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 **IL&FS INVESTMENT
MANAGERS LIMITED**

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

www.iimlindia.com



**IL&FS INVESTMENT
MANAGERS LIMITED**

DELIVERING GROWTH



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BOARD OF DIRECTORS

Mr S M Datta
Chairman

Mr Ravi Parthasarathy

Mr Bansi S Mehta

Mr Arun Saha

Mr Vibhav Kapoor

Mr Shahzaad Dalal
Vice Chairman
& Managing Director

Dr Archana Hingorani
Executive Director

Mr Alok Bhargava
Executive Director

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COMPANY SECRETARY

Mr Sanjay Mitra

BANKERS

HDFC Bank Limited

AUDITORS

M/s Deloitte Haskins & Sells - Chartered Accountants

INTERNAL AUDITORS

M/s Patel & Deodhar - Chartered Accountants

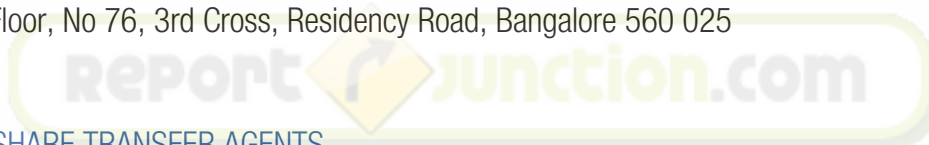


REGISTERED OFFICE

The IL&FS Financial Centre, Plot No C-22, G Block, Bandra Kurla Complex
Bandra (East), Mumbai 400 051
Tel : + 91 22 2659 3531
Fax : + 91 22 2653 2494

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 Indian economy has demonstrated a sustained growth across many fronts in the last four years, which has attracted great interest in the private equity investment space. The events of the final quarter of FY2008, however, have ruffled the smooth investment climate, which had prevailed earlier. The main reasons for this turbulence are the inflationary pressures arising from the world shortage of food grains and the opportunistic escalation in energy prices, the unexpected turmoil in world financial markets resulting in a depleted global flow of investible funds as well as the rising concern about the climate and the environment

Despite these challenges, the Indian growth story remains intact and the good harvest forecast will reinforce the confidence in the diversified and broad based economic capability of the nation. At the same time, the unexpected financial turmoil has highlighted the need for a pro-active risk management regime for handling private equity investments

Over the last decade, IIML has built up a robust risk management philosophy based on three principles. Firstly, our investment pattern has been based on a deep understanding of the various industry sectors as well as of the inherent capability of the management of investee companies. Secondly, we have learnt to operate in partnership with the company managements with the object of minimizing the risk profile. And, finally, we have optimised our exit from the investments in a timely and productive fashion

The fiduciary nature of our business necessitates a careful identification of the risks at hand. We at IIML have been acutely aware of our responsibility to all stake holders, including the investors in our funds, and we have fashioned our growth strategy to comprehensively address the perceived risk environment. The experience gained over the last two business cycles and the broad based support from the IL&FS group have been of enormous help in this effort. We firmly believe that a voluntary system of pro-active risk management combined with the timely disclosure of key risk factors will help the Indian financial services industry to avert the dangers of excessive regulation

With best wishes

S. M. Datta
April 29, 2008



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Notwithstanding the unfolding events of the last quarter, FY2008 will be remembered as the year marked by increasingly larger deals, despite rich valuations. With over twelve years of private equity history, over the last two years, the industry has rapidly moved towards greater granularity, reflecting a maturing phase. Player segmentation by investment size, investment stage, industry focus and type of capital is slowly becoming discernible. While it may be quite some time till leverage buyouts become the norm, the competitive landscape is replete with both large international and domestic players. Resultantly, players are jostling for a unique positioning and of course the all important ability to create inimitable investment opportunities

The emerging chaos in international markets has not bypassed India. While this situation lends itself to creating a buyers market, and is arguably an opportune time for creating value propositions, world events hang heavy on many players and their risk taking ability. This is despite a consensus view that the Indian growth story continues to be sustainable but would be tempered by global developments. To our mind, this puts an 'on-the-ground' savvy domestic fund manager at a considerable advantage, especially one with the ability to use resources and networks to quickly identify and evaluate niche business opportunities

IIML strives to maintain its pioneering position in this well populated and increasingly complex zone by identifying market differentiators rather than following the 'commodity' approach towards capital. A partnership style towards investee companies has resulted in IIML investing across 92 companies over the years. Experience across two business cycles since 1996 has provided IIML rich lessons in not succumbing to the euphoria of growth. Lean cycles have also endowed the team with the ability to manage certain risks preemptively. Consequently, our exit record has also been quite fulfilling and varied. As of date, we have been able to effectuate 34 exits and in total create 45 liquidity events. This solid experience provides us a continuing ability to sustain the business through timely addition of funds under management

