



**IDFC**

9th  
ANNUAL REPORT  
2005»2006

GROWING FOR  
**INDIA**

**IDFC**  
Infrastructure Development Finance Corporation  
Stock #216

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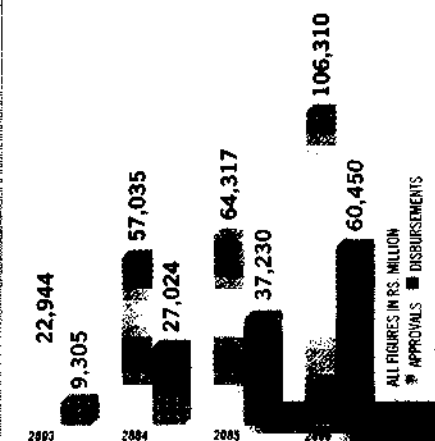
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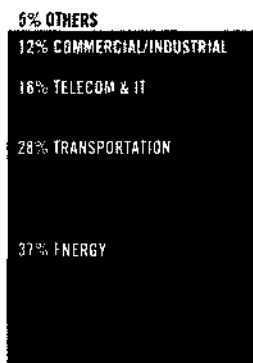
# HIGHLIGHTS

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- **LOAN BOOK GREW** by 43 per cent to Rs. 103,210 million in 2005-06.
- **IDFC'S ASSET-BOOK**, comprising loans as well as equity participation stood at Rs. 106,899 million as at March 31, 2006.



**CHART A** TOTAL APPROVALS & DISBURSEMENTS



**CHART B** SECTORWISE DISTRIBUTION OF IDFC'S TOTAL EXPOSURE

■ **REVENUE FROM OPERATIONS** increased by over 41 per cent to Rs. 10,496 million in 2005-06.

■ **NET INTEREST INCOME** grew by 18 per cent to Rs. 3,029 million.

■ **NON-INTEREST INCOME** rose by 32 per cent to Rs. 2,292 million.

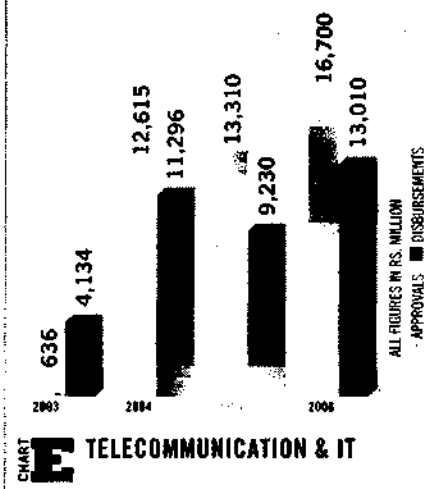
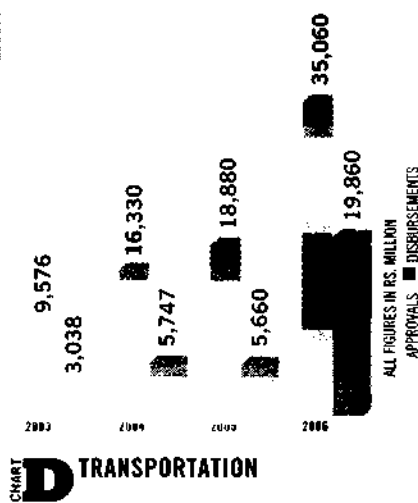
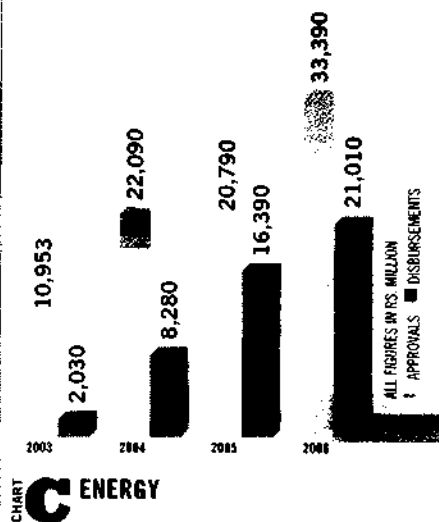
■ **FEE-BASED INCOME** increased by 96 per cent to Rs. 954 million.

■ **PROFIT BEFORE TAX** was higher by 34 per cent at Rs. 4,426 million.

