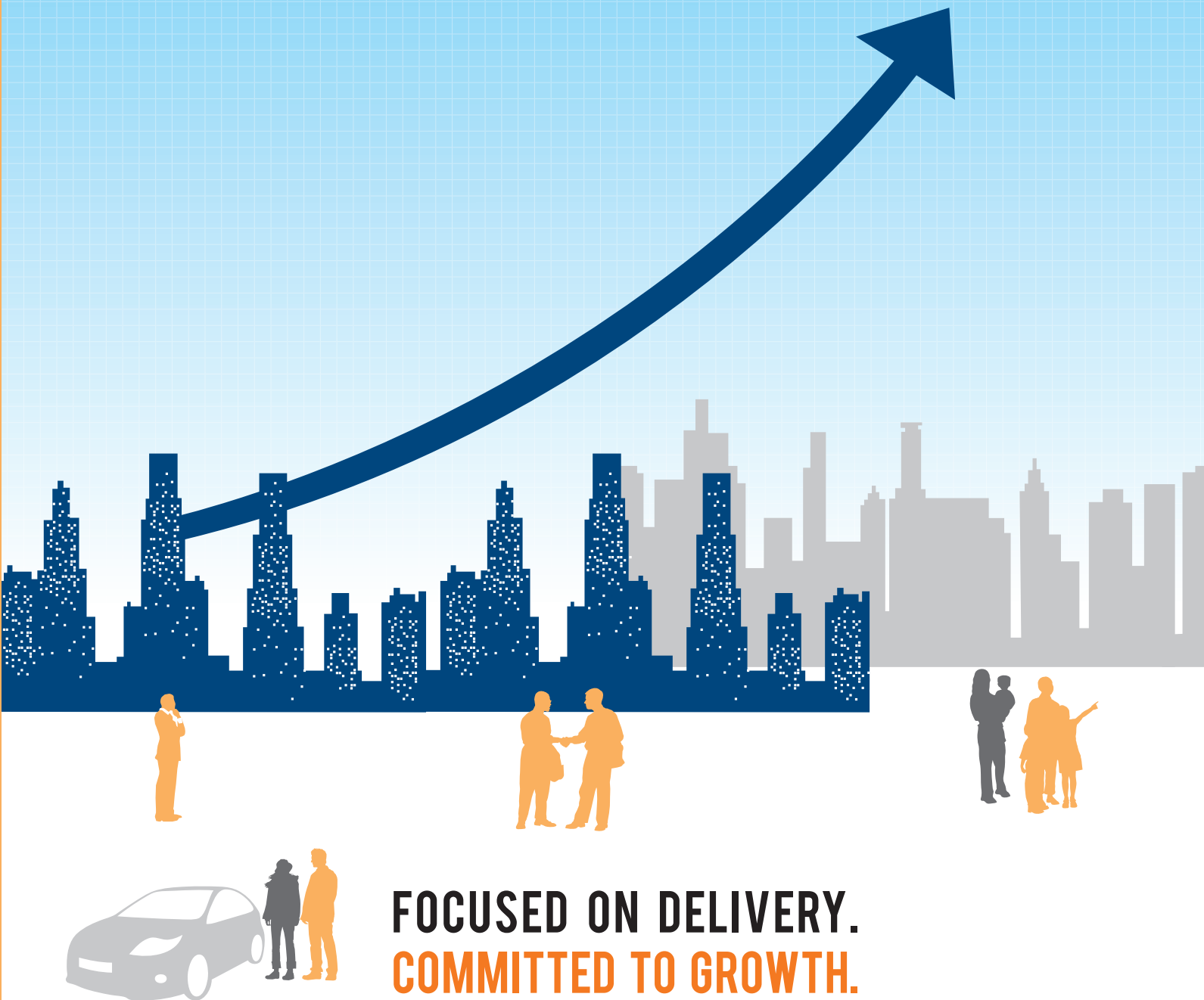


FUTURE CAPITAL HOLDINGS LIMITED

6th Annual Report 2010- 11



**FOCUSED ON DELIVERY.
COMMITTED TO GROWTH.**

CONTENTS

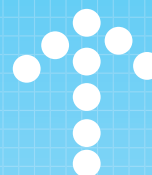
- 02** Chairman's Letter to Stakeholders
- 04** Vice Chairman and MD's Letter to Stakeholders
- 12** Corporate Information
- 13** Directors' Report
- 26** Management Discussion and Analysis
- 32** Report on Corporate Governance