Increasing emphasis on risk aversion will be the order of the day in the medium term. Accordingly, future growth will need to be managed through a complex matrix of market, environment and regulatory factors. With every opportunity embedded with challenges, IIML has a multi-pronged approach towards insulating risk. Foremost among these, is the ability to understand businesses and identify new growth areas within this paradigm. Evaluating the long term sustainability and economic stability of the chosen industry is also equally important. Superimposed on these basic principles is the identification of an entrepreneurial and management team that understands the business and has the ability to adapt to changing market scenarios. Last but not the least, is the ability to ensure fair entry valuations that lend themselves to justification even in trying times

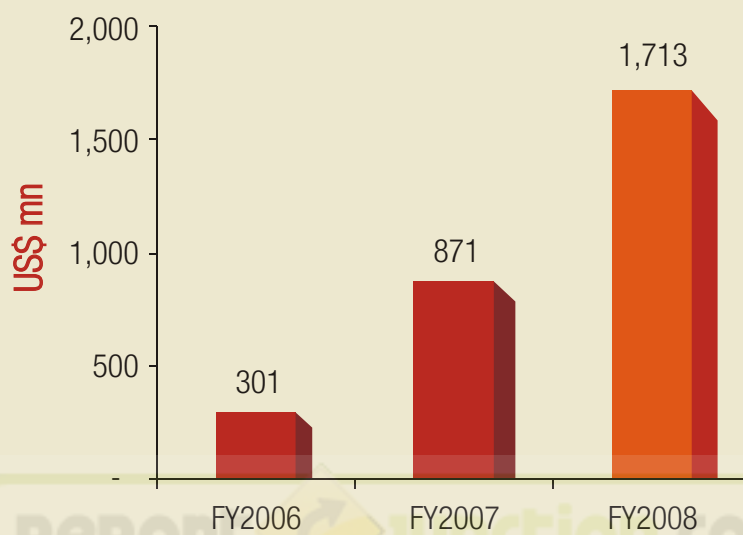
Growth in FY2008 continued the trend set in the previous year. Our revenues grew by 64%, while Profit Before Tax (PBT) has grown at 59% and Profit After Tax (PAT) at 62%. Margins also continued to be healthy at 51% and 34% at the PBT and PAT level respectively. The growth has been essentially achieved on the back of larger successor funds as well as initiating our global partnership platform. Efforts to broaden our investor base and create niche fund management formats will continue to provide continued growth to the business

IIML continues to promote an entrepreneurial culture within its team amidst an institutional format. It is this skill set that has led IIML to complete the fund life cycle for its two funds, the AIG Indian Sectoral Equity Fund and the India Project Development Fund in FY2008, a historical first time event for IIML. A highly motivated and well trained team has prepared us to deliver growth consistently while being able to address concomitant risks

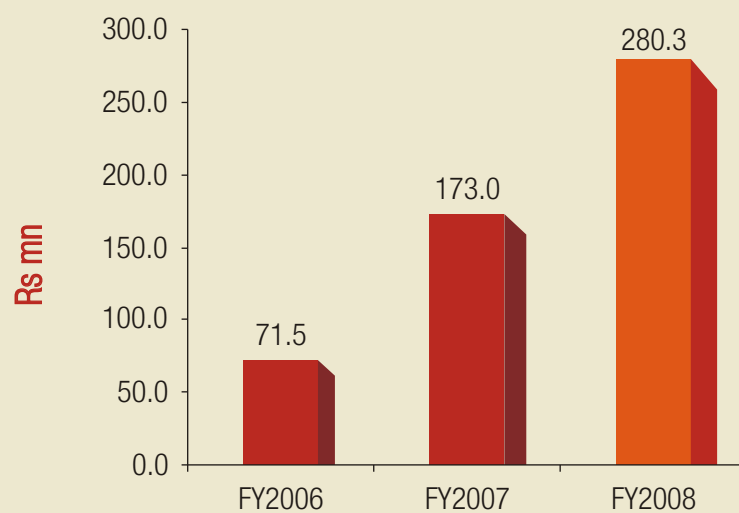
With best wishes

Shahzaad Dalal
May 5, 2008

Assets Under Management



PAT Growth





FY2008 has been the best year thus far for IIML in its fund raising efforts. Total assets under management, raised cumulatively, at the end of March 2008 stood at approximately US\$ 1.7 bn. Last year, we had articulated an emphasis on larger investments. FY2008 saw the average growth private equity deal size move to Rs 753 mn versus Rs 273 mn in FY2007. More importantly, following market trends and the large need for capital across various sectors, IIML has also consciously moved towards a focused investment approach. As a result, our business today is spread across traditional Private Equity, Real Estate and Infrastructure

IIML was considered a pioneer in private equity when it launched its first fund in 1996 i.e. the AIG Indian Sectoral Equity Fund. The Fund now fully exited, is considered one of the top performing funds in the world for its vintage, leading to a successful raise of its second fund in this genre i.e. the Leverage India Fund of US\$ 153 mn. This Fund is partially exited and now in monitoring mode. Current expectations on performance lead us to believe that the returns from this Fund would also be attractive. In FY2008, a third

successor fund i.e. the Tara India Fund III, had its initial close at US\$ 164 mn. A final close expected in the first quarter of FY2009 would enhance the corpus to upwards of US\$ 300 mn

