



LIMITED

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A N N U A L R E P O R T 2 0 0 5 - 0 6

BOARD OF DIRECTORS

Shri P.S. Shenoy	Chairman of the Board
Shri Atul Kumar Rai	
Shri N. Balasubramanian	
Shri R.C. Razdan	
Shri S. Ravi	
Prof. I.M. Pandey	
Shri R.M. Malla	Chief Executive Officer

PRINCIPAL OFFICERS**CHIEF GENERAL MANAGERS**

Shri Sanjoy Chowdhury
Shri Sanjeev Ghai
Shri Lokanath Mishra

GENERAL MANAGERS

Shri R.C. Pandey	Shri Javed Yunus	Shri D.G. Chaudhury	Shri G.J. Prasad
Shri R.K. Chavali	Shri Naresh Saluja	Shri Rakesh Kapoor	Shri Subrata Lahiri
Shri S.K. Mandal	Shri V.S. Pandey (On deputation as MD, NITCON)	Shri Sonjoy Sethee (CFO)	Shri R.P. Singh
Shri A.K. Choudhary	Shri N.D. Auddy	Shri T.K. Ray	Shri R.S. Sandhu
Shri Narendar Kumar	Shri Ganga Charan	Shri Dinesh Sharma	

COMPANY SECRETARY

Shri S.P. Arora

STATUTORY AUDITORS

Ray & Ray
Chartered Accountants

NOTICE

NOTICE is hereby given that the Thirteenth Annual General Meeting of the Members of IFCI Limited will be held on Friday, the 25th August, 2006 at 10.30 A.M. at Air Force Auditorium, Subroto Park, New Delhi-110 010 to transact the following business:

Ordinary Business

1. To consider and adopt the Audited Balance Sheet as at March 31, 2006 and the Profit and Loss Account for the year ended March 31, 2006 and the Report of the Board of Directors and Auditors' thereon.
2. To appoint a Director in place of Shri P.S. Shenoy who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Shri R.C. Razdan who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint Auditors and fix their remuneration and for the purpose to consider and, if thought fit, to pass, with or without modifications, the following resolution as a Special Resolution:-

“RESOLVED that pursuant to the provisions of Section 224A 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/Audit Committee of Directors of the Company, in addition to reimbursement of all out of pocket expenses in connection with the audit of the Company.”

Special Business

5. To consider and if thought fit, to pass with or without modification, the following resolution, as an Ordinary Resolution:
“RESOLVED that Shri N. Balasubramanian, who was appointed as an Additional Director by the Board of Directors of the Company and who, as per provisions of Section 260 of the Companies Act, 1956 holds office upto the date of this Annual General Meeting and in respect of whom the Company has, pursuant to Section 257 of the Companies Act, 1956, received a notice from a member, in writing, proposing the candidature of Shri N. Balasubramanian for the office of Director, be and is hereby appointed as a Director of the Company, eligible to retire by rotation.”
6. To consider and if thought fit, to pass, with or without modifications, the following resolution, as an Ordinary Resolution:
“RESOLVED that in accordance with the provisions of Section 198, 269, 309, 310 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, and subject to approval of the Central Government and such other approvals, as may be required, and such modifications

and conditions, if any, as the Central Government or any authority may impose and which the Board of Directors are hereby authorised to accept, consent of the members be and is hereby accorded for the appointment/extension of the term of Shri R.M. Malla as Whole Time Director under the Companies Act, 1956 from 1st July, 2006 to 30th June, 2009 and to the payment of remuneration as set out hereunder:

