

Annual Report **2003-04**

Report

JUNCTION

IL&FS Investment Managers Limited

BOARD OF DIRECTORS

Mr. S.M. Datta	Chairman
Mr. Ravi Parthasarathy	
Mr. Vimal Bhandari	Resigned w.e.f. July 1, 2004
Mr. S.A. Bhat	
Mr. G. Narayanan	
Mr. Bansi S. Mehta	
Mr. Pradip Roy	
Mr. Davendra Mittal	Resigned w.e.f. July 8, 2004
Mr. Vibhav Kapoor	
Mr. Shahzaad Dalal	Vice Chairman & 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

The IL&FS Financial Centre
Plot No. C-22, G Block
Bandra-Kurla Complex
Bandra (East)
Mumbai - 400 051

OTHER OFFICES

HDFC House, 5th Floor,
51, Kasturba Road
Bangalore - 560 001

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 / 55555454
Fax : 022 - 25672693

NOTICE

Notice is hereby given that the Eighteenth Annual General Meeting of the Members of the Company will be held on Thursday, 23rd September, 2004 at 11.00 a.m. at "The Centrum", World Trade Centre, 1st Floor, Cuffe Parade, Mumbai - 400 005, to transact the following business:

ORDINARY BUSINESS

- (1) To receive and adopt the Audited Balance Sheet as at March 31, 2004, the Profit & Loss Account and the Cash Flow Statement 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, 2004
- (3) To appoint a Director in place of Mr Banshi S Mehta who retires by rotation and being eligible, has offered himself for re-appointment
- (4) To appoint a Director in place of Mr SM Datta 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 Pradip Roy who was appointed in the casual vacancy caused by the resignation of Mr G Parameswaran 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 G Narayanan who was appointed in the casual vacancy caused by the resignation of Mr TR Madhavan 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

By Order of the Board of Directors

Sanjay Mitra
Company Secretary

Registered Office:

The IL&FS Financial Centre

Plot No. C-22, G Block, Bandra Kurla Complex

Bandra (East), Mumbai 400 051

Dated : August 16, 2004

NOTES

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

Proxies in order to be effective must be delivered at the Registered Office of the Company at least 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 16th September, 2004 to 23rd September, 2004 (both days inclusive). The Dividend as recommended by the Directors if approved by the shareholders will be payable on or after 23rd September, 2004
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
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 Banshi S Mehta, Mr SM Datta, Mr Pradip Roy and Mr G Narayanan 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 Banshi S Mehta, Mr SM Datta, Mr Pradip Roy and Mr G Narayanan are being provided:

Mr Banshi S. Mehta :

Qualifications

B.Com (Hons.), F.C.A.

Practising Chartered Accountant & Tax Consultant and also past president of the Institute of Chartered Accountants of India. He is also the Chairman of the Audit Committee of the Company

Other Directorships:

Name of Company	Position held	Member of Committee
Atul Limited	Director	Audit Committee
Bharat Bijlee Limited	Director	
Century Enka Limited	Director	Audit Committee
Ceat Limited	Director	
Housing Development Finance Corporation Limited	Director	Compensation Committee & Audit Committee
J.B. Chemicals & Pharmaceuticals Limited	Director	Chairman of the Audit Committee
Pidilite Industries Limited	Director	Chairman of the Audit Committee
Procter & Gamble Hygiene and Health Care Limited	Director	Audit Committee
Varun Shipping Limited	Director	
SBI Capital Markets Limited	Director	
Sudarshan Chemical Industries Limited	Director	Chairman of the Audit Committee
The Dawn Mills Co. Ltd.	Director	
Vinyl Chemicals (India) Limited	Director	
Jumbo World Holdings Limited	Alternate Director	
Chemetall Rai India Limited	Alternate Director	
Uhde India Limited	Alternate Director	
Sasken Communication Technologies Limited	Alternate Director	Chairman of the Audit Committee
Shaw Wallace Distilleries Limited	Alternate Director	

Mr S M Datta :

Mr S M 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 of The Institution of Engineers (India), Fellow of the Indian Institute of Chemical Engineers, Member of the Society of Chemical Industry (London) and Hon. Fellow of All India Management Association

NOTES

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

Mr Pradipt Roy :

Mr Roy is a Science Graduate in Petroleum Engineering, an MBA, a CAIIB and also holds a Certificate in Investment Appraisal & Management from Harvard University. He is presently Chief General Manager, Corporate Finance Department, Industrial Development Bank of India

