



Report  LIMITED

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A N N U A L R E P O R T 2 0 0 2 - 0 3

TENTH ANNUAL GENERAL MEETING

DATE : 12th September, 2003

DAY : Friday

TIME : 10.30 A.M.

PLACE : Airforce Auditorium,
Subroto Park,
New Delhi - 110 010.

- NOTE:**
1. Shareholders are requested to bring their copy of the Annual Report with them to the Annual General Meeting.
 2. No gifts or coupons would be given to the shareholders for attending the Annual General Meeting.

BOARD OF DIRECTORS

Shri V.P. Singh Chairman & Managing Director
Shri Ramesh Mishra
Shri Vipin Malik
Shri S. Ravi
Shri A.K. Doda
Shri I.M. Pandey
Shri Vinod Rai
Shri R.N. Bhardwaj

PRINCIPAL OFFICERS

Shri M.V. Muthu
Executive Director

Shri R.M. Malla
Executive Director

CHIEF GENERAL MANAGERS

Shri Sanjoy Chowdhury
Shri K.A. Najmi
Shri Kamal Kishore

Shri R. Loonkar
Shri R.K.M. Prasad
Shri N.S. Vishwanathan (Vigilance)
Shri Sanjeev Ghai

COMPANY SECRETARY

Shri Rakesh Aggarwal

GENERAL MANAGERS

Shri R.G. Nirmal
Shri R.C. Pandey
Shri D. Rama Rao
Shri Lokanath Mishra
Dr. S.S. Jha
Shri V.P. Ahuja
Shri R.K. Chavali
Shri N.K. Ramachandran
Shri A.K. Ahuja
Shri S.K. Mandal (Posted in
Assets Care Enterprise Ltd.)

Shri A.K. Choudhary (IT)
Shri Narendar Kumar (IT)
Shri Javed Yunus
Shri Naresh Saluja
Shri V.S. Pandey
Shri D.U. Rao
Shri Ashok Kumar
(On deputation as MD, NITCON)
Shri N.D. Auddy
Shri T. Ramesh Babu

Shri D.H. Shinde
Shri Ganga Charan
Shri A.K. Godika
Shri D.G. Chaudhury
Shri A.K. Bhan
Shri Rakesh Kapoor
Shri P. Krishnan
Shri Sanjay Sethee
Shri T.K. Ray

Shri P. Kar (Law)
Shri S.L.N. Rao
(On deputation as MD, I-FIN)
Shri A.K. Das
Shri Dinesh Sharma
Shri Rajesh Narang
Shri G.J. Prasad
Shri Subrata Lahiri
Shri R.P. Singh
Shri R.S. Sandhu

STATUTORY AUDITORS

Ray & Ray
Chartered Accountants

FACILITY-WISE SANCTIONS AND DISBURSEMENTS

(Rs. million)

	2002-2003 (April-March)		2001-2002 (April-March)		Cumulative 1948-2003 (July, 1948 to March, 2003)	
	Sanctions	Disbursements	Sanctions	Disbursements	Sanctions	Disbursements
Rupee Loans	15,416.35	13,079.26	5,783.12	8,236.98	300,791.69	292,777.94
Foreign Currency Loans	458.23	—	—	297.26	58,425.91	57,309.46
Underwritings/Direct Subscriptions	3,936.56	4,848.83	1,473.34	1,983.09	47,919.68	46,475.84
Guarantees	502.65	—	342.25	270.21	37,842.50	36,002.09
Equipment Leasing	—	—	—	—	7,631.56	7,471.13
TOTAL	20,313.79	17,928.09	7,598.71	10,787.54	452,611.34	440,036.46

FINANCIAL HIGHLIGHTS

(Rs. million)

As at 31st March, 2003

As at 31st March, 2002

RESOURCES

Share Capital	10,679.48	10,679.48
Reserves & Surplus	4,697.02	4,976.64
Borrowings in Rupees	181,132.68	174,892.12
Borrowings in Foreign Currency	20,897.22	22,994.80
	217,406.40	213,543.04

ASSETS

Loans to Assisted Concerns	132,127.58	147,497.57
Investments	38,203.34	42,171.91
Fixed Assets	6,131.41	6,317.83
Net Current Assets	29,349.26	8,365.14
Miscellaneous Expenditure	155.08	347.83
Profit and Loss Account	11,439.73	8,842.76
	217,406.40	213,543.04