- i) PAY:
Consolidated salary of Rs.70,000/- p.m. in the graduated range of Rs.50,000-5,000-75,000/-.
- ii) HOUSING:
Rent free accommodation as per rules of IFCI or House Rent Allowance of Rs.5,000/- p.m.
- iii) CONVEYANCE ALLOWANCE:
Provision of office car, as per Rules of IFCI or reimbursement of conveyance expenses of Rs.15,000/- p.m.
- iv) LEAVE TRAVEL CONCESSION:
Entitled to travel with dependent family members upto 2600 kms. each way once in two years, by AC 1st Class or Rs.75,000/- on declaration basis.
- v) MEDICAL BENEFIT:
Actual expenses for self and dependent family members subject to ceiling as per IFCI Medical Scheme.
- vi) GROUP PERSONAL ACCIDENT INSURANCE:
Amount covered - Rs.2.25 lakhs per annum.
- vii) LUNCH SUBSIDY:
At Rs.880/- p.m., subject to recovery of Rs.105/- p.m.
- viii) NEWSPAPERS/PERIODICALS/BOOKS REIMBURSEMENT:
Rs.900/- p.m.
- ix) FURNITURE/CONSUMER DURABLES AT RESIDENCE:
Rs.70,000/- subject to recovery of Rs.175/- p.m.
- x) ENCASHMENT OF ORDINARY LEAVE:
15 days once in a financial year.
- xi) REIMBURSEMENT OF OFFICIAL ENTERTAINMENT EXPENDITURE:
Rs.10,000/- per annum.
- xii) SUBSCRIPTION/RENEWAL FEE FOR CREDIT CARD:
Rs.700/- per annum.
- xiii) TELEPHONE:
IFCI shall provide telephone at residence for office use.
- xiv) PAYMENT OF TAX ON PERQUISITES/SPECIAL (PERQUISITE) ALLOWANCE:
IFCI to bear tax in full on non-monetary perquisites and to pay Special allowance on monetary perquisites which are taxable.
- xv) PROVIDENT FUND:
10% of pay.
- xvi) GRATUITY:
Gratuity as calculated under IFCI (Payment of gratuity of employees) Regulations, 1968 and payment of Gratuity

Act, 1972, whichever is higher for the period of service in IFCI.

xvii) **ENCASHMENT OF LEAVE ON RETIREMENT/EXIT FROM IFCI:**

Encashment of unavailed ordinary leave earned during the period of service in IFCI and lying to the credit at the time of retirement/exit from IFCI, subject to maximum of 10 months. The amount of leave salary shall be calculated on the basis of pay & allowances.

xviii) **RETIREMENT FARE CONCESSION/SHIFTING OF HOUSEHOLD GOODS:**

Single fare Journey by entitled Class for self and family and cost of shifting of household goods to hometown at the time of retirement/exit from IFCI.

“RESOLVED FURTHER that in the event of absence or inadequacy of profit in any Financial Year, the aforesaid remuneration shall be paid as minimum remuneration subject to provisions of Schedule XIII of the Companies Act, 1956.

RESOLVED FURTHER that the Company shall have the right to terminate the term of the office of the Whole Time Director at any time before the expiry of the term by giving notice, without assigning any reason, of not less than one month in writing or the salary and allowances in lieu thereof. The Whole time 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 of not less than one month 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.”

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

“RESOLVED THAT pursuant to the provisions of Section 31 and other applicable provisions, if any, of the Companies Act, 1956, the Article of Association of the Company be and are hereby altered as follows:

The existing Article 147, be replaced by a new Article as under:

147. The Directors may elect a Chairman, who may be either Whole-Time (Executive) or Non-Executive part-time Chairman and determine the period for which he is to hold office, provided that in the case of Executive Chairman, he may be appointed to function both as a Chairman and Managing Director. All meetings of the Directors shall be presided over by the Chairman, if present, but if at any meeting of Directors, the Chairman be not present at the time appointed for holding the same, then and in that case the Directors shall

choose one of the Directors then present to preside at the meeting.”

Registered Office:

IFCI Tower,
61, Nehru Place,
New Delhi - 110 019.

By order of the Board of Directors

Dated: 29th June, 2006

S.P. Arora
Company Secretary

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 material facts in respect of the business under Item No. 5, 6 & 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 Shareholders, holding Preference Shares of the Company shall have the rights to vote on all the resolutions included in the notice, pursuant to the provisions of Section 87(2) (b) (i) of the Companies Act, 1956.
5. Register of Members and Share Transfer Books for Equity Shares will remain closed from Wednesday, 16th August, 2006 to Friday, 25th August, 2006 (both days inclusive).
6. IFCI has not included the financial statements and other details of its subsidiaries viz. IFCI Financial Services Limited and IFCI Venture Capital Funds Limited in its financial statements in terms of exemption granted by the Ministry of Company Affairs under Section 212(8) of the Companies Act, 1956. However, Annual Accounts of the subsidiary companies and the related detailed information will be made available to the Investors of IFCI or its Subsidiary Companies seeking such information at any point of time on specific request in writing to the Company. The Annual Accounts of the Subsidiary Companies are open for inspection at the Registered Office of IFCI and at the Registered Offices of the respective Subsidiary Companies up to the date of Annual General Meeting on any working day.
7. The Members holding Shares/Bonds in physical form are requested to intimate to the Registrar and Transfer Agent, MCS Ltd., Srivenkatesh Bhawan, W-40, Okhla Industrial Area, Phase - II, New Delhi - 110 020, change of address, if any, at

