

ANNUAL REPORT 2002-03

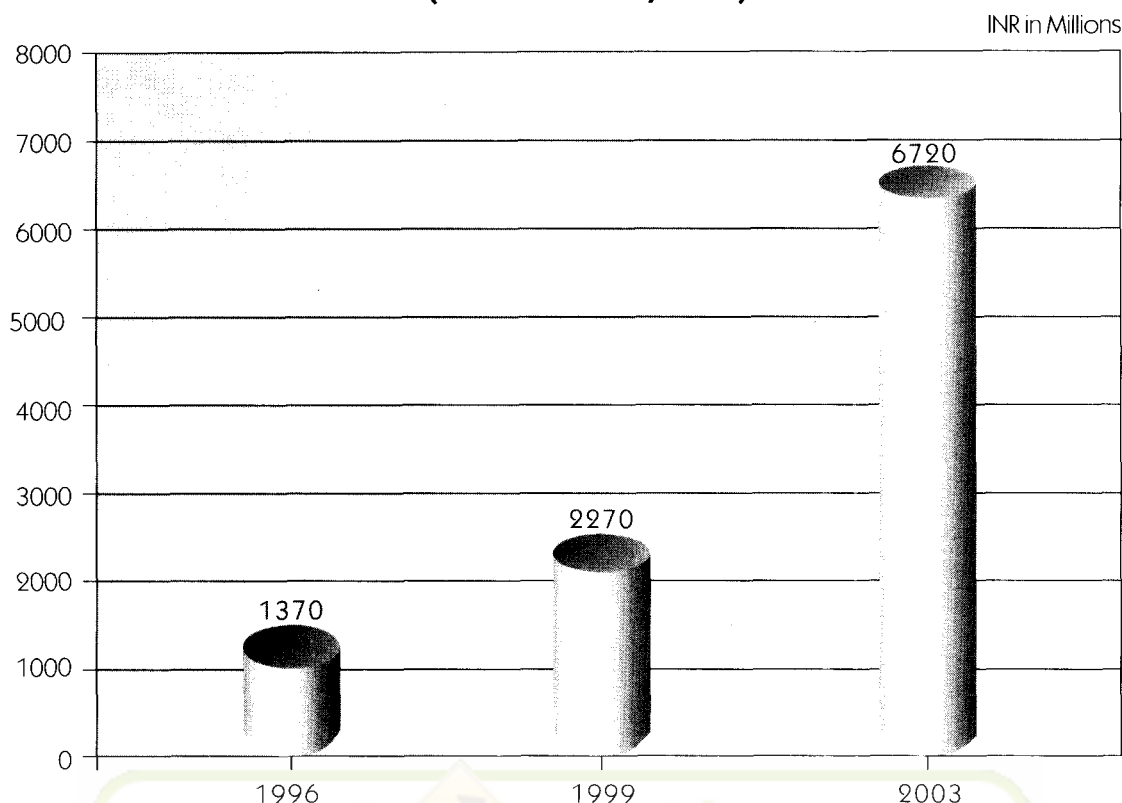


Crafting impeccable investment opportunities

**IL&FS INVESTMENT
MANAGERS LIMITED**

Funds Under Management

(as on March 31, 2003)



IIML has achieved growth objectives,
by consistently growing the corpus under management

INR in Millions

| Fund | Nature of Fund | Fund size |
|--------------------------------|-----------------------|-----------|
| AIG Sectoral Equity Fund | Infrastructure Equity | 3642 |
| South Asian Regional Apex Fund | Growth | 1100 |
| India Project Development Fund | Project Development | 910 |
| India Auto Ancillary Fund | Growth | 650 |
| Tamilnadu Infotech Fund | Technology, Regional | 250 |
| Others | Venture Funds | 168 |
| Total | | 6720 |

