hari Sankaran, Vice Chairman & Managing Director

Mr Arun K Saha, Joint Managing Director & CEO

Mr Vibhav Kapoor, Group Chief Investment Officer

Mr Ramesh C Bawa, Managing Director, IFIN

Mr K Ramchand, Managing Director, ITNL

Mr Shahzaad Dalai, Vice Chairman, IIML

The Management Board met thrice during the year under review. All Members were present for the Meetings

The Management Board is responsible for :

- (i) reviewing all operational issues;
- (ii) formulating strategies and ensuring effective implementation thereof;
- (iii) formulating and implementing risk mitigation measures based on the business models; and
- (iv) reviewing issues with regard to Human Resources on a Group level

In addition to the foregoing, your Company has other Committees comprising of its Senior Executives for carrying out specific as well as on-going operations of the Company, viz :

- (a) **Administrative Committee:** The Committee comprises of two Whole-time Directors of the Company and Group Chief Financial Officer. The Committee is responsible for all matters pertaining to administration ie, opening & closing of bank accounts, authorisation of officials for administrative purposes etc
- (b) **Purchase Committee:** The Committee comprises of a Whole-time Director and Senior Executives of the Company and is responsible for procurement of goods and services
- (c) **Asset Liability Management Committee:** The Committee has been constituted as per RBI directives and comprises of a Whole-time Director and Senior Executives of the Company. The Committee is responsible for ensuring compliance requirements as specified by the RBI from time to time
- (d) **Grievance Redressal Committee:** The Committee comprises of Senior Executives of the Company and is responsible for addressing the concerns and grievances of clients with a mandate that grievances should be resolved within 30 days. User interface is provided on the website of your Company whereby grievances can be emailed to the Company

(3) **CEO/CFO Certification :**

A certificate in compliance with the provisions of Clause 49 of Standard Listing Agreement of Securities & Exchange Board of India, relating to Corporate Governance, signed jointly by Vice Chairman & Managing Director along with Joint Managing Director & Chief Executive Officer is attached as an Annexure to this Report

CODE OF CONDUCT :

The Company has framed and adopted a Code of Conduct applicable to Members of the Board as well as the Senior Management of the Company. The Code has been approved by the Board of Directors of the Company. The Code has been posted on the website www.ilfsindia.com. For the year under review, all Directors and Senior Management Personnel have confirmed adherence to the provisions of the Code

MANAGEMENT DISCUSSION & ANALYSIS :

(1) **Industry Overview :**

The Indian GDP growth for FY 2013 though in excess of 5%, was the lowest in a decade. The GDP decline is mainly attributed to high inflation and interest rates along with poor credit off-take during the year. In order to provide impetus to the slowing economy, during FY 2013, the RBI reduced policy rates. The move is seen as part of a concerted effort to curtail the economic slow-down by releasing adequate liquidity in the banking sector and boost the economy by fuelling consumer led spending on goods and services. The Prime Minister's Economic Advisory Panel estimates the GDP growth for FY 2014 to be in the range of 6% in view of the tapering inflation and downward revision of the policy rates

The global economic environment continues to remain weak notwithstanding the lax monetary policy through quantitative easing measure. Despite improved confidence in the US economy, this situation is expected to continue for the foreseeable future

The Government's focus on increased infrastructure spending as a means to boost the slowing economy is also seen as part of the efforts to support economic growth. Given the emphasis of the Government on PPPs, it is expected that opportunities for private sector players will sustain

The Infrastructure Projects consume a significant amount of time in securing required clearances from appropriate authorities. In order to reduce the delay in obtaining the requisite clearances, the Supreme Court has approved delinking the Environmental Clearances with Forest Clearances. In addition, the Central Government has constituted a Regulatory Authority for Roads and Highways to deal with and address issues with regard to financial closure, construction risks and contract management that are stalling the road projects

The above measures coupled with increased importance accorded to infrastructure sector and incremental liquidity in the banking system are expected to contribute favourably to infrastructure industry as a whole

(2) **Opportunities & Threats :**

The Government of India has realised the need and has accorded the highest priority to the infrastructure sector by allocating significantly larger quantum of budgetary resources. An increasingly important emphasis is also being accorded to development of social infrastructure, in addition to the development of physical infrastructure

Earlier, the competition for bidding of NHAI projects had been intense leading to improper assessment of attendant risks. In depressed market conditions, the aggressive bids have led to several cases of stressed assets. This scenario is exacerbated by the inability of the players to raise the requisite capital at a competitive price. This was evident from significant reduction in the numbers of bidders for the NHAI projects in recent times. Further, termination of a couple of NHAI projects by the awardee during the year on account of enormous delays in securing the requisite environmental and forests clearances also impacted the situation. The Government of India has taken steps to address these issues which would result in improved interest by the bidders for NHAI projects

Your Company has understood the inherent risks involved in the development of infrastructure projects - (i) cost and time overruns, (ii) delay in obtaining requisite approvals, (iii) other socio economic consideration; and (iv) political and economic uncertainties. Over the years, your Company has evolved viable and replicable models for infrastructure development and has demonstrated its ability to deliver the projects within budgeted cost and time