the earliest quoting their registered folio number. Change of address in respect of Shares/Bonds held in demat form is required to be intimated to the concerned Depository Participant.

8. Members holding shares in more than one folio in identical order of names are requested to write to R&TA enclosing their share certificates to enable them to consolidate the holdings in one folio to facilitate better service.
9. Members seeking any information with regard to accounts or operations are requested to write to the Company at an early date, preferably at least seven days prior to the date of meeting, so as to enable the management to keep the information ready.
10. 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 DPID numbers for easy identification of attendance at the meeting.
11. Pursuant to Section 205A of the Companies Act, 1956, the Company has already transferred all unclaimed dividend declared upto 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 upto the aforesaid Financial Year, may claim their dividend from the Registrar of Companies, Delhi & Haryana.
12. Consequent upon amendment to Section 205A and introduction of Section 205C, the unclaimed dividend for the Financial Years 1994-95 to 1997-98 has been transferred to the Investor Education & Protection Fund. Dividend for the Financial Year 1998-99 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 ended 31st March, 1999 are requested to make their claim to the Office of Registrar & Transfer Agent, MCS Ltd., W-40, Okhla Industrial Area, Phase - II, New Delhi - 110 020. **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(2) OF THE COMPANIES ACT, 1956

ITEM NO. 5

Shri N. Balasubramanian was appointed as an Additional Director by the Board of Directors of the Company. In terms of Section 260 of the Companies Act, 1956, Shri Balasubramanian shall hold office upto the date of Annual General Meeting of the Company. The Company has received valid notice and requisite deposit from a member of the Company under Section 257 of the Companies Act, 1956 proposing the candidature of Shri Balasubramanian for the office of Director. In view of the background and valuable experience of Shri Balasubramanian in commercial and development banking, it will be in the interest of

the Company that Shri Balasubramanian continues as a Director of the Company. Brief resume of Shri Balasubramanian is set out in the "Information about Directors seeking appointment/re-appointment at the Annual General Meeting as required under the Code of Corporate Governance Clause of Listing Agreement."

Your Directors recommend the resolution for approval of the Members.

Shri N. Balasubramanian is interested in the resolution as it relates to his appointment. None of the other Directors of the Company is, in any way, concerned or interested in the resolution.

ITEM NO. 6

Shri R.M. Malla, Chief Executive Officer of the Company was appointed Whole Time Director of the Company, as per the provisions of Section 269 of the Companies Act, 1956 upto 30th June, 2006. At the last Annual General Meeting, Members approved the above appointment and also accorded their approval to the remuneration payable to him. Subsequently, the Board of Directors of the Company considering that without continuity of Shri Malla's services, it would be difficult to maintain smooth operations of the Company and to effect its restructuring, decided to extend the term of Shri R.M. Malla for a period of three years from 1st July, 2006 to 30th June, 2009. The extension was granted by the Board subject to the approval of Members at the General Meeting and any other such approvals as may be required. In view of this, approval of the Members is being sought for the appointment/extension of the term of Shri R.M. Malla for three years.

This alongwith resolution under Item No. 6 may be treated as an abstract pursuant to Section 302 of the Companies Act, 1956.

Your Directors recommend the resolution for approval of the Members.

Shri R. M. Malla is interested in the resolution as it relates to his appointment. None of the other Directors of the Company is, in any way, concerned or interested in the resolution.

ITEM NO. 7

As your Company has been passing through a phase of restructuring and is in the process of exploring various avenues to rebuild its business model, the Board of Directors has not been appointing a Whole Time Chairman of the Board. Therefore, the changed circumstances has necessitated certain alterations in the Article of Association of the Company.

Your Directors recommend the resolution for approval of the Members.

None of the Director is concerned or interested in the said resolution.