2002-2003

2001-2002

EARNINGS

Total Income (Rs. million)	14,382.38	22,486.49
Loss before Tax (Rs. million)	(2,596.97)	(8,847.00)
Loss after Tax (Rs. million)	(2,596.97)	(8,847.00)
Dividend on Equity	—	—

RATIOS

Capital Adequacy	0.95%	3.12%
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NOTICE

NOTICE is hereby given that the Tenth Annual General Meeting of the Members of IFCI Limited will be held on Friday, the 12th September, 2003, at 10.30 A.M. at Air Force Auditorium, Subroto Park, New Delhi - 110 010, to transact the following business :

1. To consider and adopt the Audited Balance Sheet as at 31st March, 2003 and Profit and Loss Account for the year ended 31st March, 2003 and the Report of the Board of Directors and Auditors thereon.
2. To appoint Shri P.S. Shenoy as a Director of the Company in place of Shri Ramesh Mishra, who retires by rotation and has expressed his desire not to offer himself for re-appointment. The Company has received a notice in writing from a member signifying the intention to propose the candidature of Shri P.S. Shenoy for the office of Director under Section 257 of the Companies Act, 1956 in the vacancy being caused by the retirement of Shri Ramesh Mishra and to move the following resolution as an Ordinary Resolution:
"RESOLVED that Shri P.S. Shenoy be and is hereby appointed as a Director of the Company liable to retirement by rotation."
3. To consider and, if thought fit, to pass, with or without modification(s), the following resolution, as an Ordinary Resolution :
"RESOLVED that in accordance with the provisions of Section 256 and other applicable provisions, if any, of the Companies Act, 1956, the vacancy being caused by retirement by rotation of Shri Vipin Malik, a Director, at this Annual General Meeting be not filled up."
4. To appoint Auditors and fix their remuneration and for the purpose to consider and, if thought fit, to pass, with or without modification(s), the following resolution, as a Special Resolution :
"RESOLVED that pursuant to the provisions of Section 224 A and other applicable provisions, if any, of the Companies Act, 1956, M/s. Ray & Ray, Chartered Accountants, be and are hereby, appointed as Auditors of the Company from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company at a remuneration to be decided by the Board of Directors of the Company, in addition to reimbursement of all out of pocket expenses in connection with the audit of the Company."
5. To consider and, if thought fit, to pass, with or without modification(s), the following resolution, as an Ordinary Resolution :
"RESOLVED that pursuant to the provisions of Sections 198, 269, 309, 311 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 and subject to approval of Central Govt. and such other approvals, as may be required and such modifications and conditions, if any, as the Central Government or any other authority may impose and which the Board of Directors are hereby authorised to accept, consent of the members be and is hereby accorded for extension of the term of Shri Vishwanath Prasad Singh as Chairman & Managing Director of the Company from 1st October, 2003 to 31st January, 2004 i.e., the last date of the month in which he attains the age of 60 years and to the payment of remuneration as applicable as at present and as set out hereunder :

- (i) **Pay**
Consolidated pay of Rs. 1,00,000/- per month.
Stock option and performance linked incentive, as may be decided by the Board.
- (ii) **Housing**
Free furnished accommodation to be provided by the Company. The cost of furniture/furnishing shall not exceed Rs. 5 lakhs. Electricity, water and gas charges shall be borne by the Chairman & Managing Director. The Electricity Charges for the Security lights and for one room, which will be used for official purpose, shall be borne by the Company. The expenditure incurred on providing security and gardener for protecting and preserving the property of the Company shall also be borne by the Company.
- (iii) **Conveyance**
Free use of Company's Car with driver for official and private purposes.
- (iv) **Travelling, Boarding and lodging**
Actual expenditure to be reimbursed by the Company for outstation journey for official work.
- (v) **Club Fees**
Fees of Clubs, subject to a maximum of two Clubs (excluding admission and Life Membership Fees).
- (vi) **Leave Travel Concession**
Entitled to travel with family, by any mode, i.e., Air, Train, Road once in two years for visiting any place in India.
- (vii) **Medical Benefits**
Actual expenses incurred for the Chairman & Managing Director and his family.
- (viii) **Personal Accident Insurance**
Premium not to exceed Rs. 4000/- per annum.
- (ix) **Company's Contribution**
(a) towards Provident Fund : 10% of pay
(b) towards Superannuation : 15% of pay Fund/Annuity Fund
- (x) **Gratuity**
15 days' salary for each completed year of service. Part service in excess of six months shall be reckoned as a completed year of service.
- (xi) **Leave :**
As per staff Regulations of the Company.
- (xii) **Encashment of Leave on Retirement**
Entitled to encash Earned Leave at the time of retirement, which may be lying to his credit. The amount of leave salary shall be calculated on the basis of last pay drawn.
- (xiii) **Telephone**
The Company shall provide Telephone at residence for office use.