Identifying a new niche in the rapidly evolving real estate sector, IIML was one of the first to raise a US\$ 525 mn in April 2006, with the support of world-class marquee investors including pension funds, foundations and sovereign funds. Many of these investors were making their first foray into India through this Fund. The successful deployment of this Fund i.e. the IL&FS India Realty Fund I, led IIML to raise a second successor Fund i.e. the IL&FS India Realty Fund II in FY2008, with an initial corpus of US\$ 678 mn. This has been IIML's largest single fund raise thus far and is expected to close at upwards of US\$ 750 mn during the first quarter of FY2009

The need for infrastructure growth and related capital expenditure needs no emphasis. Any forum debating the growth sustainability for India amply articulates this need. With IL&FS parentage, a deep knowledge of the large infrastructure canvas and the inherent skill set required to develop and manage infrastructure assets available within the IL&FS family, IIML recently initiated market efforts to raise an Infrastructure Fund. This Fund would create niche investment opportunities in core infrastructure areas, where the available skill sets within the Group would be utilized to manage and develop infrastructure assets. Building on IL&FS business strategy of crossing borders into other Asian regions, this Fund would also seek to identify similar opportunities in the Asian region

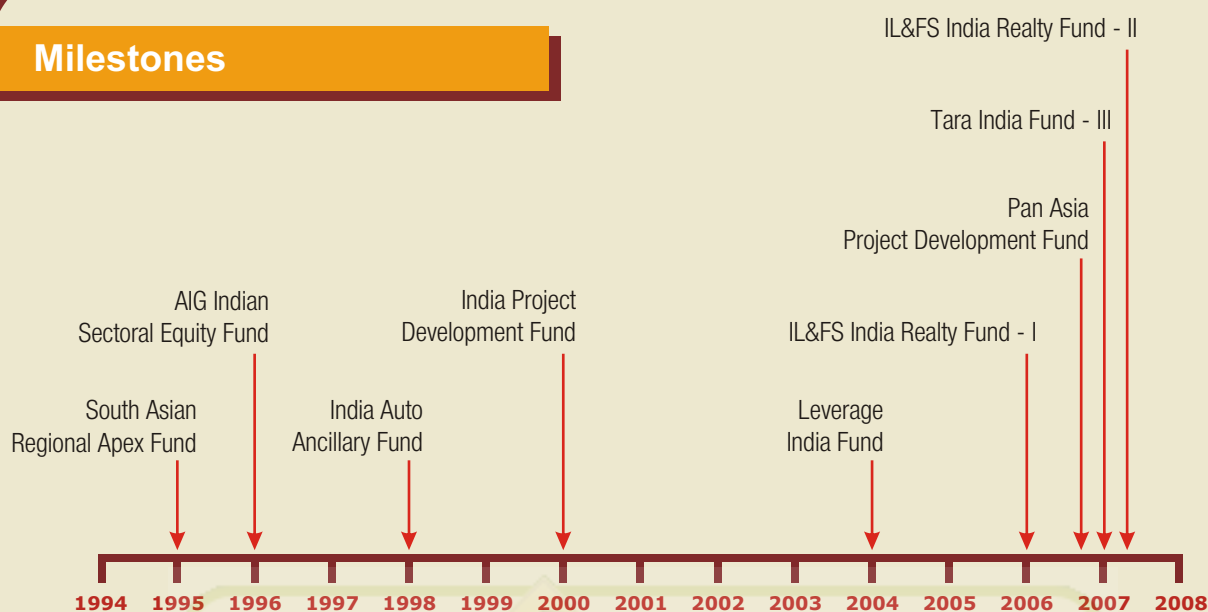
Given this multi regional focus, IIML and IL&FS have partnered with the Standard Chartered Bank to launch the Standard Chartered IL&FS Asia Infrastructure Fund focused on investments in India, China and other Asian nations. The combined investment requirement for just India and China over the next five years is expected to cross US\$ 1 tn. The Fund is targeting a corpus of US\$ 800 mn, to be raised during FY2009

The above three pronged segmentation provides IIML with the ability to create separate niche skills across these spaces and the consequent ability to manage investments in all three genres

With best wishes

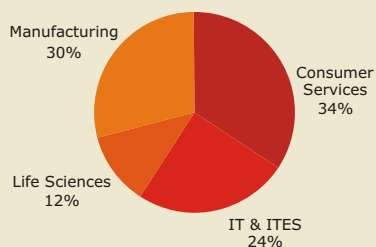
Archana Hingorani
May 8, 2008

Milestones



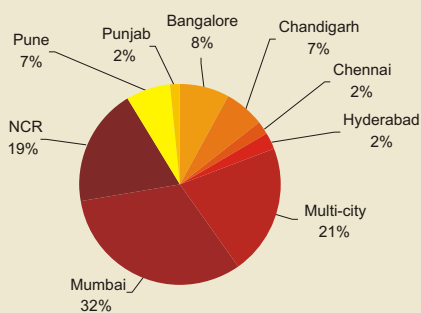
Private Equity

62 Transactions
US\$ 220 mn



Real Estate

19 Transactions
US\$ 556.2 mn



Infrastructure

28 Transactions
US\$ 213 mn