Registered Office:

By order of the Board of Directors

IFCI Tower,
61, Nehru Place,
New Delhi - 110 019.

Dated: 29th June, 2006.

S.P. Arora
Company Secretary

INFORMATION ABOUT DIRECTORS SEEKING APPOINTMENT/REAPPOINTMENT AS REQUIRED UNDER THE CODE OF CORPORATE GOVERNANCE CLAUSE OF LISTING AGREEMENT.

At the ensuing Annual General Meeting Shri P.S. Shenoy and Shri R.C. Razdan shall retire by rotation and being eligible, offer themselves for re-appointment. Shri R.M. Malla whose term as Whole Time Director has been extended by the Board, also seek approval of Members for reappointment. Shri N. Balasubramanian was appointed as an Additional Director by the Board of Directors of the Company. In terms of Section 260 of the Companies Act, 1956, Shri Balasubramanian shall hold office upto the date of Annual General Meeting of the Company. The Company has received valid notice and requisite deposit from a member of the Company under Section 257 of the Companies Act, 1956 proposing the candidature of Shri Balasubramanian for the office of Director. The information or details to be provided for the aforesaid Directors under Corporate Governance Code are as under:

- a) Shri P.S. Shenoy is former Chairman & Managing Director of Bank of Baroda. He is Bachelor of Commerce having professional qualification of CAIIB. He is banker by profession having work experience spanning over 39 years in various capacities. He is also Director on the Boards of SIDBI Venture Capital Ltd. and ICRA Management Consulting Services Ltd. He is also member of the Audit Committee of ICRA Management Consulting Services Ltd. Presently, Shri Shenoy does not hold any shares in IFCI Ltd.
- b) Shri R.C. Razdan, currently working as Chief General Manager in IDBI Bank is Post Graduate in Marketing Management. He has rich experience of over 30 years in Commercial and Development Banking in various capacities. He is IDBI nominee on the board of Bhandari Exports Ltd. Presently, he does not hold any shares in IFCI Ltd.

- c) Shri N. Balasubramanian, CMD, SIDBI, is an M.Sc.(Agri.) and has done Post Graduate Programme in Management from IIM, Ahmedabad. He has rich experience of over 35 years in Commercial and Development Banking. He initiated a number of policy changes in key areas such as Credit Risk Management and Human Resource Development, activity profile of SIDBI, meeting varying demands of SMEs in the emerging market scenario. He is also Chairman of SIDBI Venture Capital Ltd., SIDBI Trustee Company Ltd., Credit Guarantee Fund Trust for Small Industries, SME Rating Agency of India Ltd. He is Director on the Boards of National Backward Classes Finance & Development Corporation, Member of Khadi & Village Industries Commission, Member of Entrepreneurship Development Institute of India. Presently, he does not hold any shares in IFCI Ltd.
- d) Shri R.M. Malla is an MBA from University of Delhi and also has professional qualification of PGDBM & CAIIB. He has total work experience of over 30 years in the field of banking and has worked in a nationalised bank and in IDBI Ltd. before joining IFCI as Executive Director in 2001. In IFCI he has undertaken and accomplished the challenging task of liability restructuring and was also able to bring substantial improvement in distressed assets resolution. He is also Director in GIC Housing Finance Limited, Tourism Finance Corporation of India Limited, Haldia Petrochemicals Limited and Assets Care Enterprise Ltd. He is also member of the Audit Committee of GIC Housing Finance Limited, Haldia Petrochemicals Limited & Assets Care Enterprise Ltd. and member of Remuneration Committee of Assets Care Enterprise Ltd. apart from other operational committees. Presently, Shri R.M. Malla does not hold any shares in the Company.

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 were also listed at Stock Exchanges mentioned at Sl. No. 1, 2 and 3 below. After the redemption of these Bonds on maturity/through exercise of call option, the listing of these bonds have been discontinued on these Stock Exchanges.