NOTE : The family for the purpose of Leave Travel Concession and Medical Benefits shall, besides the Chairman & Managing Director, consist of spouse, wholly dependent parents and wholly dependent children of the Chairman & Managing Director.

RESOLVED FURTHER that in the event of absence or inadequacy of profit in the financial year, the aforesaid remuneration shall be paid as minimum remuneration.

RESOLVED FURTHER that the Company shall have the right to terminate the term of office of the Chairman & Managing Director at any time before the expiry of the term by giving notice, without assigning any reason, of not less than 3 months in writing or the salary and allowances in lieu thereof. Chairman & Managing Director shall also have the right to relinquish his office at any time before the expiry of the term by giving to the Company notice, without assigning any reason, of not less than 3 months in writing.

RESOLVED FURTHER that the Board of Directors be and is hereby authorised to alter and vary the aforesaid terms as to remuneration (including perquisites) within the ceiling limits in that behalf laid down in Schedule XIII to the Companies Act, 1956 as in force from time to time.

RESOLVED FURTHER that for the purpose of giving effect to this resolution, the Board of Directors of the Company be and is hereby authorised to do all such acts, deeds and things as may be deemed necessary or desirable or to settle any question or difficulty that may arise, in such manner as it may deem fit."

6. To consider and, if thought fit, to pass, with or without modification(s), the following resolution, as a Special Resolution :

"RESOLVED that pursuant to the provisions of Section 81 and all other applicable provisions, if any, of the Companies Act, 1956, and subject to such approval, consent, permission and/or sanction, if any, as may be necessary and subject to such conditions and modifications, as may be prescribed by any authorities in granting such approval, consent, permission and/or sanction and which may be agreed to by the Board of Directors (hereinafter referred to as "the Board" which shall be deemed to include any Committee(s) constituted/to be constituted by the Board to exercise its powers conferred by this resolution), the consent of the Company, be and is hereby, accorded to the Board to issue and allot Optionally Convertible Debentures/Bonds, up to a sum of Rs. 20,000 Million (Rupees Twenty Thousand Million only) as the Board at its sole discretion may at any time or times hereafter decide, to the Banks, Financial Institutions and to such other investors/stakeholders of the Company who have agreed/may agree for part/full conversion of their investments in the Company into Optionally Convertible Debentures/Bonds, in one or more tranches and in such manner and on such terms and conditions as may be decided by the Board in this behalf.

RESOLVED FURTHER that for the purpose of giving effect to this resolution, the Board of Directors of the Company, be and is hereby, authorised to do all such acts, deeds and things as may be deemed necessary, proper or desirable, or to settle any question, difficulty or doubt that may arise in regard to the issue of the aforesaid Optionally Convertible Debentures/Bonds and to finalise and execute all documents and writings as may be necessary, desirable or expedient."

7. To consider and, if thought fit, to pass, with or without modification(s), the following resolution, as a Special Resolution :

"RESOLVED that in accordance with the provisions of the Companies Act, 1956 (including any statutory modification(s) or re-enactments thereof for the time being in force), Securities Contracts (Regulation) Act, 1956 and the rules framed thereunder, Listing Agreements with Stock Exchanges, Securities and Exchange Board of India (De-listing of Securities) Guidelines, 2003, and all other applicable laws, rules, regulations and guidelines and subject to such approvals, permissions and sanctions, as may be necessary and subject to such conditions and modifications, as may be prescribed or imposed by any authority while granting such approvals, permissions and sanctions, which may be agreed to by the Board of Directors of the Company (hereinafter referred to as "the Board", which term shall be deemed to include any Committee thereof for the time being exercising the powers conferred on the Board by this Resolution), the consent of the Company, be and is hereby, accorded to the Board for voluntary de-listing of the Equity Shares and/or other Securities of the Company from all or any of The Delhi Stock Exchange Association Ltd., at New Delhi, The Calcutta Stock Exchange Association Ltd., at Kolkata, The Stock Exchange Ahmedabad, at Ahmedabad and Madras Stock Exchange Ltd., at Chennai."