Mr Roy has worked with Indo-Burma Petroleum Co. Ltd. and Bank of India. He has vast experience in project finance across sectors, restructuring of companies, merchant banking and corporate advisory services. He was also a member of the task force set up for drawing the business plan of IDFC

Other Directorships:

Name of Company	Position held	Member of Committee
JK Corp. Limited	Director	Member of the Audit Committee
CESC Limited	Director	
Sara Fund Trustee Company Limited	Director	

Mr G Narayanan :

Mr G Narayanan is a Science Graduate and a CAIIB. He is presently General Manager, Bank of India. Mr Narayanan has varied experience in the banking industry in various capacities with the Bank of India especially in foreign exchange and treasury. He was also posted abroad to the Tokyo and New Jersey branches of Bank of India. He is also a director of Securities Trading Corporation of India Limited

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

Item No. 6

Mr Pradip Roy was appointed as a Director in the casual vacancy caused by the resignation of Mr G Parameswaran. Since Mr Pradip Roy 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 Pradip Roy are concerned or interested in this resolution

Item No. 7

Mr G Narayanan was appointed as a Director in the casual vacancy caused by the resignation of Mr T R Madhavan. Since Mr G Narayanan 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 G Narayanan are concerned or interested in this resolution

By Order of the Board of Directors

Sanjay Mitra

Company Secretary

The IL&FS Financial Centre
Plot No. C-22, G Block
Bandra Kurla Complex
Bandra (East), Mumbai 400 051
Dated : August 16, 2004

DIRECTORS' REPORT

The Shareholders

IL&FS Investment Managers Limited

Your Directors have pleasure in presenting for your consideration and approval the Eighteenth Annual Report with the Audited Financials of the Company for the year ended March 31, 2004

FINANCIAL ACHIEVEMENTS AND DIVIDEND

		Rs. Million
	For the year ended March 31, 2004	For the year ended March 31, 2003
Total Income	150.08	155.96
Profit before Taxation	66.99	50.09
Provision for Taxation	19.32	18.30
Net Profit after Taxation	47.67	31.79
Balance of Profit b/f	23.19	0.15
Statutory & Special Reserve transferred to the Profit & Loss Account	-	22.25
Profit available for appropriation	70.86	54.19
Appropriations:		
General Reserve	4.77	2.50
Dividend (inclusive of dividend tax)	42.18	28.50
Balance carried to Balance Sheet	23.91	23.19

DIVIDEND

During the year, your Company achieved a net profit after tax of Rs 47.67 million. Your Directors recommend a dividend of Rs. 2.50 per share. The total amount of dividend is Rs. 42.18 million (inclusive of dividend tax of Rs. 4.79 million)

REVIEW OF OPERATIONS

Income: The income from Fund Management for this year was Rs 120.47 million as compared to Rs 146.83 million in the previous year

Inclusive of Income from Investments of Rs 27.13 million and Other Income of Rs 2.48 million, the Gross Income for Financial Year 2003-04 was Rs 150.08 million against Rs 155.96 million in the previous year

Operating Expenses: The total Operating Expenses for the year were Rs 58.38 million, against Rs 77.02 million in the previous year, a reduction of 24%

Profits: The Profit before tax for the year was Rs. 66.99 million as against Rs 50.09 million in the previous year an increase of 34%

Operating Environment: The investment environment remained subdued during the year, however the Company completed a few investments during the year at attractive valuations. The improved capital market environment in the second half of the year helped in the Company achieving exit in some investments through Initial Public Offerings (IPOs) and strategic sales. With the current buoyancy in the capital markets, the Company expects to exit from a few investments through IPOs during the year 2004-2005

REVIEW OF THE FUNDS UNDER MANAGEMENT

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 – Infrastructure, New Technology and the Growth Sector. The Fund has made 10 investments and is now fully committed. The Fund exited from couple of investments during the year. The Fund partially exited from an investment through an offer for sale in the IPO, which resulted in an annualised return of 60% to the Fund

The India Project Development Fund (IPDF) was set up by IL&FS in 2000 for investing in Indian companies created for "developing projects" in the infrastructure sector, and if viable taking them to financial closure. The Fund has commitments from both foreign and domestic investors, currently aggregating to Rs. 910 million. The Fund exited from one investment during the year 2003-04 at an IRR of 20%

DIRECTORS' REPORT

The South Asian Regional Apex Fund (SARA Fund) has a Committed Capital of Rs 1.1 billion. The Fund has so far made investments in companies across sectors including information technology, media, biotechnology, distribution and manufacturing. The Fund is in the process of divesting from a few investments during the year 2004-2005

