IL&FS INVESTMENT MANAGERS LIMITED

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

www.iimlindia.com

www.silverpointindia.com

2006

ANNUAL REPORT

IL&FS INVESTMENT MANAGERS LIMITED

# (Possibilities)∞

"Imagination is the beginning of creation.

You imagine what you desire, you will what you imagine and at last you create what you will."

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IL&FS Investment Managers Limited (IIML) is one of India's largest homegrown private equity fund managers. We are visionary in our approach and passionate about our progress. With over US$ 900 million currently being managed on behalf of leading Indian and International Institutions, we offer success by capitalizing on our Parentage, Performance, Experience and Expertise

We see every opportunity as a call to action. We offer value beyond numbers and experience beyond years. We are proud of our achievements, enthusiastic about the future and committed to supporting our partners every step of the way

## With IIML the possibilities are truly unlimited

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# CORPORATE INFORMATION

| | | |
|---|---|---|
| BOARD OF DIRECTORS | S M Datta | Chairman |
| | Ravi Parthasarathy | |
| | Bansi S Mehta | |
| | S Hariharan | |
| | Pradip Roy | |
| | Arun Saha | |
| | Vibhav Kapoor | |
| | Shahzaad Dalal | Vice Chairman & Managing Director |
| COMPANY SECRETARY | Sanjay Mitra | |
| BANKERS | HDFC Bank | |
| AUDITORS | M/s. S. B. Billimoria & Co. | Chartered Accountants |
| INTERNAL AUDITORS | Patel & Deodhar | Chartered Accountants |
| REGISTERED OFFICE | The IL&FS Financial Centre<br>Plot No. C-22, G Block<br>Bandra-Kurla Complex, Bandra (E)<br>Mumbai – 400 051<br>Tel:+ 91 – 22 – 2659 3531 | |
| OTHER OFFICES | HDFC House<br>51, Kasturba Road<br>Bangalore – 560 001 | |
| REGISTRARS & SHARE TRANSFER AGENTS | Intime Spectrum Registry Limited<br>C-13, Pannalal Silk Mills Compound<br>L.B.S. Marg, Bhandup (W)<br>Mumbai – 400 078<br>Tel: +91 –22 – 2596 3838<br>Fax: +91 –22 – 2594 6969 | |

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# Chairman's Reflections

## ambition to grow…

In so far as growth orbitals are concerned, India has powered into the next level. Economists indicate that the domestic savings rate has increased 5.5 percentage points in the last 3 years to touch 29.1%, on the back of which the economy is transiting to a sustainable, higher, growth trajectory. Likewise, development experts speak of increased level of investment in basic infrastructure; social scientists highlight the demographic advantage of being home to 25% of the world's youth, shifting consumer behavior and improving social parameters. Cause or effect, the fact remains that the last few years have witnessed significant and consistent growth, across sectors

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However, what we see around us is more than just growth arising from the traditional growth drivers. We see entrepreneurial energy unleashed, we see a burning desire to expand horizons. Earlier generations of Indians went abroad as doctors and engineers and are now the source of the largest remittance in the world. Today, we see Indian businesses venturing overseas, not as salesmen but as entrepreneurs, integrating businesses trans-nationally; maximizing value

> We see entrepreneurial energy unleashed... an all pervasive ambition to grow on a global scale

What is truly exciting is not that the fact that we are investing a few billion dollars abroad - that number is still a pittance in comparison to trans-national M&A flows. What excites us most is that the ambition to grow on a global scale permeates, irrespective of size, across verticals

Everyday we hear of Indian players gearing up to take on new challenges in the international arena. The areas of activity are wide-ranging - consolidating markets, gaining entry into regulated markets, developing manufacturing or technological expertise or expanding fresh marketing networks



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Private equity (PE) has played a significant role in nurturing businesses and creating value. PE funded companies have benefited from managerial inputs and privileged access to resources through a PE investor's network. Stress on corporate governance and best practices in compliance and disclosure have led to a higher degree of professionalism in such companies

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Future strategic buyers find it reassuring to deal with a PE funded company, because they know that governance and accounting will be up to standards. Institutional investors also attach significant value to PE funded companies – this leads to a re-rating of the stock, thereby adding value to all stakeholders

PE investment therefore represents one of the most important bridges for funding the ambitions of such companies; companies that are willing to reach out and explore; companies shackled by capital only, not ideas; companies that are eager to try out things, differently

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## We, at IIML are privileged to be part of this business

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# From the Vice Chairman's Desk