Registered Office :

By order of the Board of Directors

IFCI Tower
61, Nehru Place
New Delhi - 110 019

Rakesh Aggarwal
Company Secretary

Date : 31st July, 2003

NOTES :

1. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE PROXIES, IN ORDER TO BE VALID AND EFFECTIVE, MUST BE DELIVERED TO THE REGISTERED OFFICE OF THE COMPANY AT LEAST FORTY-EIGHT HOURS BEFORE THE COMMENCEMENT OF THE MEETING.
2. The Explanatory Statement pursuant to the provisions of Section 173(2) of the Companies Act, 1956, setting out the material facts in respect of the business under Item Nos. 2 and 5 to 7 is annexed hereto.
3. All documents referred to in the accompanying Notice and the Explanatory Statement are open for inspection at the Registered Office of the Company on all working days except Saturdays, Sundays and Holidays between 11.00 a.m. and 1.00 p.m. up to the date of Annual General Meeting.
4. The Register of Members and Share Transfer Books for Equity Shares will remain closed from Thursday, 4th September, 2003 to Friday, 12th September, 2003 (both days inclusive).
5. IFCI is not including the financial statements and other details of its subsidiaries viz. IFCI Financial Services Limited and IFCI Venture Capital Funds Limited in terms of exemption granted by the Department of Company Affairs under Section 212(8) of the Companies Act, 1956. However, these details will be made available to any member at any point of time on specific request in writing to the Company.

6. Members desiring any information with regard to accounts or operations are requested to write to the Company at an early date so as to enable the Management to keep the information ready.
7. The members holding shares/bonds in physical form are requested to intimate to the Registrar and Transfer Agents, MCS Limited, 212-A, Sri Venkatesh Bhawan, Behind Panchsheel Club, Shahpur Jat, New Delhi - 110 049, the change of address, if any, at the earliest quoting their registered folio number.
8. Members/Proxies should bring the attendance slips duly filled in for attending the meeting. Members who hold shares in dematerialised form are requested to bring their Client-ID and DP-ID numbers for easy identification of attendance at the meeting.
9. As per the provisions of the Companies Act, 1956, facility for making nominations is available to the Members. Nomination forms can be obtained from the Registrar and Transfer Agents, MCS Limited.
10. Pursuant to Section 205 A of the Companies Act, 1956, the Company has transferred all unclaimed dividend declared up to the financial year ended 31st March, 1994 to the General Revenue Account of the Central Government as required by the Unpaid Dividend (Transfer to the General Revenue Account of the Central Government) Rules, 1978. Those Shareholders who have so far not claimed their dividend up to the aforesaid Financial year may claim their dividend from the Registrar of Companies, Delhi & Haryana, CGO Complex, Paryavaran Bhawan, Lodi Road, New Delhi - 110 003.
11. Consequent upon amendment to Section 205 A and introduction of Section 205 C, the unclaimed dividend for the financial year 1994-95 has also been transferred to the Investor Education & Protection Fund. Dividend for the Financial year 1995-96 and thereafter, which remains unpaid or unclaimed for a period of seven years will be transferred to the Investor Education and Protection Fund of the Central Government. Shareholders who have not encashed the dividend warrant(s) so far for the financial year 1995-96 or any subsequent financial years are requested to make their claim to the Office of Registrar & Transfer Agents, MCS Limited. **It may be noted that once the unclaimed dividend is transferred to the Investor Education and Protection Fund, as above, no claim shall lie in respect thereof.**

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 OF THE COMPANIES ACT, 1956

ITEM NO. 2

Shri Ramesh Mishra, who has been a Director for the last 5 years, has expressed his desire not to seek re-appointment. The Company has received a notice under Section 257 of the Companies Act, 1956 from a member signifying the intention to propose the candidature of Shri P.S. Shenoy as a Director of the Company, in the vacancy being caused by the retirement of Shri Mishra. Shri Shenoy, who is 58 years of age, is B.Com., CAIIB by qualification. He is a banker by profession having overall experience of 37 years. He is presently Chairman & Managing Director, Bank of Baroda with effect from 20th May, 2000. Shri Shenoy is also on the Board of the following organisations :

- (i) Chairman, BOB International Finance Limited, Hong Kong.
- (ii) Chairman, BOBCARDS Limited.

- (iii) Director, Agriculture Finance Corporation of India Limited.
- (iv) Ex-officio Member, General Council, National Cooperative Development Corporation.
- (v) Member, Governing Board, National Institute of Bank Management.

Your Directors commend the appointment of Shri P.S. Shenoy as a Director of the Company.

None of the Directors of the Company is concerned or interested in the resolution.