Standalone Financial Statements

- 44** Auditors' Report
- 48** Standalone Balance Sheet
- 49** Standalone Profit & Loss Account
- 50** Standalone Cash Flow Statement
- 62** Notes to Accounts

Consolidated Financial Statements

- 89** Auditors' Report
- 90** Consolidated Balance Sheet
- 91** Consolidated Profit & Loss Account
- 92** Consolidated Cash Flow Statement
- 105** Notes to Accounts





The Indian growth story is compounding by the year and through the decade.

Buoyed by the spiralling consumer graph and enthused by the ever-evolving needs of the aspiring middle class.

Throwing up new opportunities and new challenges, and transforming the consumption patterns of the country into a dynamic landscape of futuristic growth.

And inspiring us at FCH, to infuse a new dynamism into our business model, more focused on delivery, and more committed to growth than ever before.

In many ways, 'Focused on delivery. Committed to growth' represents our corporate ethos, which is our business strategy, and is manifested in the new growth horizons.

Our commitment is to identify new horizons that make us more focused on encashing the burgeoning opportunities of the India of today and deliver more to each of our stakeholders – customers, shareholders, partners and employees.

CHAIRMAN'S LETTER



“The heart of a successful financial services company is always its people, its leadership and the talent that they bring on the table. And when we decided to bring in change at Future Capital, we knew we had to start with the leadership team and the talent within the company.”

Dear Stakeholders,

I am pleased to share with you the Annual Report of your company for the year 2010-2011. It has been a year of transformative change within and outside Future Capital Holdings. The Indian economy showed its resilience towards external financial shocks and maintained a healthy rate of growth. At Future Capital, we realised the need for change and transformed ourselves to make the best of the new opportunities that are coming up in the financial and consumption space in India.

The heart of a successful financial services company is always its people, its leadership and the talent that they bring on the table. And when we decided to bring in change at Future Capital, we knew we had to start with the leadership team and the talent within the company.

I am happy to share with you that this year we welcomed three new independent directors on our board. Mr. Anil Singhvi is well known for his long association and stewardship at Ambuja Cements. What is lesser known is his association and mentoring of a number of educational and social initiatives across the country. Joining him is Mr. N. C. Singhal, a highly respected member of India's financial community, former board member of ICICI Ltd. and a professional with diverse experience in the banking and financial sectors in countries across Asia and Europe. Last but not the least, we are happy

to welcome Mr. Pradeep Mukerjee, formerly Human Resources Director at Citigroup, to aid and advise us on the talent-led transformation in the company.

However, the most significant development that is now poised to take Future Capital to new heights is the coming on board of Mr. V. Vaidyanathan. Mr. Vaidyanathan has long been considered among the young leaders who have changed the financial services business in India through reach, technology, scale and innovation. Mr. Vaidyanathan joined Future Capital as the Vice Chairman and Managing Director in August 2010. His association with ICICI Bank and his achievements are rather well documented. He was on the board of ICICI Bank and set up and managed the bank's retail banking business, since its inception in 2000, till 2009. The business built included 1400 branches, retail deposits, mortgages, other consumer loans, SME and Rural Banking and he and his organisation won many awards, domestically and internationally for these achievements. More recently, he had moved to ICICI Prudential Life Insurance as the MD and CEO, a position he held before his current move. An alumnus of Harvard Business School, Mr. Vaidyanathan was also with Citibank for a decade.

Mr. Vaidyanathan has also been successful in attracting and nurturing a team that is now growing the consumer business, as well as

strengthening the balance sheet and asset quality of the company. Some of the best names have joined him as senior management, who we believe will take the company to great heights.



In the last couple of years, we had tried leveraging Future Group's extensive retail and distribution network to distribute financial products to customers. These attempts have now given us knowledge and insights on how a conventional consumer retail network can be leveraged by a financial services business and create a symbiotic relationship for both entities. In the forthcoming year, the Future Capital is well set to leverage the Future Group's network to set up financial services superstores in over 100 stores in Future Group Stores. We are now confident that we will be successful in rolling this out and create a unique business proposition.