IL&FS Investment Managers Limited

| | | |
|---------------------------------------|--|-------------------------|
| BOARD OF DIRECTORS | Mr. S.M. Datta | Chairman |
| | Mr. Ravi Parthasarathy | |
| | Mr. Vimal Bhandari | |
| | Mr. S.A. Bhat | |
| | Mr. T.R. Madhavan | |
| | Mr. Bansi S. Mehta | |
| | Mr. G. Parameswaran | |
| | Mr. Davendra Mittal | |
| | Mr. Shahzaad Dalal | Executive Vice Chairman |
| | Mr. Muneesh Chawla | Managing Director |
| COMPANY SECRETARY | Mr. Sanjay Mitra | |
| BANKERS | HDFC Bank | |
| AUDITORS | S.B. Billimoria & Co. Chartered Accountants | |
| INTERNAL AUDITORS | Patel & Deodhar Chartered Accountants | |
| REGISTERED OFFICE | HDFC House, 5th Floor 51, Kasturba Road Bangalore - 560 001 | |
| OTHER OFFICES | The IL&FS Financial Centre, 7th Floor Plot No. C-22, G Block Bandra-Kurla Complex Bandra (East) Mumbai - 400 051 | |
| REGISTRARS & SHARE TRANSFER AGENTS | Intime Spectrum Registry Limited C-13, Pannalal Silk Mills Compound L.B.S. Marg, Bhandup West Mumbai - 400 078 Phone: 022 - 25923837 Fax : 022 - 25672693 | |



NOTICE

Notice is hereby given that the Seventeenth Annual General Meeting of the Members of the Company will be held on Saturday, July 26, 2003 at 11.00 a.m. at The Capitol Hotel, Raj Bhavan Road, Bangalore 560 001, to transact the following business:

ORDINARY BUSINESS

- (1) To receive and adopt the Audited Balance Sheet as at March 31, 2003 and the Profit & Loss Account for the year ended as on that date and the Reports of Auditors and Directors thereon
- (2) To declare dividend on Equity Shares for the year ended March 31, 2003
- (3) To appoint a Director in place of Mr SM Datta who retires by rotation and being eligible, has offered himself for re-appointment
- (4) To appoint a Director in place of Mr Ravi Parthasarathy who retires by rotation and being eligible, has offered himself for re-appointment
- (5) To appoint Auditors who shall hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to authorise the Board of Directors to fix their remuneration

SPECIAL BUSINESS

- (6) To appoint a Director in place of Mr SA Bhat who was appointed in the casual vacancy caused by the resignation of Mr NS Nayak and holds office upto the date of the ensuing Annual General Meeting and being eligible, has offered himself for re-appointment and in respect of whom the Company has received a notice in writing along with a deposit of Rs. 500/- from a member proposing his candidature for the office of Director
- (7) To appoint a Director in place of Mr Davendra Mittal who was appointed as an Additional Director and holds office upto the date of the ensuing Annual General Meeting and being eligible, has offered himself for re-appointment and in respect of whom the Company has received a notice in writing along with a deposit of Rs. 500/- from a member proposing his candidature for the office of Director

- (8) To consider and if thought fit to pass, with or without modifications, the following resolution as a Special Resolution:

"RESOLVED THAT pursuant to Section 81(1A) of the Companies Act, 1956, the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase) Guidelines, 1999, the provisions of the Income-tax Act, 1961, and Guidelines issued thereunder, and such other provisions of law and other statutory requirements, approval is hereby granted to the Company to set up a Scheme of Employees Stock Options ("the Employees Stock Option Scheme 2003" or "the Plan") and to thereunder issue and allot Stock Options to its Employees entitling the holders of such Stock Options to apply for Equity Shares of the Company and on conversion/exercise of such Stock Options, to issue and allot Equity Shares of the Company ranking *pari passu* with existing Equity Shares of the Company on such terms and conditions and to such Employees as the Compensation Committee as constituted by the Board of Directors may decide from time to time where some of the terms and conditions of the Plan are detailed in the Explanatory Statement to this Notice and which shall be deemed to be part of this resolution for the purposes of approval to which approval is also hereby granted"

"RESOLVED FURTHER THAT the Board be and is hereby authorised to issue and allot such number of Equity Shares/ Stock Options as may be required in accordance with the terms of the Issue/Offer, all such Shares/Stock Options upon conversion into Equity Shares being *pari-passu* with the Equity Shares of the Company in all respects"

