

2007

ANNUAL REPORT



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

www.iimlindia.com



Beyond Borders

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2 Corporate Information

BOARD OF DIRECTORS

Mr S M Datta
Chairman

Mr Ravi Parthasarathy

Mr Bansi S Mehta

Mr Rajaraman Viswanathan

Mr Narendra Prasad

Mr Pradip Roy

Mr Arun Saha

Mr Vibhav Kapoor

Mr Shahzaad Dalal
Vice Chairman & Managing Director

Dr Archana Hingorani
Executive Director

COMPANY SECRETARY

Mr Sanjay Mitra

BANKERS

HDFC Bank Limited

AUDITORS

M/s Deloitte Haskins & Sells
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 (E),
Mumbai - 400 051
Tel: +91-22- 2659 3531

OTHER OFFICES

Aum Plaza
1st Floor, No 76,
3rd Cross, Residency Road
Bangalore 560 025

REGISTRARS & SHARE TRANSFER AGENTS

Intime Spectrum Registry Limited
C-13, Pannalal Silk Mills Compound,
L.B.S. Marg, Bhandup (West),
Mumbai - 400 078
Tel: +91-22-2596 3838
Fax: +91-22-2594 6969





The onward march continues. A trillion dollar economy, India's future growth has been accepted as here to stay, rather than viewed as a passing phenomenon. During the course of the year, investments by Indian corporates and by global private equity firms continued to make headlines and despite concerns on Infrastructure, Inflation and Interest rates, Corporate India's growth remained on a high trajectory

In harnessing this growth, availability of capital is now largely being seen as an addressable issue. A positive investment climate ensures that an entrepreneur today has a variety of options for raising capital, as long as the matrix of past performance, reputation and project bankability measure up to the risk appetite of the investor

However, certain issues, which have the potential to dampen long-term growth, continue to simmer below the surface. One such issue is the availability of quality human resource to drive India's ambition for growth. India is recognised to be a young nation with a large pool of educated persons, giving us the edge in an ageing world. However a global market place requires higher skills, skills that need to be upgraded at an accelerating pace. In such a market,

being educated may not necessarily translate into being employable. And our competitive edge is only good enough till the next technology or production cycle comes along

We already face severe shortage of skilled manpower across sectors, not only in the IT/ITES domain but also in traditional sectors like textiles. This shortage gets manifested in form of high employee turnover and in higher employment costs. Acquiring talent in a high growth sector like financial services, where our company belongs, has always been challenging and the pressure has increased in the recent past

For us, retaining talent over the life of a fund, which typically varies from 6-10 years, is a challenge, compounded by an environment where a large number of international fund managers are calling on India. Our response has been twofold. On one front we strive towards enriching the work profile of our investment professionals and in the emerging global paradigm with which we are now having to deal, we work towards providing them an investment exposure, which goes beyond Indian shores. The key to retention and, more importantly, skill development, would be this continuous exposure and greater empowerment. Creation of investment verticals and assigning defined responsibilities to our Vertical Heads is part of this empowerment process

On the other front, whilst we historically have had a strong Employee Stock Option Plan in place to reward performance, going forward, we aim to strengthen performance link to remuneration through share of profits, arising from the fund's track record, which would be assignable to the team. This linkage not only rewards performance, it also helps talent retention over the fund's life

The result is a cohesive team; an experienced team, which we believe, will lead the company 'beyond borders'

With best wishes,

S.M. Datta

May 12, 2007



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From the Vice Chairman & Managing Director's Desk



As we pause to reflect on the year gone by, it is not just to take stock of what we achieved last year – the strong financials echo our team's capability, provide a quantitative benchmark of our performance, and reaffirm our leadership position in the private equity industry – it is also an important part of a continuous process to map out the future and to chart our way through a challenging and increasingly competitive environment

The last one-year has seen emergence of new paradigms, which have and will continue to chisel a new face for the private equity industry in India. First and foremost has been the quantum of private equity fund flow into India. The India growth story continues to attract pedigreed investors and it is estimated that the year 2007 may see private equity investments crossing the US\$ 10 billion mark. While the significant increase in private equity investments over the last two years is driven by the huge growth capital requirements of the country, intense competition is set to emerge among private equity players. Identifying and then nurturing portfolio companies will be the key differentiator. While domestic fund management companies and 'on-the-ground' fund management teams will continue to have an edge, the ability to undertake larger deals, quickly, will be at a premium. As investment ticket sizes drift upwards in the US\$ 15-20 mn range, the challenge would be to raise capital in sync with market needs

The successful raise of the US\$ 525 million IL&FS India Realty Fund (IIRF) in the first quarter of the financial year 2006, with participation from marquee international investors, was a clear affirmation of our capabilities and firmly placed us in a leadership position. Our endeavor will be to replicate the success of IIRF and launch similar sized funds, thus providing us sufficient mass to move up the investment value line

While IIRF was a landmark event for our company, I suspect that during the next few years, when we look back on the year 2006, we will pick one another defining event for the company – our partnerships with global players which saw our presence expand beyond Indian shores

Starting with the South Asian and the Middle East North African region, we will leverage our fund management expertise to expand on a global scale by establishing linkages with strong regional and trans-national institutions

We have aimed for and have attained a high growth curve – our revenues have grown at 67% p.a. for the last 2 years while Profit before tax has grown at 79% p.a. during the same period. Large sized successor funds and global partnerships would be a cornerstone to maintaining this pace

I believe that a decade of fund management experience, backed by the support of IL&FS and the capability of our team, has prepared us well for the global leap. I look forward to this new dimension with anticipation