- | | |
|--|--|
| <p>1. 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</p> | <p>2. The Bombay Stock Exchange,
Phiroze Jeejeebhoy Tower,
Dalal Street, Fort,
MUMBAI - 400 001</p> |
| <p>3. The Delhi Stock Exchange Assn. Ltd.
3/1 Asaf Ali Road,
DELHI - 110 002</p> | <p>4. The Calcutta Stock Exchange Assn. Ltd.,
7 Lyons Range,
KOLKATA - 700 001</p> |
| <p>5. The Madras Stock Exchange Association Limited,
Exchange Building,
11, Second Line Beach,
CHENNAI - 600 001</p> | <p>6. Ahmedabad Stock Exchange Ltd.,
Kamdheni Complex, 1st Floor,
Opp. Sahajanand College, Panjarapole,
AHMEDABAD - 380 015</p> |

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. Nos. 2, 3, 4 and 5 above.

The Company has paid the annual listing fees to all the Stock Exchanges for the Financial Year 2005-2006 except to the Stock Exchanges at New Delhi, Kolkata, Ahmedabad and Chennai as Company had applied for delisting of Securities pursuant to the resolution passed at the Annual General Meeting held on 10th September, 2001 and 12th September, 2003.

DIRECTORS' REPORT

To the Members

Your Directors present the Thirteenth Annual Report of the Company together with the Audited Statements of Accounts for the year ended the 31st March, 2006.

FINANCIAL RESULTS

	(Rs. crore)	
	2005-06	2004-05
1. Total Income	1,679	1,318
2. Cost of borrowings	762	958
3. Staff cost/Other expenditure	43	51
4. Depreciation	10	18
5. Total expenditure	815	1,027
6. Profit/Loss before Provisions for Bad and Doubtful Assets/Write-offs	864	291
7. Write-off/Provisions for Bad and Doubtful Assets	1,130	916
8. Loss after Write-off/Provisions	(266)	(625)
9. Extraordinary items	88	182
10. Loss	(178)	(443)
11. Transfer from Restructuring Reserve	104	119
12. Net Loss	(74)	(324)
13. Deficit brought forward from previous year	(4,698)	(4,374)
14. Balance carried to Balance Sheet	(4,772)	(4,698)

The improved financial performance was due to increase in income from assets as also the reduction in interest cost on liabilities. Your Company was able to reduce significantly the cost of borrowings during the year to Rs.762 crore, compared with Rs.958 crore in the Financial Year 2004-05.

Your Company made an operating profit (before provisions etc.) of Rs.864 crore for the year ended the 31st March, 2006 which was about 200% higher than the operating profit of Rs.291 crore in the previous year ended the 31st March, 2005. After making higher provisions for bad and doubtful assets at Rs.1,130 crore for the year, as against Rs.916 crore in the previous year, and accounting for extraordinary items and transfer from restructuring reserve, the net loss for the year was about Rs.74 crore as against the net loss of Rs.324 crore during the previous year, showing a decrease of about 77%.

Dividend

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

Significant Developments

(i) Management of Non-Performing Assets

The Asset Classification for the Financial Years ended the 31st March, 2006 and 31st March, 2005 is given in the following table:-

Table 1: Asset Classification of Portfolio

Asset Classification as on	31 st March, 2006		31 st March, 2005	
	Amount	%	Amount	%
Standard Assets	6,635	90.9	6,910	72.0
Sub-standard Assets	54	0.7	205	2.1
Doubtful Assets	613	8.4	2,483	25.9
TOTAL	7,302	100.0	9,598	100.0

The significant reduction in net NPAs resulted from settlements, restructuring, upgradation of assets and adequate provisioning. The better performance of assisted units, inter alia, in the steel, textile, power, sugar and cement industries seen in the previous few years continued during 2005-06 and had a significant favourable impact on the assets portfolio of your Company.

Formulation of timely restructuring packages for loan assets helped to resolve the existing NPAs and also prevented slippage of performing assets into NPAs. Restructuring packages were formulated in 30 cases during 2005-06, including 8 cases for which approval for restructuring was obtained under the Corporate Debt Restructuring (CDR) forum. Where the prospects of recovery of dues in the normal course, even after restructuring, were rather remote and recovery through normal legal route was likely to be unduly long-drawn, your Company continued to pursue Negotiated/One-Time Settlement(OTS) of dues. OTS was executed in respect of 103 cases during 2005-06 for an aggregate amount settled of Rs.941 crore, compared with 93 cases for an amount of Rs.707 crore in the previous Financial Year.