"RESOLVED FURTHER THAT the Board of Directors be and are hereby authorised to do all acts, deeds, take steps and complete formalities to put into effect and place the Plan and to do such incidental or related acts as may be deemed fit by the Board for this purpose and, for this purpose, it may delegate all or any of such powers to a duly constituted Compensation Committee of the Board or such other Committee of the Board"

By Order of the Board of Directors

Sanjay Mitra

Company Secretary

Registered Office :
HDFC House,
51, Kasturba Road
Bangalore - 560 001

Dated : April 30, 2003



IISFS Investment Managers Limited

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY, TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER OF THE COMPANY

Proxies in order to be effective must be delivered at the Registered Office of the Company atleast 48 hours before the time appointed for the meeting

2. The Register of Members and Share Transfer Books of the Company will remain closed from July 21, 2003 to July 26, 2003 (both days inclusive). The Dividend as recommended by the Directors if approved by the shareholders will be payable on or after July 26, 2003
3. Members desiring any information on the business to be transacted at the Annual General Meeting are requested to write to the Company at least 10 days in advance to enable the Management to keep the information, as far as possible, ready at the Meeting
4. Members are requested to bring their copy of the Annual Report to the Annual General Meeting. Members/proxies should bring the attendance slip duly filled in for attending the Meeting
5. Members holding shares in the same set of names under different Ledger Folios are requested to apply for consolidation of such folios alongwith relevant share certificates to the Company's Registrars. Members are also requested to intimate the Registrar and Transfer Agents of the Company of any change in their registered address. Members holding shares in dematerialised mode should intimate their respective Depository Participants of their change in address
6. As per Section 205C of the Companies Act, 1956 the Company will be obliged to transfer any money lying in the Unpaid Dividend Account, which remains unpaid or unclaimed for a period of seven years to the credit of the Investor Education and Protection Fund. No claims shall lie against the Company or the Investor Education and Protection Fund in respect of amounts which were unclaimed or unpaid for a period of seven years from the dates that they became due for payment and no payment shall be made in respect of any such claims. Hence, members who have not encashed their dividend warrants should send the same to the Registrar and Transfer Agents of the Company. Please note that the dividend declared on February 15, 1996 has been transferred to the Investor Education and Protection Fund
7. The Company has introduced the Electronic Clearing Service for payment of dividend to the shareholders. The shareholders are requested to avail of the facility
8. The resolutions regarding the re-appointment of Mr SM Datta, Mr Ravi Parthasarathy, Mr SA Bhat and Mr Davendra Mittal as Directors of the Company are placed before the shareholders. As per Clause 49 of the Listing Agreement with the stock exchanges the following particulars of Mr SM Datta, Mr Ravi Parthasarathy, Mr SA Bhat and Mr Davendra Mittal are being provided:

Mr SM Datta :

Mr SM Datta graduated with Honours in Chemistry from the Presidency College, Calcutta and obtained his Post Graduate Degree in Science & Technology from the Calcutta University. He is a Chartered Engineer, Fellow, The Institution of Engineers (India), Fellow, Indian Institute of Chemical Engineers, Member, Society of Chemical Industry (London) and Hon. Fellow of All India Management Association



Mr Datta was the Chairman of Hindustan Lever Limited as well as of all Unilever Group Companies in India & Nepal from 1990 to 1996. He is presently the Chairman of a number of companies. He is also a Past President of ASSOCHAM, Council of EU Chambers of Commerce in India, the Bombay Chamber of Commerce & Industry and Indian Chemical Manufacturers Association

Mr Datta has vast experience in leading and managing multi-product, multi-cultural companies in the Unilever Group. He also has been guiding, monitoring and mentoring senior managements both Indian & MNCs as varied as Venture Capital, Automobile, Software, Electrical & Electronic Products, Management Institutes, Adhesives & Hotels

Mr SM Datta is the Chairman of the Compensation Committee and a member of the Shareholders' & Investors' Grievance Committee of the Company