■ **PROFIT AFTER TAX (PAT)** increased by over 26 per cent to Rs. 3,908 million.

■ **RETURN ON NET WORTH (RONW)** stood at 17.5 per cent for 2005-06.

■ **FULLY DILUTED EARNING PER SHARE** was Rs. 3.59.



# CHAIRMAN'S STATEMENT

Fiscal 2006 has been a momentous year for all of us at IDFC. Our offer for sale of 403.6 million equity shares - including a fresh issue of 120 million - aggregating Rs. 13.7 billion, was oversubscribed 37 times. The Initial Public Offering has opened up a new vista for funding our future growth and, in the process, provided us a platform for sharing our wealth-generating potential with a larger shareholder community. Equally importantly, it has committed us to even higher standards of transparency, accountability and (market) discipline.

## I TAKE THIS OPPORTUNITY

to thank all the domestic and foreign, institutional and individual investors who placed their faith in us and welcome them aboard. While we will continue our endeavour to deliver best possible returns, I urge our shareholders to be patient, considering that infrastructure investments usually entail long gestation periods.

*"When profit is unshared, it is less likely to grow greater." — Malcom Forbes*

In fiscal 2006 (FY 2006), we have also successfully put into practice the "4x4" **STRATEGY** I had enunciated last year, to harness the emerging opportunities and negotiate the ever-increasing challenges in a fiercely competitive environment. The Strategy, you may recall, was essentially aimed at maintaining superior returns on Assets and Equity by consolidating our traditional areas of strength and concomitantly giving fillip to avenues for earning non-interest revenues, viz., fee generating advisory, syndications and the asset management business in particular. Impressive results posted by IDFC on various fronts suggest that the Strategy is on track: Profits increased by 26% to touch a record Rs. 3.9 billion; Gross annual approvals and disbursements increased by 66% and 62% respectively to reach new highs of Rs. 106 billion and Rs. 60 billion.

## PROSPECTS

Investment opportunities in infrastructure are poised to become bigger. Spurred by the impressive average annual growth of 8% in GDP over the last three years, the Government of India is now eyeing a target of 10%, which implies that in a wide array of sectors ranging from power to roads, the country needs to not only rapidly bridge the cumulative capacity deficits of the past but also simultaneously plan for the future.

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ment of burgeoning opportunit:  
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context that IDFC has to conduct its b  
tunities for growth.

Put simply, we will need many more power plants, additional road corridors, further capacity at our air & sea ports, greater telecom bandwidth, and substantial augmentation of a variety of urban amenities.

*"The great secret of success in life is for a man to be ready when his opportunity comes." — Benjamin Disraeli*

According to the latest Economic Survey, the Committee on Infrastructure, headed by the Prime Minister, has estimated infrastructure investment requirements as follows:

Rs. 1,720 billion in the National Highways sector by FY 2012; Rs. 400 billion for Airports by FY 2010; and Rs. 500 billion for Ports by FY 2012. The power sector alone reportedly requires an additional investment of Rs. 8,000 billion to achieve the stated goal of adding 100,000 MW of generation capacity and erecting associated transmission and distribution facilities, by FY 2012. The Ministry of Power launched the Ultra Mega Power Project (UMPP) initiative to facilitate development of a clutch of large (4000 MW each) generation plants at coal pithead and coastal locations. Each of these plants alone would require an investment of about Rs. 160 billion!