Legal action was initiated by your Company, where loan recovery had not been found possible in the normal course. Intensive follow-up was done for cases pending before DRTs/Company Courts at various centres. As on 31st March, 2006, 818 applications had been filed in various Debt Recovery Tribunals/Courts in India for an aggregate amount of Rs.11,886 crore. These include 8 new cases filed during the Financial Year 2005-06 involving an amount of Rs.41 crore. Recovery certificates through DRTs have been obtained in 298 cases for an aggregate amount of Rs.4,317 crore by your Company. An amount of Rs.269 crore was received during the Financial Year 2005-06 by sale of assets through DRTs/Company Courts and settlement in suit-filed cases as compared with Rs.225 crore during the previous Financial Year.

Action was also initiated by your Company under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 and notice issued wherever necessary, under the Act, besides giving consent letters to co-lenders.

(ii) Restructuring of Liabilities

During the year under report, your Company continued with its efforts for getting the old high-cost liabilities restructured or prematurely repaid with interest at the restructured rate. As at the end of 2005-06, of the liabilities which were taken up for restructuring, a major portion stood restructured except a small portion for which the concerned investors were approached to give their consent to restructure or accept prepayment of their investment. Consequently, there was further reduction in the cost of borrowings and the overall liquidity position also improved significantly during the year.

(iii) Corporate Advisory Services

Despite stiff market competition in the area of providing customised advisory services, your Company has not only been retained by the existing clients during the year but has also been able to secure some prestigious assignments relating to investments/financial appraisals and business restructuring

for public and private sector entities. Besides, your Company is also acting as Monitoring Agent for the Initial Public Offers (IPOs) of some reputed companies.

(iv) Award

Your Company was conferred an award for “Corporate Excellence” instituted by the Amity Business School and presented every year to select corporates for outstanding performance in various areas.

Sanctions and Disbursements

No fresh assistance was sanctioned during the year in consonance with the continuing objective of consolidation of operations and fulfilling the terms and conditions of loan/grants received from the Government of India. The assistance disbursed during the year was of the order of Rs.187 crore mainly due to devolvement of guarantees issued earlier.

Industry-wise Classification of Portfolio

The total outstanding assistance provided by your Company at the end of 2005-06 was Rs.9,262 crore spread across a number of industries.

The industry-wise classification of outstanding portfolio as of 31st March, 2006 is given in Table 2 hereunder:

Table 2 : Industry-wise net Outstandings as on 31st March, 2006 (Rs. crore)

Industry	Loans	Debentures	Leasing	Shares/Units/ G. Secs., etc.	Guarantees	Total	% to Total
Infrastructure							
Power	704	52	114	73	278	1,221	13.2
Ports & Port Services, Telecom and Bridge Construction	450	0	0	11	0	461	5.0
Sub-Total	1,154	52	114	84	278	1,682	18.2
Iron & Steel	1,964	10	2	301	198	2,475	26.7
Petroleum Refining	1,014	27	0	30	4	1,075	11.6
Textiles	556	97	3	98	16	770	8.3
Synthetic Resins and Plastic Material	311	67	0	3	0	381	4.1
Synthetic and other man made fibres	181	78	0	109	0	368	4.0
Fertilisers	228	54	0	21	0	303	3.3
Cement	183	35	0	11	0	229	2.5
Metal products	53	51	21	24	0	149	1.6
Basic Chemicals	91	4	5	24	0	124	1.3
Sugar	87	3	0	21	0	111	1.2
Electrical Machinery & Appliances	83	3	0	12	0	98	1.1
Machinery & Accessories	73	0	0	1	4	78	0.8
Misc. Food Products	48	3	0	4	0	55	0.5
Government Securities/IDF/MF	0	0	0	561	0	561	6.1
Others	496	136	14	156	1	803	8.7
Total	6,522	620	159	1,460	501	9,262	100.0

Investment Portfolio

The net investment portfolio of your Company as of 31st March, 2006 was Rs.2,080 crore, comprising Equity Shares (Rs.643 crore), Preference Shares (Rs.256 crore), Convertible/Non-Convertible Debentures (Rs.470 crore), MF/Units/IDF (Rs.161 crore), Security Receipts (Rs.150 crore) and Government Securities (Rs.400 crore). The Equity exposure consisted mainly of shares of industrial concerns assisted by IFCI (Rs.558 crore) and strategic investments (Rs.84 crore). Your Company earned a profit of Rs.153 crore through sale of investments during 2005-06.