Other Directorships:

| Name of the Company | Position held | Member of Committee |
|--|---------------|--|
| Castrol India Limited | Chairman | Shareholders'/Investors' Grievance Committee |
| Philips India Limited | Chairman | Remuneration Committee |
| EID Parry (India) Limited | Director | Audit Committee Remuneration Committee |
| BOC India Limited | Director | Audit Committee |
| TIL Limited | Director | Audit Committee Remuneration Committee |
| Zodiac Clothing Company Limited | Director | |
| Peerless General Fin. & Inv. Co. Limited | Director | |
| Goodlass Nerolac Paints Limited | Director | |
| M. Visvesvaraya Industrial Research & Development Centre | Director | |
| Transport Corporation of India Limited | Director | |
| Atul Limited | Director | |
| Bhoruka Power Corporation Limited | Director | |

Mr Ravi Parthasarathy:

Mr Ravi Parthasarathy is an M.B.A. from I.I.M.(Ahmedabad). He is currently the Vice Chairman and Managing Director of Infrastructure Leasing & Financial Services Limited (IL&FS). IL&FS started its operations under him in 1988 and is a financial institution with a focus on commercialization of infrastructure projects. The Company has also diversified into other financial services sectors like corporate finance, broking and asset management

Mr Ravi Parthasarathy started his career with Citibank. He joined 20th Century Finance Corporation Limited. By the time he left the company as Executive Director the company had grown to be the largest private sector company in the financial services sector

Mr Ravi Parthasarathy is a member of the Compensation Committee of the Company

IL&FS Investment Managers Limited

Other Directorships:

| Name of Company | Position held | Member of Committee |
|--|--------------------|--|
| Infrastructure Leasing & Financial Services Ltd. | Vice Chairman & MD | Committee of Directors Compensation Committee |
| Schoolnet India Limited | Chairman | |
| IL&FS Investsmart Limited | Chairman | Audit Committee Compensation Committee |
| Tamil Nadu Road Development Company Ltd. | Chairman | |
| IL&FS Asset Management Company Limited | Chairman | Compensation Committee HRD Committee, Committee of Directors (Public Issue & Finance) |
| PDCOR Limited | Chairman | |
| National Stock Exchange of India Limited | Director | Committee to Borrow Funds Audit Committee |
| Orix Auto & Business Solutions Limited | Director | |
| Noida Toll Bridge Company Limited | Director | Corporate Governance Committee, Audit Committee |
| New Tirupur Area Development Corp. Ltd. | Director | |
| Tata Finance Limited | Director | |
| Digital Global Soft Limited | Director | |
| IPFonline Limited | Director | |
| Consolidated Toll Network India Limited | Director | |
| Pathfinder Investment Company Private Ltd. | Director | |
| Ambit Corporate Finance Pte. Ltd. | Director | |
| Telstra Videsh Communications Limited | Alternate Director | |
| IL&FS Infrastructure Development Corp. Ltd. | Alternate Director | |

Mr SA Bhat :

Mr Bhat is a Science Graduate from the Pune University. He is presently General Manager, Bank of India and is in charge of the International Division & Treasury H.O. of the bank

Mr Bhat has over 20 years of experience in the banking industry in various capacities with the Bank of India. He was also posted abroad to the London and New York branches of Bank of India

Mr Bhat is also a Member of the Audit Committee of the Company

Other Directorships:

| Name of the Company | Position held | Member of Committee |
|--|--------------------|---|
| Commonwealth Finance Corp. Limited | Director | Audit Committee Compensation Committee |
| Bank of India Finance (Kenya) Limited | Director | |
| Bank of India (Africa) Limited | Director | |
| Bank of India (UK) Limited | Director | |
| Securities Trading Corporation of India Ltd. | Director | |
| Indo-Zambia Bank Limited | Alternate Director | |

Mr Davendra Mittal :

Mr Davendra Mittal is an Electronics & Communications Engineer from Delhi Institute of Technology and also Post Graduate Diploma in Management from I.I.M.(Ahmedabad). He is presently with Asian Development Bank as Private Sector Specialist

Mr Davendra Mittal was earlier with SBI Capital Markets Limited and has vast experience in infrastructure/corporate advisory, structured finance and credit syndication

Other Directorships:

| Name of Company | Position held | Member of Committee |
|-----------------------------------|--------------------|---------------------|
| Sara Fund Trustee Company Limited | Director | |
| Andhra Petrochemicals Limited | Director | |
| Centurion Bank Limited | Alternate Director | |