## Value creation through continuous innovation

Last year, we at IIML, set for ourselves a clear mandate – to structure new funds that capture anticipated opportunities, built through our core value of thought leadership, even as we continue pacing investments and focusing on exits. I am extremely pleased with the results

We are now a US$ 900 mn fund manager, up from US$ 285 mn last year. This firmly places us among the top three domestic fund managers and puts us within touching distance of the billion-dollar mark, which we endeavor to attain during the present financial year. The impact on the financials of our Company would be significant

The US$ 153 mn Leverage India Fund (LIF) and the US$ 502 mn IL&FS India Realty Fund (IIRF) attained closure during the last 12 months. Both funds are distinctly different from our prior funds in terms of size. They are also a reflection of the maturity level attained by our Company in terms of engaging marquee investors, internationally. While we continued to leverage the strong brand value of our parent organization – Infrastructure Leasing & Financial Services Limited (IL&FS) to attract local institutional investors, it was our track record as a fund manager, our experience in fund structuring and our inclination for innovation, which was decisive in participation of investors from the United States, Europe and the Middle East. The list of investors to the IIRF is a veritable who's-who of the US investment community including pension funds and endowments

I am also extremely pleased with the manner in which our team has been able to seamlessly integrate fund raising with fund operations, with each aspect feeding off the other. As a result, we already have a real estate investment team in place comprising experienced professionals who have cherry-picked a healthy pipeline of prospects. Early deployment would enable capturing the expected upsides to a larger extent, directly benefiting our Company in form of Carried Interest in the future

IIML is among the top three domestic fund managers in the country. We have grown from US$ 285 mn to US$ 900 mn within a year



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Our financials for the year ending March 31, 2006 reflect our focus on growth of funds under management, with a 40% year-on-year increase in top line and a 37% year-on-year increase in profits after tax

More importantly, the financial year 2007 will see a quantum jump in our revenues and profitability, powered by management fees from IIRF

Our financials for the year ending March 31, 2006 reflect our focus on growth of funds under management, with a 40% year-on-year increase in top line and a 37% year-on-year increase in profits after tax

The coming year will see actualization of our new initiatives. Fresh funds being raised, with an aggregate target corpus of US$ 600-800 mn, are being structured uniquely from an Indian perspective. These initiatives will also be the key drivers of future growth

Managing LIF and IIRF as well as the new initiatives is a challenge. In preparation, we have built a strong network of investors, a robust deal pipeline and have successfully aligned our investment interests from an exit perspective. Most importantly, we are proud of the team we have in place, with skill sets that span the entire gamut of fund raising, investing, planning exits, participating in restructurings and more

Value creation through continuous innovation is our credo, and I believe that we have the right ingredients in place to make it happen

With my best wishes to you all,

**Shahzaad Dalal**

May 9, 2006



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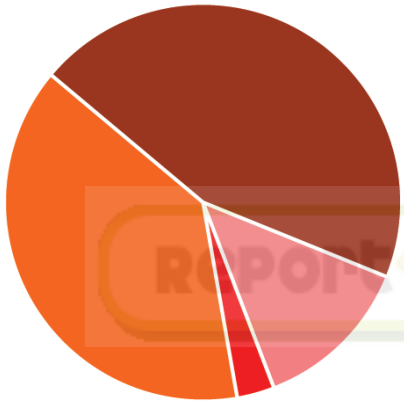
# Our Origins

The origins of IIML date back to 1989, when it was established as Credit Capital Venture Fund (India) Limited by Lazard Brothers as the first private sector venture capital company in India, and managed a number of small sector focused funds apart from investing its proprietary capital. Infrastructure Leasing & Financial Services Limited (IL&FS) acquired the company in 1996, completed an intensive management and financial re-structuring, merged its private equity businesses into the company and renamed it IL&FS Investment Managers Limited

# Our Stakeholders



IL&FS — 45%

Public — 39%

Bank of India — 13%

Employees / ESOP — 3%

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## About Our Sponsor

### Infrastructure Leasing & Financial Services Limited (IL&FS)

Infrastructure Leasing and Financial Services Limited (IL&FS) was incorporated in 1987 and mandated with the commercialization of infrastructure projects as well as providing a wide range of financial services. The shareholders of IL&FS are leading Indian and international institutions, including Life Insurance Corporation of India, State Bank of India, Housing Development Finance Corporation Limited, ORIX Corporation, Japan, HSBC and GIC of Singapore

IL&FS has built two strong business platforms - infrastructure development financing and financial services. In the infrastructure business, IL&FS enjoys a pre-eminent positioning in India, and has emerged as a leading sponsor, co-developer, advisor and investment bank



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