The India Auto Ancillary Fund (IAAF) which was set up in 1998 as a sector specific fund to invest in the auto components sector in India has so far made seven investments. As permitted under the Fund objectives, the Fund apart from investing in auto ancillary sector has also invested in information technology and bio technology. The Company divested from one investment during the year at an IRR of 10% and expects to divest from a couple of its investments during 2004-2005

The Tamilnadu Infotech Fund (TIF) with a focus on investments in technology sector in the State of Tamil Nadu has till date made six investments. The Fund expects to divest from couple of its investments during the year 2004-2005

The Information Technology (IT) Fund, with a committed corpus of Rs 100 million, has been fully invested. The performance of the IT Fund has been very good and till date has distributed dividend equivalent to 90% of its committed corpus

The Leverage India Fund, was launched during April 2004 with an initial corpus of Rs 2200 million. The Company expects to increase the corpus through a final closing during the second half of 2004-2005

DIRECTORS

Mr Muneesh Chawla resigned as the Managing Director of the Company with effect from January 15, 2004. Mr Shahzaad Dalal the Executive Vice Chairman of the Company was appointed as the Vice Chairman & Managing Director of the Company with effect from January 27, 2004

Mr Banshi S Mehta and Mr SM Datta retire by rotation at the ensuing Annual General Meeting of the Company and being eligible offer themselves for re-appointment. Mr Pradip Roy who was appointed in the casual vacancy caused by the resignation of Mr G Parameswaran holds office upto the date of the ensuing Annual General Meeting of the Company and being eligible offers himself for re-appointment. Mr G Narayanan who was appointed in the casual vacancy caused by the resignation of Mr TR Madhavan holds office upto the date of the ensuing Annual General Meeting of the Company and being eligible offers himself for re-appointment

STATUTORY AUDITORS

The Statutory Auditors of the Company M/s S. B. Billimoria & Company, Chartered Accountants, retire at the conclusion of the forthcoming Annual General Meeting and have expressed their willingness to continue as Auditors, if re-appointed, at the ensuing Annual General Meeting

SHIFTING OF THE REGISTERED OFFICE OF THE COMPANY

The shareholders approved the shifting of the registered office of the Company to Mumbai by Postal Ballot as per provisions of Section 192A of the Companies Act, 1956 read with the Companies (Passing of the Resolution by the Postal Ballot) Rules, 2001. The Company is in the process of obtaining the statutory approvals for the same

INCREASE IN SHARE CAPITAL

Your Company allotted 94,191 equity shares on the exercise of warrants issued under the Employee Stock Option Plan 1999 during the year

CORPORATE GOVERNANCE

Pursuant to clause 49 of the Listing Agreement with the Stock Exchanges, Report on Corporate Governance along with Management Discussion and Analysis and Auditors' Report on compliance with the corporate governance requirements have been included in this Annual Report as separate sections

DEPOSITS

Your Company has not accepted any deposits from the public for the year under consideration

FOREIGN EXCHANGE EARNINGS AND OUTGO

The particulars regarding foreign expenditure and earnings appears as Item 9(ii) and 9(iii) of Schedule 14 in the Notes to the Accounts

DIRECTORS' REPORT

Since the Company does not own any manufacturing facility, the other particulars in the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are not applicable

PERSONNEL

Your Directors wish to place on record their appreciation of the services rendered by the employees of the Company at all levels. The particulars of the employees as required under Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 are set out in the annexure to the Directors' Report

DETAILS OF EMPLOYEE STOCK OPTIONS PLANS

The Company implemented two Employee Stock Option Plans during the financial year. The detailed disclosures as per SEBI (Employee Stock Option Scheme and Employee Stock Purchase) Guidelines, 1999 is annexed

DIRECTORS' RESPONSIBILITY STATEMENT

Your Directors wish to state that:

- in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures
- that they had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit and loss of the Company for that period
- that they had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities
- that they had prepared the annual accounts on a going concern basis

ACKNOWLEDGEMENT

Relationships with shareholders, Investors, Reserve Bank of India and our bankers, Securities and Exchange Board of India (SEBI), other Regulatory authorities and investee companies remained excellent during the year under review. Your Directors are grateful for the support extended by them and look forward to receiving their continued support and encouragement

For and on behalf of the Board

S M DATTA
Chairman

Place: Mumbai

Date : April 27, 2004

Information as per Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the Financial Year 2003-2004