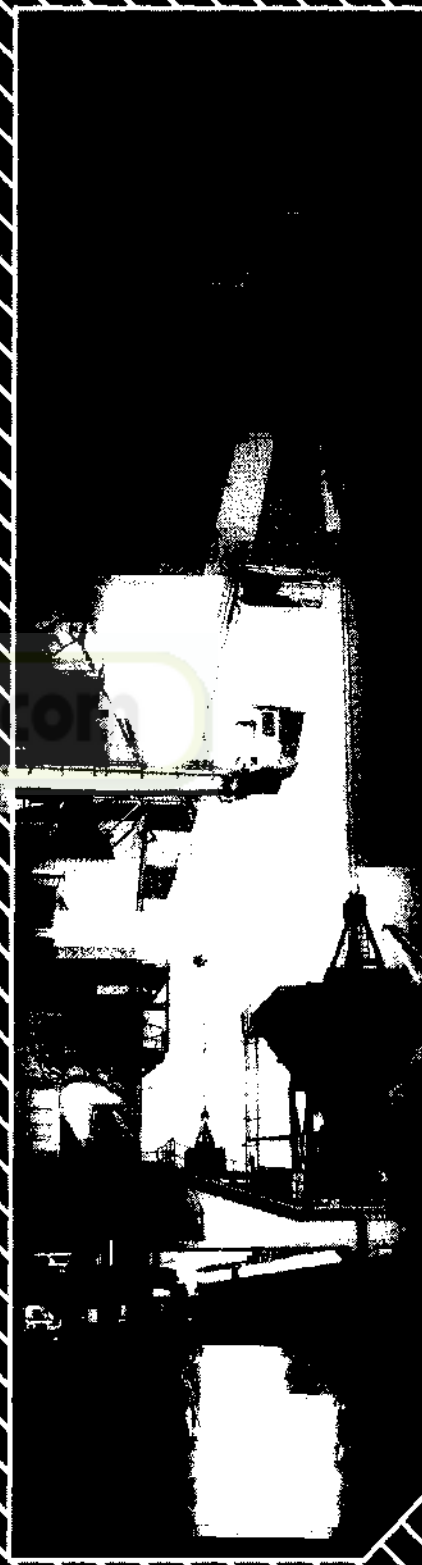
Morgan Stanley, in one of their recent studies, have set out an expectation that infrastructure investments in India would double from US\$ 24 billion (3.5% of GDP) at

present to US\$ 47 billion (4.7% of GDP) by FY 2009. Citing China's capital spending on infrastructure sectors in FY 2003 - US\$ 150 billion (10.6% of GDP) - the study suggested that in order to attain a sustained growth of 8-9%, India should gradually increase its annual infrastructure spending to US\$ 100 billion (8% of GDP) by FY 2010.

### CHALLENGES

Clearly, the opportunities delineated above augur well for all of us. I would, however, like to remind the reader that the challenges that have to be overcome to reap these prospects are likely to be substantial. For example, to sustain the impressive growth in teledensity, we need to facilitate adequate interconnection, alleviate spectrum constraints in dense urban areas and put in place cost-effective mechanisms for deploying subsidy support to rural areas. In a similar vein, to provide a fresh impetus to the roads sector, we should quickly evolve a consensus on the Model Concession Agreement and tolling for encouraging private sector participation and expedite the proposed institutional strengthening of the National Highways Authority of India (NHAI).

*"All problems become smaller if you don't dodge them but confront them. Touch a thistle timidly and it pricks you; grasp it boldly and its spines crumble." — William F. Hasley*





In the power sector, apart from fuel - which is fast emerging as a major area of concern - I see two proximate challenges. First, given the chronic power shortages and our desire to accelerate growth, we should quickly bring more capacity on stream. Second, we should rapidly curtail the gross inefficiencies plaguing the cash-generating end of the sector, i.e., the distribution segment. These two tasks, in a way, are akin to the wheels of a bicycle, and in order to go forward we should ensure progress on both fronts - in tandem! In this context, I welcome the Ministry of Power's move to give fillip to generation capacity through the UMPP initiative. I also hope that this time we would be able to put in place more effective ways to deal with the vexed issues of payment security and sustainability through, say, a more robust and equitable structuring of the project - an ingredient that was missing in our earlier quest for adding generation capacity. I would urge the Ministry of Power to consider complementing the UMPP strategy by unveiling an equally ambitious plan for the distribution business, so that we not only achieve growth but also impart sustainability to it.

In urban development, land is emerging as a critical resource forcing the state governments to make an intelligent choice between (a) maximising short term revenues by simply selling land to the highest bidder; and (b) making land available at reasonable rates (or even free) to attract institutions and industries that could underpin accelerated development in future. Mumbai and Hyderabad respectively provide live examples of these contrasting choices. While Mumbai seems to be inclined towards exploiting immediate returns - very little or nothing of which, incidentally, is flowing back into local urban development - the focus in Hyderabad has been on creating state-of-the-art infrastructure so that large tracts of

land in and around the city could become a preferred location for reputed institutions and growth-oriented services and manufacturing facilities. Enthused by the notable success already achieved by this strategy in attracting the likes of Indian School of Business and the Fab City project, the state government is now reportedly planning to provide a "plug and play" and "walk-to-



work" kind of environment for attracting IT, ITES and Hardware industries through an integrated cluster / township development.