With the unmatched opportunities that India provides along with the exceptional organisational capabilities that have been developed in your company, our objective is to build a world-class financial services organisation here in India. And to enable this we humbly solicit your continued trust and wishes in turning our objective into a reality.

Kishore Biyani

Chairman

Future Capital Holdings

MD'S LETTER

“This is the first time I am writing to you after taking the assignment, I thought it important to describe to you our approach, what business model we have chosen and how we plan to build strong positions in these.”

Dear Stakeholders,

I take immense pleasure in presenting the Annual Report of Future Capital Holdings 2010-11.

The last year has been an interesting one for India and India Inc. The undertone was one of quiet confidence. While the incremental rate of investments slowed down, consumption continued to remain strong. While interest rate hardened, businesses continued to borrow—either to expand operations or to complete existing projects. Overall, the growth momentum of the past decade continued to drive India ahead, even as the RBI had to raise interest rates to tame inflation.

Since this is the first time I am writing to you after taking the assignment, I thought it important to describe to you our approach, what business model we have chosen and how we plan to build strong positions in these. Our key focus areas for the year were:

- a) To build a strong and talented management team aligned to the overall objectives of professionalism and growth,
- b) To drive growth of the business in the chosen segments,
- c) To raise funding for continued growth and reduce the cost of funds,

- d) To reduce and maintain control over NPAs and consistently maintain high asset quality, and
- e) To carry out corporate actions those are necessary to the release of capital.

In summary, the focus was to strengthen the platform for scaling up our businesses.

It always starts with people. I am happy to report to you that your Company swiftly moved early in the year to build a top notch senior management team. We have a new look team and we carefully hand-picked each member of this team for their entrepreneurial drive, excellent and proven accomplishments and finally high personal and professional standards achieved by working in professional organisations like Merrill Lynch, Rabo Bank, Citigroup, Standard Chartered Bank and Morgan Stanley. As we look back at the year, we are immensely happy with the quality of the team we have built. All of us share a common aspiration to build a company we are proud of.

Your Company has chosen its business lines very carefully. While choosing these business lines we were conscious that we would like to build businesses which provide for good margins, are secured and can handle economic cycles better.

Our thinking is as follows. As a NBFC, our cost

of funds are relatively higher as compared to banks. So we will continue to explore such businesses that banks' have traditionally found it either difficult to focus on or have left out as white spaces and where FCH can develop a competitive advantage.

Based on the above strategy, we have zeroed in on the following segments. We like the consumer durable business built over the last few years, and we continued to scale it up. We started providing mortgage finance to SMEs against their property as collateral, which has emerged as one of our main line of business this year. We have built an elaborate mechanism to carry out legal due diligence, check cash flow capabilities of borrowers and turn these around fast to our esteemed customers. The other new business which your Company has started this year is Gold Loans. We have opened 39 new dedicated branches for gold loans and have laid the foundation for this business. We have discontinued the business of self-employed personal loans.

On the wholesale side, we already have an excellent business model developed over many years, with exceptionally good credit performance. We provide promoter financing and senior secured debt on projects backed by escrow of cash flows and we continue to build this business.





“As you can see the foundation are firmly in place and our business in the chosen areas are scaling up. I am confident that the profitability of your Company will substantially improve in the coming years. I am also confident that we will build your Company to substantial scale and be uniquely positioned in the chosen areas.”

Across these businesses, we grew the loan book managed by us from ₹ 14.92 billion to ₹ 31.45 billion.

We have ensured checks and balances by having verticals for sales, credit and operations, which is a classical foreign bank-private sector bank model. All our credit decisions are supported by CIBIL credit bureau checks and credit scoring for objective and statistically valid decision making.

In order to complete the suite of offerings from the customer's point of view and also to generate quality fee income, your Company has also commenced its Wealth Management business this year. We also acquired 50% stake in a broking company from our JV partner, towards the end of the year. With these initiatives, we are now confident of providing complete solutions to customers across all common needs for a customer, i.e. borrowing, investing and protection.