ITEM NO. 5

The members of the Company at their 9th Annual General Meeting held on 23rd September, 2002, had approved the appointment of Shri Vishwanath Prasad Singh as Chairman & Managing Director (CMD) for a period of 2 years from 1st October, 2001 to 30th September, 2003.

The Board of Directors has, at their meeting held on 31st July, 2003, decided to extend the term of Shri V.P. Singh, CMD till 31st January, 2004, i.e. the last date of the month in which he will attain the age of 60 years and to pay the remuneration as applicable as at present subject to approval of the Members at Annual General Meeting and also the Central Government and such other approvals, as may be required.

Remuneration Committee of Directors has also approved the remuneration proposed to be paid to the Chairman & Managing Director.

Approval of the Members is sought for extension of the tenure of Shri Vishwanath Prasad Singh as Chairman & Managing Director and payment of remuneration to him as set out in Resolution at Item No. 5.

Shri V.P. Singh is graduate in Commerce. He is having an overall experience of 38 years and was Executive Director, Industrial Development Bank of India prior to his appointment as Chairman & Managing Director, IFCI with effect from 1st October, 2001. Shri Singh is presently on the Board of following organisations :

- i) Chairman, Tourism Finance Corporation of India Limited.
- ii) Chairman, Assets Care Enterprise Limited.
- iii) Chairman, Board of Governors, Management Development Institute.
- iv) Chairman, Board of Governors, Institute of Labour Development.
- v) Director, National Stock Exchange of India Limited.
- vi) Director, LIC Housing Finance Limited.
- vii) Member, Board of Governors, Entrepreneurship Development Institute of India.
- viii) Member, Advisory Board, Centre for Corporate Research & Training, The Institute of Company Secretaries of India.

Your Directors commend the resolution for approval of the members.

Shri Singh is interested in the resolution as it relates to extension of his tenure. None of the other Directors of the Company is concerned or interested in the resolution.

This alongwith the resolution no. 5 may be treated as an abstract u/s. 302 of the Companies Act, 1956.

ITEM NO. 6

IFCI had been passing through a phase of high level of Non-Performing Assets and liquidity problem. As a result, IFCI's ability

to service the debt as contracted, in a timely manner was impacted. In order to consolidate the financial position and to overcome the liquidity gap, IFCI approached major stakeholders for reduction in the interest rates and extension of the repayment period of their investments in IFCI. After considerable discussions at the meetings of major stakeholders, where representatives from Banking Division, Govt. of India and Public Sector Banks and Financial Institutions (FIs) were present, it was agreed in principle to restructure their Non-SLR investments in IFCI as under :

- a) Conversion of 50% of Non-SLR liabilities into Zero Coupon Optionally Convertible Debentures/Bonds payable after 20 years w.e.f. 1st April, 2002, subject to Banks and FIs having the right of recompense.
- b) Reduction of interest rate to 6% p.a. on remaining 50% of Non-SLR liabilities w.e.f. 1st April, 2002 and reinvestment of the same for another 10 years from the respective dates of maturity at an interest rate of 6% p.a.

On the basis of the above parameters, IFCI has received consents from almost all Banks and Financial Institutions, who are the investors, for restructuring of their investment in IFCI. Accordingly, it is proposed to issue Zero Coupon Optionally Convertible Debentures/Bonds to these Banks and Institutions equivalent to 50% of their Non-SLR investments in IFCI. It is proposed that these Debentures/Bonds would be convertible, at any time after five years from the date of issue, at the option of the holders, at a price to be determined in accordance with the prevailing provisions of SEBI Guidelines at the time of such conversion and the right of recompense would be up to 6% p.a., for the year, in which IFCI declares dividend on equity shares. This would, however, be subject to any modifications or conditions, as may be stipulated by any regulatory or other authority while according their approval and/or as may be considered necessary by the Board of Directors, in the interest of IFCI. The Board of Directors may also issue Convertible Debentures/Bonds to other investors/stakeholders, as stated in the resolution.

Since the Debentures/Bonds will have the convertibility clause at the option of the Debenture/Bondholders, approval of Members is being sought before issuance of these Debentures/Bonds.