EXPLANATORY STATEMENT

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

Item No. 6

Mr SA Bhat was appointed as a Director in the casual vacancy caused by the resignation of Mr NS Nayak. Since Mr SA Bhat was appointed in a casual vacancy he holds office upto the date of the ensuing Annual General Meeting as per the provisions of Section 262 of the Companies Act, 1956 and Article 136 of the Articles of Association of the Company

The Company has received a notice in writing from a Member under Section 257 of the Companies Act, 1956, proposing his candidature for the office of Director

The Board recommends passing of this resolution

None of the Directors of the Company except Mr SA Bhat are concerned or interested in this resolution

Item No. 7

Mr Davendra Mittal was appointed as an Additional Director and holds office upto the date of the ensuing Annual General Meeting as per the provisions of Section 260 of the Companies Act, 1956 and Article 137 of the Articles of Association of the Company

The Company has received a notice in writing from a Member under Section 257 of the Companies Act, 1956, proposing his candidature for the office of Director

The Board recommends passing of this resolution

None of the Directors of the Company except Mr Davendra Mittal are concerned or interested in this resolution

Item No. 8

The Company presently has an Employees Stock Option Plan, which was approved by the shareholders at their Meeting held on April 24, 1999. The shares and warrants issued under the Employees Stock Option Plan have been distributed among the employees. The Company proposes to launch a new Employees Stock Option Plan as per the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 ("the Guidelines") in order to issue Options to directors and employees of the Company and such other person eligible under the Guidelines so as to ensure commitment through ownership and financial motivation

Accordingly the approval of the shareholders is sought by way of a Special Resolution for issue of Options. The Board recommends the passing of the resolution as a Special Resolution

The Directors of the Company may be issued Options under the Scheme and hence are deemed to be concerned/interested in the resolution

The Employees Stock Option Plan 2003 is available for inspection at the registered office of the Company during business hours on all working days till the date of the ensuing Annual General Meeting

The following information and description gives the rationale and other details of the Employees Stock Option Plan 2003 ("the Plan") and also gives the information required by the SEBI (Employee Stock Option Scheme and Employee Stock Purchase) Guidelines, 1999 and other provisions of law

- (1) The Plan is pursuant and subject to the Guidelines whose provisions shall prevail over any term of the Plan that is inconsistent with such Guidelines
- (2) The Plan shall be administered by and be under the superintendence of the Compensation Committee
- (3) It is proposed to issue a maximum number of 801,115 Options. Each Option shall entitle the Option Holder to apply for and, subject to and in accordance with the terms of the Plan, be allotted one equity share of the Company at the Exercise Price
- (4) The Options may be issued in such phases as the Compensation Committee may deem fit
- (5) Generally, all the Employees of the Company are eligible to participate in the Plan. "Employee" for this purpose shall mean permanent Employees of the Company or Directors of the Company, whether whole-time or not or such other person as per the Guidelines. Within this broad group, the Compensation Committee may, at its discretion, determine the extent and terms of issue of Options to an Employee or group of Employees



IISFS Investment Managers Limited

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- (6) For Vesting of the Options, the Employee should be an Employee as so defined at the time of Grant . The Vesting period shall be one year from the date of Grant of the Option. The maximum period within which the Options shall be vested shall also be one year from the date of Grant
- (7) The maximum number of Options to be issued per Employee shall be 50,000 per annum . The aggregate number of Options to be issued to all Employees under the Plan shall be 801,115
- (8) The Exercise Price for the Options shall be the higher of two prices as stated below. First is the price as worked out by calculating the average of weekly highs and lows in the six months preceding the month of Grant. The average of such averages for all weeks in such period of six months shall be the Exercise Price. If in any week there are no quotations, such week shall be ignored for the purposes of calculation. The second price is the market price as at the date of the Grant. All prices mentioned above shall be the prices on the stock exchange on which the shares of the Company are listed. If the shares are listed on more than one stock exchange, but quoted only on one stock exchange on the given date, then the price on that stock exchange should be considered. If the share price is quoted on more than one stock exchange, then the stock exchange where there is highest trading volume on that date should be considered. If share price is not quoted on the given date, then the share price on the next trading day would be considered
- (9) The Exercise period shall be a period of four years from the date of the Vesting of the Options. To Exercise the Option, the procedure shall be as follows. The Option Holder shall make an application alongwith full payment of the Exercise price to the Company. The applications shall be scrutinised and if found valid shall be forwarded to the Board or any Committee authorised by the Board, for allotment of the equity shares
- (10) The Compensation Committee shall meet from time to time to appraise the performance and track record of the Employees to determine eligibility of Employees for Options under this Plan. The Compensation Committee shall, inter alia, take into account for the purpose of appraisal, such factors which in its discretion are relevant for this purpose
- (11) The Company hereby formally undertakes and records that it shall conform to the accounting policies as specified in the Guidelines
- (12) The Company shall also make such disclosures and file such statements and documents as may be required by law with the prescribed authorities from time to time