Resources

No fresh resources were raised by your Company during the year and it continued its efforts to restructure the remaining high cost liabilities. The foreign currency loans and SLR Bonds continued to be serviced regularly during the year, as per the original terms and schedules. Other liabilities were also serviced as per the restructured/renewed terms without any default. The liabilities that fell due for redemption during the year were redeemed on due dates. However, certain investors, who did not surrender the certificates upon maturity, were being followed up regularly for registering their claims with duly discharged certificates.

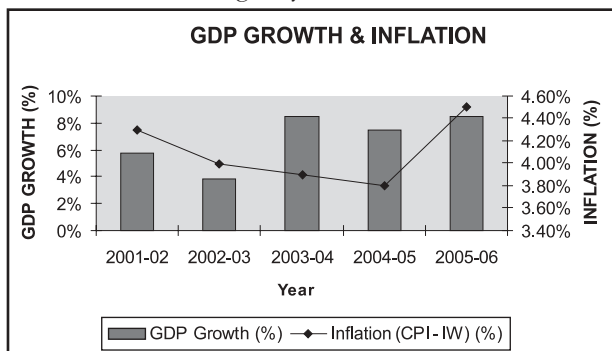
Public Deposits

Your Company did not raise any fresh Public Deposits during the year under report nor renew any existing deposits. During the year, there was no case where any deposit was claimed but not paid. At the end of the year, the total outstanding deposits were to the extent of only Rs.0.07 crore, out of which deposits of Rs.0.06 crore stood unclaimed.

Management Discussion and Analysis

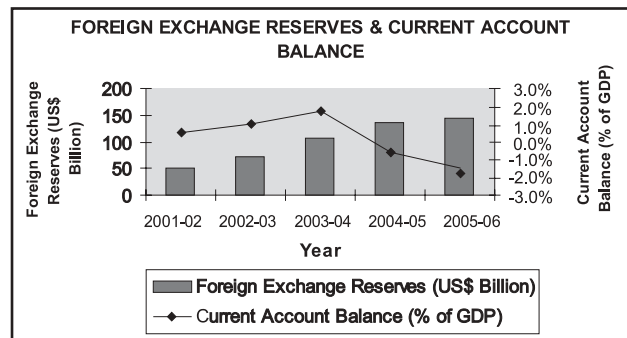
(i) Operating Environment and Outlook

The Indian economy is estimated to have grown by 8.4% in 2005-06 compared with 7.5% in the previous year. GDP growth during the year was noteworthy, more so as it came on top of the high growth rate of the previous year. Agricultural sector growth recovered to 3.9% during the year as against the previous year's growth rate of 0.7%. The expansion of the manufacturing and services sectors observed earlier continued during the year.



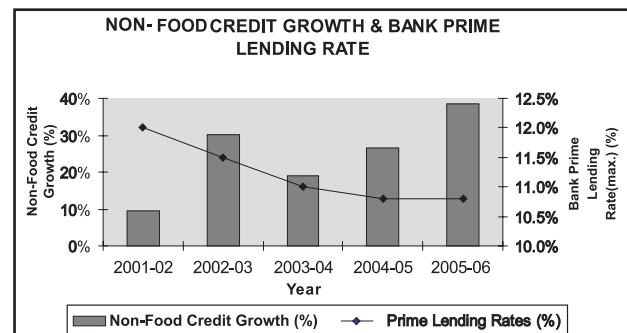
Source: CMIE / CSO

The consistently higher growth in GDP achieved during the last few years including the one under report, had salutary effects on corporate performance and profitability and on the performance of key industrial sectors like infrastructure, steel, textiles, cement etc., in which your Company has significant exposure. The robust growth of investments in the manufacturing and services sectors and increase in credit to the agricultural sector led to rapid growth in bank credit during the year. Inflation was at 4.5% during 2005-06 as measured by the Consumer Price Index (IW) despite a steep rise in global crude oil prices.



Source: CMIE

Exports remained buoyant and as of 31st March, 2006, total foreign currency reserves with the RBI stood at US\$ 145 billion. Although the current account deficit was high, capital inflows particularly from FIIs were also considerably higher during the year and had a balancing effect.