LISTING AT STOCK EXCHANGES

The Company's Equity Shares are listed at following six Stock Exchanges in India. Besides, the bonds issued to the public by the Company are also listed at Stock Exchanges mentioned at Sl. No. 1, 2 and 3 below :

- | | |
|--|---|
| <ol style="list-style-type: none"> 1. The Stock Exchange
Phiroze Jeejeebhoy Tower,
Dalal Street, Fort
MUMBAI - 400 001 3. The Delhi Stock Exchange Assn. Limited
3/1 Asaf Ali Road
DELHI - 110002 5. The Madras Stock Exchange Assn. Limited.
11, Second Line Beach,
Panjarapole
CHENNAI - 600 001 | <ol style="list-style-type: none"> 2. The National Stock Exchange
of India Limited
Exchange Plaza, 5th Floor.
Plot No. C/1, G Block.
Bandra-Kurla Complex.
Bandra (East)
MUMBAI - 400 051 4. The Kolkata Stock Exchange Assn. Limited
7 Lyons Range,
KOLKATA-700 001. 6. The Stock Exchange
Kamdhenu Complex,
Opp. Sahajanand College
AHMEDABAD - 380 015 |
|--|---|

Various series of bonds issued by IFCI, when it was a statutory Corporation, and which are guaranteed by the Government of India are listed on one or more Stock Exchanges mentioned at Sl. No. 1, 3, 4 and 5 above.

The Company has paid the annual listing fees to all the Stock Exchanges for the financial year 2002-2003 except to the Stock Exchanges at New Delhi, Kolkata, Ahmedabad and Chennai as Company had earlier applied for delisting of Securities pursuant to the resolution passed at the Annual General Meeting held on 10th September, 2001.

Your Directors commend the resolution for approval of the members.

The Directors may be deemed to be concerned or interested in the resolution set out at Item No. 6 to the extent the Optionally Convertible Debentures/Bonds may be allotted to them and/or their relatives and/or bodies corporate in which they may be interested.

ITEM NO. 7

SEBI has recently notified new Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003. Clause 5 of the Guidelines permits voluntary delisting of securities from one or more Stock Exchanges and in cases where securities continue to be listed in Stock Exchanges having nation-wide trading terminal, no exit opportunity is required to be given to investors. It is proposed to get the shares/other securities delisted from the Stock Exchanges as set out in the resolution, in accordance with the aforesaid Guidelines. Though approval of the members was obtained for delisting at the Annual General Meeting held on the 10th September, 2001, approval is now again being sought under the new Guidelines. The proposed delisting is being sought in view of negligible trading on these Stock Exchanges and for saving cost. Moreover, with the Company's shares/other securities continuing to be listed on the Stock Exchange, Mumbai/National Stock Exchange with trading terminals all over the country, investors at any of the places would not be adversely affected by the proposed delisting. Your Directors commend the resolution for approval of the members of the Company.

None of the Directors of the Company is concerned or interested in the resolution.

Registered Office : By Order of the Board of Directors

IFCI Tower
61, Nehru Place
New Delhi - 110 019

Rakesh Aggarwal
Company Secretary

Date : 31st July, 2003

DIRECTORS' REPORT

To the Members

Your Directors are pleased to present the Tenth Annual Report of the Company together with the Audited Statements of Accounts for the year ended 31st March, 2003.

FINANCIAL RESULTS

	(Rs. million)	
	2002-03	2001-02
1. Income from Operations	14,035	22,185
2. Other Income	347	301
3. Total Income	<u>14,382</u>	<u>22,486</u>
4. Loss before Provision for Bad and Doubtful Assets	(2,080)	(2,531)
5. Write off/Provision for Bad and Doubtful Assets	18,817	6,316
6. Extra-ordinary item	18,300	-
7. Loss for the year (4+5-6)	(2,597)	(8,847)
8. Surplus/Deficit brought forward from the previous year	(8,843)	4
9. Balance carried to Balance Sheet	<u>(11,440)</u>	<u>(8,843)</u>

Lower income was partly the result of the reduction in interest earning assets caused by normal repayments, prepayments and also due to reversal of income/non-recognition of income on Non-Performing Assets (NPAs). Provisions for bad and doubtful assets have been higher for the current year compared to the previous year. However, financial support from the Government of India by way of taking over certain government-guaranteed and retail liabilities of IFCI, part of which amounting to Rs. 18,300 million has been taken as extra-ordinary item in FY 2002-03 and restructuring in respect of other liabilities enabled the Company to contain the overall loss, even after providing for substantial amount by way of provisions.

Dividend

In view of the loss incurred by the Company, the Directors are unable to recommend any dividend on preference shares as well as equity shares.