Sl. No.	Name	Age (Yrs)	Designation	Remuneration Received	Qualification	Experience (Yrs)	Date of Commencement of employment	Last Employed
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Employees employed during the Financial Year and in receipt of remuneration not less than Rs. 24,00,000 for the Financial Year 2003-2004								
1	Shahzaad Dalal	45	Vice Chairman & Managing Director	5,363,427	B.Com, MBA	23	01.04.2002	Infrastructure Leasing & Financial Services Ltd
2	Muneesh Chawla*	38	Managing Director	2,426,787	B.Tech, MBA	16	01.04.2000	Infrastructure Leasing & Financial Services Ltd
3	Manoj Borkar	39	Chief Financial Officer	2,451,596	B.Com, ACA	16	01.04.2000	Infrastructure Leasing & Financial Services Ltd

Note: 1. None of the employees is a relative of any Director

*Resigned w.e.f. January 15, 2004

For and on behalf of the Board

Place : Mumbai

Date : April 27, 2004

S.M. Datta
Chairman

ANNEXURE TO THE DIRECTORS' REPORT

Details of Options issued under the Employee Stock Option Plans

The Members approved the Employee Stock Option Plan 2003 ("ESOP 2003") consisting of 8,01,115 Options at the Annual General Meeting of the Company held on July 26, 2003. The Members also approved the Employee Stock Option Scheme 2004 ("ESOP 2004") consisting of 15,00,000 Options at the Extraordinary General Meeting of the Company held on March 19, 2004

The Compensation Committee has been distributing Options to the directors and employees from time to time

During the Financial Year ended March 31, 2004, the Compensation Committee approved the distribution of 5,00,000 Options under the ESOP 2003 and 11,23,000 Options under the ESOP 2004

The particulars of the Options distributed under ESOP 2003 and ESOP 2004 during the Financial Year ended March 31, 2004 are as follows:

ESOP 2003

- | | |
|---|--|
| (i) Options granted | : 5,00,000 Options |
| (ii) Pricing Formula | : Market Price on the date of the Grant as defined in the SEBI Guidelines |
| (iii) Options vested | : Nil |
| (iv) Options exercised | : Nil |
| (v) Total numbers of shares arising as a result of exercise of Options | : Not applicable |
| (vi) Options lapsed | : 30,000 Options |
| (vii) Variation of terms of Options | : No variation made at the time of the Grant of the Options. However variations were carried out at the Meeting held on March 19, 2004. The variations were: <ul style="list-style-type: none"> • The limit of Options to be granted per employee / director has been revised upto 1% of the paid up equity share capital of the Company in the aggregate per annum • The Exercise formula has been revised and it is now based on the Market Price on the date of the Grant as defined in the SEBI Guidelines • The Compensation Committee has been given the power to reprice the Options |
| (viii) Money realised by exercise of Options | : Not applicable |
| (ix) Total number of Options in force | : 4,70,000 unvested Options |
| (x) Options granted to senior management personnel, directors and employees who received Options amounting to and in excess of 5% of the Options granted under ESOP 2003 during the financial year ended March 31, 2004 are as follows: | |
| Mr SM Datta | 50,000 Options |
| Mr Ravi Parthasarathy | 45,000 Options |
| Mr Vimal Bhandari | 45,000 Options |
| Mr Banshi Mehta | 20,000 Options |
| Mr Shahzaad Dalal | 50,000 Options |
| Mr Muneesh Chawla | 30,000 Options |
| Ms Archana Hingorani | 25,000 Options |
| Mr Manoj Borkar | 22,500 Options |
| (xi) Diluted EPS pursuant to issue of shares on exercise of option calculated in accordance with International Accounting Standard (IAS) 33 is Rs 3.19 | |

ESOP 2004

- | | |
|---|---|
| (i) Options granted | : 11,23,000 Options |
| (ii) Pricing Formula | : Market Price on the date of the Grant as defined in the SEBI Guidelines |
| (iii) Options Vested | : Nil |
| (iv) Options exercised | : Nil |
| (v) Total numbers of shares arising as a result of exercise of Options | : Not applicable |
| (vi) Options lapsed | : Nil |
| (vii) Variation of terms of Options | : No variations till date |
| (viii) Money realised by exercise of Options | : Not applicable |
| (ix) Total number of Options in force | : 11,23,000 unvested Options |
| (x) Options granted to senior management personnel, directors and employees who received Options amounting to and in excess of 5% of the Options granted under ESOP 2004 during the financial year ended March 31, 2004 are as follows: | |
| Mr SM Datta | 99,000 Options |
| Mr Ravi Parthasarathy | 100,000 Options |