Source: CMIE

The economic outlook for 2006-07 is quite positive. The manufacturing and services sectors should continue to propel the overall growth of the economy.

(ii) Industry Structure and Developments

The main business of your Company is Project Finance. The significant entities engaged in project finance are Banks and Financial/Investment Institutions. The share of Banks in this activity has increased in recent years. A move towards consolidation is being witnessed.

(iii) Financial Performance

Your Company's financial performance during 2005-06 was driven by a greater thrust on recoveries from assets and restructuring of liabilities. The financial performance during 2005-06 was characterised by a higher earning from assets and a reduction in interest costs on liabilities, resulting in an operating profit before provisions/write-off of Rs.864 crore during the year compared with Rs.291 crore in the previous year.

(iv) Segment-wise/Product-wise Performance

Segment reporting as required under Accounting Standard 17 is not applicable as more than 90% of revenue is from a single segment viz. Project Finance, which has been the main business activity of your Company.

(v) Opportunities, Threats and Future Outlook

In the area of project finance there is increasing disintermediation and competition from banks which have access to lower cost funds. There is a move towards consolidation amongst Banks and Financial Institutions and this along with the improved financial performance of your Company may present an opportunity to achieve operational and financial synergy through a merger.

(vi) Risk Management

To consolidate its financial position, no fresh borrowings or lendings were made by your Company during the year. Continued efforts were made during the year to reduce the risks associated with the existing portfolio of assets and liabilities. Adequate provisioning was made in the assets portfolio during the year. Reduction of NPAs was achieved through timely restructuring and one time settlements. Special efforts were made to prevent the slippage of standard assets to NPAs through timely restructuring and recovery follow-up measures. Separate Cells were set up for the effective management of standard assets, large NPAs and coordination and management of smaller NPAs. Efforts to reduce the interest cost and extend the maturity of your Company's borrowings also continued during the year. Special attention was given to Asset-Liability Management and management of market risks and RBI guidelines in this regard. Meetings of the Asset-Liability Committee (ALCO) were held every month to discuss the asset-liability position, liquidity related issues, recovery position, hedging of currency risk, interest as well as exchange rate movements and to recommend steps for hedging various forms of market risks. Operational risks, continued to be managed through the internal control mechanism and the internal audit system during the year.

(vii) Internal Control Systems and their Adequacy

(a) Internal Audit and Inspection

A comprehensive and well documented system of Internal Audit and Inspection is in place in IFCI as a part of the internal control system. The coverage and scope of the internal audit is reviewed from time to time to make it more focussed and effective. Both out-sourced and in-house audits continued during the year.

(b) Compliance

Your Company has a Compliance Division at its Head Office which does the task of ensuring timely submission of various returns and data/information to RBI, SEBI, other regulatory bodies and Government of India. RBI does both off-site supervision and on-site inspection of your Company.

(c) Vigilance

Your Company has a Vigilance Department which attends to the vigilance function and works directly under the Head of the organisation.

(viii) Human Resources

IFCI's staff strength, as on 31st March, 2006 was 487 employees, including 304 executives and professionals compared with a total strength of 831 employees five years ago. The reduction in manpower due to implementation of Voluntary Retirement Schemes (VRS) in the year 2003-04 and the emphasis laid on loan recovery implied the need for increased economies in operation as well as redeployment of manpower in the area of loan recovery. With this objective, the support services of the Company covering, inter alia, Human Resources, Business Development & Corporate Communications, Establishment, Estates & Security, Services etc. have been merged into a single group viz. the "Human Resources and Corporate Services Group". A separate core group has been formed and entrusted with the responsibility of handling large NPA cases to ensure time bound formulation and implementation of resolution strategies for these cases.

During the year, seven nominations of senior executives/officers were made for various external training programmes/summits/conferences conducted by premier training institutes like Jawaharlal Nehru Institute for Development Banking (JNIDB), Institute of Applied Law and Legal Management (IALLM), etc. and various Associations of Industries viz. FICCI, CII, etc. These nominations were made for various specialised programmes such as Corporate Debt Restructuring, Accounts and Taxation, Commercial Contracts, Banking, etc.

Industrial Relations in the organisation continued to be cordial during the year.

No employee of the Company was in receipt of remuneration above the limit specified under Section 217 (2A) of the Companies Act, 1956.