Significant Developments

The significant developments relating to the most crucial determinants of the performance of your Company which were the focus of the management's efforts during the year viz., the restructuring of the borrowings on the liabilities side and the management of NPAs on the assets side of your Company's Balance Sheet, are given hereunder :

(i) Restructuring of Liabilities

Your Company has been able to achieve a major breakthrough in restructuring of its rupee liabilities that was made possible with the active support and help of all major stakeholders and the Government of India.

Like many other financial institutions in the country, IFCI had in the past been raising rupee funds at fixed rates of medium and long-term maturity mainly due to the lack of a fully

developed market for floating rate instruments in India. In order to meet the business needs, your Company had raised large borrowings at fixed interest rates as high as 17% p.a. during the years 1994 to 1998. Although the progressive drop in interest rates led borrowers to insist on a reduced rate of interest even on their existing loans so as to remain viable, your Company in the past was unable to refinance its own liabilities at lower rates due to fixed maturity and interest rates. The problem for your Company was further compounded, as it could not also raise fresh funds at lower rates in order to refinance earlier high cost maturing loans due to downgrading of its credit rating. In these circumstances, the restructuring of the liabilities of your Company has become essential.

As per the restructuring package agreed to by the major stakeholders, it is envisaged that liabilities in respect of Government-guaranteed SLR bonds held by investors, other than PSU Banks and Financial Institutions, as also the retail borrowings of investors below Rs.0.1 million, would be taken over by the Government of India. In addition, the Government will also service the foreign currency borrowings that have been guaranteed by it. It has also been decided that the Government would bear the difference between the existing coupon rate and the current G-Sec rate on SLR bonds held by PSU Banks and FIs till original maturity.

The Government support to your Company, as per the agreed package, is expected to be made available in phases linked with the maturity of liabilities. The Government has provided a sum of Rs.20,960 million in its revised Budget estimates for 2002-03 (Rs.5,230 million already disbursed in March 2003) and 2003-04 (Rs.15,730 million) in the form of loans. Your Company's request for conversion of these loans into grants is under consideration of the Government.

As far as the public sector Banks/FIs are concerned, the restructuring package envisages conversion of 50% of their non-SLR investments in IFCI into Zero Coupon Optionally Convertible Debentures payable after 20 years with effect from 1st April, 2002. The interest rate on the remaining 50% of non-SLR investments would be reduced to 6% p.a. and its maturity would be extended by a further period of 10 years. Investments by these institutions in the preference capital of your Company would also be extended for a period of 20 years at notional coupon rate of 0.10%. Apart from this, certain secured loans, term money bonds raised by your Company and the amounts provided as a special package in FY 2001-02 by LIC, IDBI and SBI, would carry a reduced rate of interest of 6% p.a. and the period would be extended to 20 years. Most of the PSU Banks/FIs have since given their consent to the above restructuring package.

Other major categories of investors in your Company comprise Retirement Funds, Cooperative Banks, Regional Rural Banks, etc. Your Company has already approached them for restructuring of their investments. The proposal for restructuring in this category envisages reduction in rate of interest to 9% p.a. and extension of maturity by 5 years. A number of Retirement Funds have already approved the restructuring on the above lines while others are actively considering our request. The Employees' Provident Fund Organisation (EPFO) which is the largest retirement fund in the country, is likely to restructure its investment in IFCI shortly.

Once the restructuring exercise is completed, your Company will not only be able to bridge the liquidity gap but will also be able to have a sustainable business model by achieving requisite financial ratios.

(ii) Management of Non-Performing Assets

The Government and the Reserve Bank of India (RBI) have during recent years taken a number of major initiatives to resolve the problem of NPAs in Banks and Financial Institutions, which include among others, the revised guidelines issued by RBI for compromise settlement of chronic NPAs, the introduction of the Corporate Debt Restructuring System and the enactment of the Securitisation and Reconstruction of Financial Assets & Enforcement of Security Interest Act, 2002. The effect of these measures, which is expected to be very significant, is beginning to be realized in varying degrees by the individual Banks and Financial Institutions.

In the case of IFCI, the resolution of NPAs has been relatively difficult owing to both lending and borrowing being at high and fixed rates of interest over a large number of years and the consequent difficulties experienced in restructuring of both assets as well as liabilities. The debt repayment capacity of a significantly large number of IFCI's borrowers was also adversely affected on account of the above reasons. The net NPAs of your Company went up from Rs.38,976 million (22.2%) as of 31st March, 2002 to Rs.45,597 million (29.5%) as of 31st March, 2003. The increase is mainly due to reclassification of assets in all categories in conformity with the guidelines of RBI.