With best wishes,

Shahzaad Dalal
May 9, 2007

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8 Key Financial Parameters

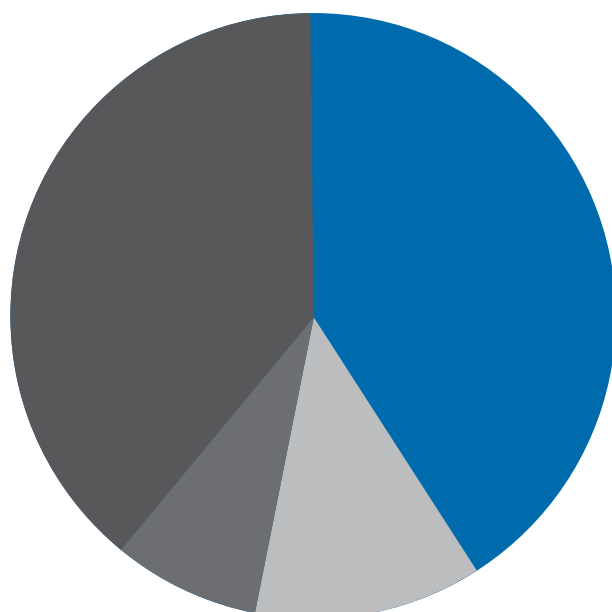
Financial Highlights

Rs. million

| | FY2007 | FY2006 | FY2005 | FY2004 | FY2003 | FY2002 |
|-----------------------|--------|--------|--------|--------|--------|--------|
| Total Income | 502.93 | 253.41 | 180.83 | 150.08 | 155.96 | 93.17 |
| Total Operating Costs | 211.12 | 121.55 | 76.63 | 58.38 | 77.03 | 52.26 |
| PBT | 267.23 | 107.61 | 83.71 | 66.99 | 50.09 | 38.34 |
| PBT Margin (%) | 53.13 | 42.46 | 46.29 | 44.64 | 32.12 | 41.15 |
| PAT | 173.01 | 71.51 | 52.21 | 47.67 | 31.79 | 22.74 |
| PAT Margin (%) | 34.40 | 28.22 | 28.87 | 31.76 | 20.38 | 24.41 |
| EPS (Basic) Rs | 7.11* | 4.63 | 3.48 | 3.19 | 2.17 | 1.56 |
| Networth | 398.39 | 261.42 | 229.88 | 223.84 | 217.03 | 210.29 |
| Dividend | 40% | 35% | 30% | 25% | 17% | 19% |

* Post Bonus Issuance

Our Stakeholders



IL&FS **41%**

Public **40%**

Bank of India **12%**

Employees **7%**

As of March 31, 2007

At the Bourses

IL&FS Investment Managers Ltd (IIML) is actively traded at the National Stock Exchange (Symbol : IVC) and at The Bombay Stock Exchange (Scrip Code : 511208)

Market Capitalization **Rs 3377 million**

Number of Outstanding shares **25.71 million**

No of shares traded in FY2007 **8.99 million**

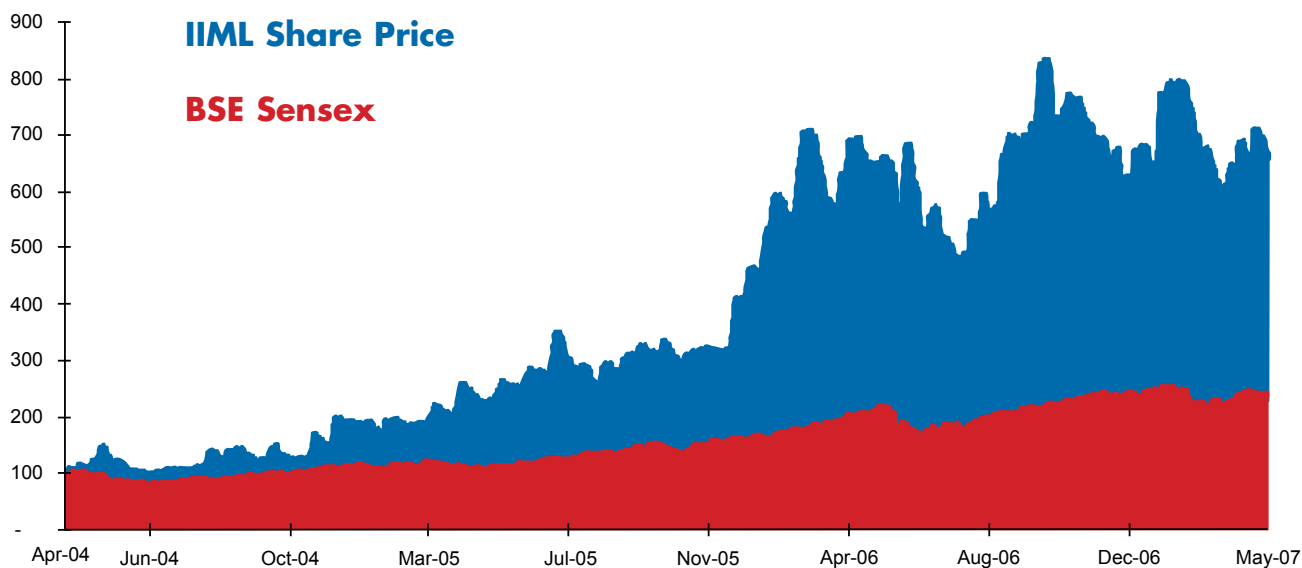
Value of Stock transacted at the Exchanges in FY2007 **Rs 1549 million**

As of March 31, 2007

Returns to Our Investors

Comparative Performance of IIML Share Price and Bombay Stock Exchange Sensex

Considered from a common base of 100



| In Last 3 Years* | Growth | Return p.a. |
|------------------|-----------|-------------|
| IIML Share Price | 6.4 times | 85% |
| BSE Sensex | 2.3 times | 32% |

* April 2004 to March 2007