By Order of the Board of Directors

Sanjay Mitra
Company Secretary

HDFC House
51, Kasturba Road
Bangalore - 560 001

Dated : April 30, 2003

DIRECTORS' REPORT

The Shareholders

IL&FS Investment Managers Limited

Your Directors have pleasure in presenting for your consideration and approval the Seventeenth Annual Report with the Audited Financials of the Company for the year ended March 31, 2003

FINANCIAL ACHIEVEMENTS AND DIVIDEND

Rs. Million

| | For the year ended March 31, 2003 | For the year ended March 31, 2002 |
|---|--------------------------------------|--------------------------------------|
| Total Income | 155.96 | 93.17 |
| Profit before Taxation | 50.09 | 38.34 |
| Provision for Taxation | 18.30 | 15.60 |
| Net Profit after Taxation | 31.79 | 22.74 |
| Balance of Profit/(Loss) b/f | 0.15 | 11.44 |
| Statutory & Special Reserve transferred to the Profit & Loss Account | 22.25 | — |
| Profit/(Loss) available for appropriation | 54.19 | 34.18 |
| Appropriations: | | |
| Special Reserve | — | 4.55 |
| General Reserve | 2.5 | 1.71 |
| Dividend (inclusive of dividend tax) | 28.51 | 27.77 |
| Balance carried to Balance Sheet | 23.18 | 0.15 |

DIVIDEND

During the year, your Company achieved a net profit after tax of Rs. 31.79 million. Your Directors recommend a dividend of Rs. 1.70 per share. The total amount of dividend is Rs. 28.51 million (inclusive of dividend tax of Rs. 3.24 million)

REVIEW OF OPERATIONS

Income: At the beginning of the Financial Year, the Company had augmented its corpus under management to Rs. 6720 million (approx. USD 140 m) through the acquisition of advisory and management rights of certain speciality funds. Commensurate with the increase in Funds under management, the income from Fund Management has nearly doubled to Rs. 146.83 million from Rs. 74.53 million in the previous year

Inclusive of Income from Investments of Rs. 7.08 million and Other Income of Rs. 2.05 million, the Gross Income for Financial Year 2002-03 was Rs. 155.96 million, up from Rs. 93.17 million in the previous year, an increase of 67%

Operating Expenses: The total Operating Expenses for the year were Rs. 77.02 million, against Rs. 52.26 million in the previous year, an increase of 48%

Profits: The enhancement in Gross Income, coupled with the less than proportionate rise in Operating Expenses, resulted in significant increase in profit before tax to Rs. 50.09 million from Rs. 38.34 million in the previous year

Operating Environment: The investment environment remained subdued during the year, and the depressed capital market environment also affected divestment plans. However, these challenges provided the Company an opportunity to gain competitive advantage through investment in capability building. The Company identified and invested in several selected ventures at attractive terms

REVIEW OF THE FUNDS UNDER MANAGEMENT

The aggregate corpus of funds under management is approximately Rs. 6720 million (USD 140 million), distributed among the following Funds :

The **AIG Indian Sectoral Equity Fund (AISEF)** was set up in 1997 by the American International Group (AIG) and IL&FS. The Fund makes investments through equity, quasi-equity and other equity-related instruments in three areas –



IL&FS Investment Managers Limited