In order to resolve the existing NPAs and also to prevent slippage of performing assets into NPAs, timely restructuring packages are formulated, wherever feasible. During 2002-03, restructuring packages have been formulated in 76 cases with an aggregate outstanding amount of Rs.52,939 million compared with 103 cases with an aggregate outstanding amount of Rs.41,388 million in the previous year.

The Corporate Debt Restructuring System came into existence in November 2001 in order to facilitate quick restructuring of corporate entities affected by internal and external factors, outside the purview of BIFR, DRT and other legal proceedings. RBI, in order to make the operations of the CDR mechanism more efficient, had constituted a High Level Group, of which the Chairman & Managing Director of your Company, was also a Member. Based on the recommendations of the Group, the scope of the CDR system has been expanded giving it more flexibility. Eighteen cases, in which your Company had an aggregate outstanding of Rs.26,338 million, were restructured under the aegis of the CDR System during 2002-03.

In the case of projects, where the prospects of recovery of dues in the normal course, even after restructuring, are considered remote - due to low expected profitability and cash flow as also inadequate realisable value of the underlying assets (security) - and recovery through normal legal route is expected to be unduly long-drawn, aggressive steps are initiated towards Negotiated/One Time Settlement (OTS) of dues. During the year, RBI had issued revised guidelines for compromise settlement of chronic NPAs that are non-discretionary and non-discriminatory in nature. These guidelines were widely publicized by your Company and borrowers were individually offered the opportunity for settlement. During 2002-03, OTS

was entered into in respect of 84 cases with an aggregate outstanding of Rs.16,608 million compared with 92 cases with aggregate outstanding of Rs.11,047 million in the previous year. The settlement reached amounted to Rs.4,865 million in 2002-03 compared with Rs.2,968 million in the previous year.

The Board of Directors of your Company has also constituted a Sub-Committee of Directors, specifically to review the large NPAs, analyse these on a case-by-case basis, and suggest suitable remedial action to accelerate the process of recovery. The NPA Review Committee reviewed 100 such cases with an aggregate outstanding amount of Rs.20,235 million during the year.

Where loan recovery has not been found possible through other means, your Company has initiated legal action for recovery. As of 31st March, 2003, your Company had filed 751 recovery applications, involving an amount of Rs.103,560 million in the various Debt Recovery Tribunals (DRTs) in India. These included 60 new cases involving Rs.26,730 million filed during the year 2002-03. In order to achieve expeditious recovery through Courts, the Legal Department of your Company is engaged in intensive follow up of cases pending before DRTs/Company Courts at various centers. The Legal Officers, along with Credit Officers and Relationship Managers, are regularly in touch with advocates and attend the proceedings before DRTs/High Courts. Wherever necessary, suitable interim orders have been obtained. In 56 cases, Receivers have taken possession of the assets. Your Company has also obtained Recovery Certificates and sale orders through DRTs/Courts in 141 cases involving an amount of Rs.13,230 million. The sale of assets through the DRTs/Company Courts have yielded Rs.350 million during the year 2002-03.

In order to make recovery in DRT cases more effective, your Company has made a few suggestions to the Government of India for the redressal and resolution of such cases.

In order to help Banks and FIs to resolve their NPAs, the Government of India promulgated the Securitisation and Reconstruction of Financial Assets & Enforcement of Security Interest Ordinance, 2002 on 21st June, 2002. The Ordinance has since been replaced by Act 54 of 2002 and was published in the Gazette on the 18th December, 2002. The said Act authorises the secured creditors to invoke their security interest without reference to the Court. It provides that in a case where the borrower fails to discharge his liability, the secured creditor may take recourse to one or more of the measures which include: (a) taking possession of the secured assets of the borrower with right to transfer the same by way of lease, assignment or sale, or (b) taking over the management of the secured assets with similar rights, or (c) appointment of Manager for management of the secured assets. Your Company has initiated action under the said Act and during 2002-03 has issued notices in 50 cases with an aggregate outstanding of Rs.28,959 million, and has also given consent to other Banks/FIs to take action under the Act in 43 cases with an aggregate outstanding of Rs.37,060 million. Your Company has already taken possession of the assets in 3 cases and is constantly in touch with other Banks/FIs to resolve the NPAs under the provisions of the Act.

Your Company has also sponsored and established, together with PNB, LIC, TFCI and Madhya Pradesh Consultancy Organisation Ltd., a Securitisation and Reconstruction Company within the meaning of section 3 of SRFA & ESI Act 2002 viz.,