During the year, we have leveraged the Network by raising debt through NCDs, Bank lines and CPs, from ₹ 11.75 billion to ₹ 26.23 billion. As you are aware, the Base Rate of most banks went up by about 175 to 200 bps during the year. Despite this, our borrowing rates from banks in Jan-March 2011 were lower than our bank borrowing in April-June 2010. This shows the confidence of the financial markets in our strong business model and our people.

Your Company focused on reducing NPAs with missionary zeal. Together as a combination of many factors, some systemic and some driven by your Company, the gross NPAs came down sharply during the year from 3.73% in FY10 to 0.25% in FY11 and the Net NPAs came down from 1.63% in FY10 to 0.06% in FY11. In absolute terms, the Gross NPAs came down from ₹ 560 million to ₹ 70 million and net NPAs from ₹ 240 million to ₹ 18 million.

During the year, your Company undertook three significant corporate actions:

1. We exited our joint venture with Centrum Capital Limited in the Forex business by selling our 50% stake to the partner, this released the equity invested by us in this company.
2. As part of the same arrangement, we bought out Centrum Capital Limited's 50% stake in the broking business and took management control of this business to generate fee income and complete our customer proposition in the wealth segment.
3. We merged the subsidiary Future Capital Financial Services Limited (FCFS) with the parent Future Capital Holdings Limited and this helped us release guarantees on loans by the subsidiary, improved capital adequacy and helped us meet RBI's concentration norms.

Consequent to these corporate actions, we

have a neater structure and significant capital was released which can now be used for growth. Your Company's capital adequacy remained high at 23.5% despite almost doubling the loan book.

Your Company's PBT grew from ₹ 602 million to ₹ 838 million, an increase of 39.2%. Adjusting for the tax treatment because of the merger, the Profit After Tax reduced from ₹ 590 million to ₹ 490 million, a decrease of 17%.

Coming to the year ahead, your Company has many opportunities. We will open over 100 FCH Branches in Future Group stores which will give us unprecedented access to millions of customers and branches in financial stores which will be one of our significant USPs. The completeness of our product suite across all needs will help us leverage these branches.

As you can see the foundation are firmly in place and our business in the chosen areas are scaling up. I am confident that the profitability of your Company will substantially improve in the coming years. I am also confident that we will build your Company to substantial scale and be uniquely positioned in the chosen areas.

I thank you for your support and trust.

V. Vaidyanathan

Vice Chairman & Managing Director
Future Capital Holdings



COMMITTED TO GROWTH IN RETAIL BUSINESS

Fast-paced and growing. It's a business that is on the move – surging to new levels of expansion. Moving in tandem with the exponential growth opportunity in the retail market. Offering a ₹ 3 trillion market opportunity that FCH is ideally positioned to capture and exploit. And for which FCH already has a strategic blueprint in place, with 90 branches spread over 40 cities pan India through which it disburses retail credit, including Loan Against Property, Gold Loans, Consumer Durable Loans, and also offers a full suite of services to the customers, including Wealth Management, Equity, Real Estate and Securities Broking.

THE FCH PROPOSITION

It's a unique approach that is focused on exceptional delivery and is founded on our commitment to ensure exponential growth for ourselves, and for each of our stakeholders. With focus on loans against property and gold, and loans to buy consumer durables, the FCH portfolio extends across the country.

FCH's presence in the lucrative property and gold loan segments of the financial services business has set the pace and the foundation for the Company's growth into a leading retail non-banking financial company (NBFC) in the country.

Mortgage Loans to SMEs: This fast-growing portfolio currently constitutes the biggest segment of FCH's retail business. The Company assists SMEs in their working capital requirements to grow their business. This is a large market and is likely to grow at a strong pace going ahead.

Loan against Gold: Another lucrative area of growth, this is a new business for FCH, which forayed into it in 2010-11. With gold traditionally considered, in India, as a viable and sound loan option, we expect this business to multiply over the next few years, to contribute a substantial chunk of our revenue growth.

Consumer Durable Loans: Our commitment to growth is manifest not only across our new businesses but also extends to our existing portfolios, such as Consumer Durable loans. Consumer Durable loans help in building relations with millions of customers bringing joy to the many homes.

The Company's aim is to be a preferred partner in helping its clients succeed in the rapidly evolving financial markets by providing innovative product solutions, high level of convenience and service supported by robust technology.