Apart from challenges that are unique to each sector, I see at least two cross-cutting issues that are likely to become mission-critical in most infrastructure projects. These are: construction technology and land acquisition.

Construction, it is often said, could be viewed as the 'infrastructure' of infrastructure industries. Our ability to meet the mam-

moth requirement of infrastructure services in a timely and cost-effective manner would be contingent, *inter alia*, on the capabilities of our construction industry. It is well known that construction of, say, roads and urban amenities just take too long in India in comparison to international benchmarks. Therefore, it is imperative that our construction industry gears up to attain world class standards of performance, particularly through rapid adoption of technological advances and other best practices.

Land, on the other hand, is arguably the most important resource for establishing additional capacity in almost all infrastructure sectors, viz., power plants, roads, ports and SEZs. If recent developments in the country are any indication, obtaining land for infrastructure projects is already highly contentious. At the launch of our India Infrastructure Report 2006, the Union Minister for Urban Development, too, highlighted the imperative of establishing equitable mechanisms for land acquisition. In view of this, IDFC would strive to initiate a debate on this topic and work in concert with key stakeholder groups to develop a robust policy framework for expediting land acquisition in a fair and transparent manner.

### PROMISING PORTENTS

The good news is that the government seems to be diligently working at ways to alleviate each of the aforementioned constraints. More importantly, it is keen to ensure that a considerable share of additional capacity comes through the private sector route. For instance, in case of the National Highways Development Project (NHDP), the government has decided to adopt only BOT (Toll) method for Phase III and rely mainly on Public-Private Partnership (PPP) in future. The resilience with which the government pursued and concluded privatisation of Delhi and



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Mumbai airports provides yet another pointer to its keenness to enhance the role of private players. The government also approved a new Special Economic Zones (SEZs) law, which intends to provide a uniform policy regime and cover all aspects of establishment and operation of SEZs in a comprehensive manner under a single legislation. In urban infrastructure too, the launch of the Jawaharlal Nehru National Urban Renewal Mission (JNNURM), aimed at improving urban service levels in a financially sustainable manner, is expected to open up opportunities for private participation.

In the meantime, the private sector has further consolidated its position as an important player in sectors as varied as telecom, roads, ports and, more recently, in airports. In power too, each of the private power distribution companies in Delhi have achieved Aggregate Technical and Commercial loss reductions that are higher than the targeted levels. I am confident that the size as well as stature of private sector in infrastructure service provision will continue to grow and the trend is likely to extend to the level of states, too, as more and more citizens and ratepayers start appreciating the benefits of private participation.

### PREPARATION

Many experts from the orient as well as the occident have prophesied that this century belongs to Asia, and, that India is poised to play a prominent role on the world stage. These predictions are founded on expectations of robust and durable economic growth for which adequate availability of affordable infrastructure facilities is *sine qua non*.

Bringing private capital and expertise to infrastructure projects is a complex task, which requires a variety of skill sets ranging from appraisal, structuring, documentation

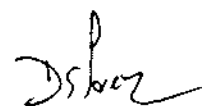
and syndication. Moreover, it requires an acute understanding of the policy and regulatory frameworks governing the infrastructure sectors, and finely honed appreciation of what works (to spot the opportunities early on) and what does not. Today, the Indian infrastructure space is abuzz with excitement of burgeoning opportunities everywhere and there is a veritable rush of existing and new players, from India as well as abroad, to get a piece of the action. It is in this context that IDFC has to conduct its business and find opportunities for growth.

*"The thorough man of business knows that only by years of patient, unrelenting attention to affairs can he earn his rewards, which is the result, not of chance, but of well-devised means for the attainment to ends."*

— Andrew Carnegie

Over nine years since its inception, IDFC has assiduously acquired and nurtured an enviable pool of human talent, with an impressive repertoire of skills and perspectives that are well-honed to address challenges in all aspects of infrastructure. This talent pool, I believe, enables us to offer end-to-end infrastructure financing, policy and advisory solutions and compete with the best-in-business.

I see exciting times ahead and I am confident that we are well equipped to negotiate the future to the best advantage of all our stakeholders.



**Deepak S. Parekh**  
Chairman

# BOARD OF DIRECTORS

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MR. S. S. KOHLI (Retd) April 17, 2005

MR. V. P. SHETTY April August 18, 2005

MR. DONALD PECK April August 14, 2005

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