



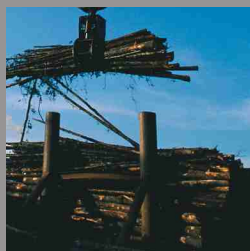
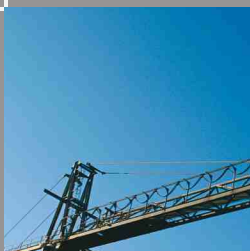
Private Equity

IL&FS Investment Managers Limited

ANNUAL REPORT 2011



FOUNDATIONS OF GROWTH



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CORPORATE INFORMATION

■ BOARD OF DIRECTORS	Mr S M Datta Chairman	Mr Ravi Parthasarathy
	Mr Bansi S Mehta	Mr Jitender Balakrishnan
	Mr Siddharth Mehta	Mr Arun Saha
	Mr Vibhav Kapoor	Mr Ramesh Bawa
	Mr Shahzaad Dalal Vice Chairman	Dr Archana Hingorani Chief Executive Officer & Executive Director
■ 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	
■ REGISTRARS & SHARE TRANSFER AGENTS	Link Intime India Private Limited C-13, Pannalal Silk Mills Compound L.B.S. Marg, Bhandup (West), Mumbai 400 078, India Tel : + 91 22 2596 3838 Fax :+ 91 22 2594 6969	
■ REGISTERED OFFICE	The IL&FS Financial Centre, Plot No C-22, G Block Bandra Kurla Complex, Bandra (East), Mumbai 400 051, India Tel : + 91 22 2659 3531 Fax : + 91 22 2653 3056	
■ OTHER OFFICES	Al-Latheef Building, 1st Floor, 2, Union Street Off Infantry Road, Bengaluru 560 001, India Tel : + 91 80 4034 3333 Fax : + 91 80 4034 3310	

COMPANY SNAPSHOTS



72

**Exits & Liquidity
Events**



9.8x

**Profit Growth over
the last 5 years**

56

**Professionals across
General Purpose Private
Equity, Infrastructure
& Real Estate**

143

**Investments since
Inception**



25% p.a.

**Gross Return
across all
Exited Investments**

**IIML invests ₹ 8.27 bn
during FY2011,
a 43% growth
over the previous year**

**Saffron Asset Advisors
merges with
IIML; adds US\$ 400 mn
to Assets under
Management**

US\$3.2bn
Assets under
Management



3
Funds Fully
Divested

**IIML backed Gujarat
Pipavav Port, Ramky
Infrastructure &
Electrosteel Steels
list on Stock Exchanges
in October 2010**

**IIML realizes
US\$ 221 mn through
divestments
from 15 investee
companies during
FY2011**



15
Funds Raised &
Managed
since inception

3
New Funds
commence Roadshows
during last quarter
of FY2011

NOTES FROM THE CHIEF EXECUTIVE



Dear Shareholders

As I begin to pen my thoughts on the year that was and how we visualize the road ahead, my eye catches the stock ticker, which points to the Sensex being down by over 350 points today. A day in the market may not be symptomatic of the state of our economy and markets could tomorrow have recovered as much as they lost today. However, the behavior of the public markets over the last 6-8 months does represent the degree of uncertainty prevalent globally. Mixed economic data from the United States, 'nearly bankrupt' headlines from Europe, and inflation concerns in Asia - the news flow is uncertain at best, a precursor to a double dip at worst

Here in India, we have been able to deliver high growth in the second half of the last decade and even with a scaled down version, we are likely to attain growth north of 7.5-8% this year. However, impressive as it may sound, we will not stand immune to the pain of a global slowdown. Last week, the Reserve Bank of India increased interest rates by 25 basis points, the 10th increase in just over a year. Foreign Direct Investment has also slowed by as much as a third during the first 9 months of FY2011 compared to the previous year. Add to this a persistently high inflation and India's own local issues like the 2G controversy, uncertainty becomes a natural outcome

It is against this backdrop that the robustness of IIML's business model stands out. IIML's business has two unique drivers - on one side management fee from the Funds under management provides revenues akin to an annuity. On the other hand, income by way of Carried Interest arises from investment / fund performance. While Carried Interest does arise episodically, it has the potential of providing additional profits. We expect Carried Interest from one of our 2004 vintage Funds (Leverage India Fund) to start accruing by the end of this financial year. Thus, akin to the investment philosophy of our Funds, your Company's financial performance and its translation into shareholder's rewards also requires patient nurturing and investing

While the team's focus remains with identifying, guiding and growing investee companies, we remain focused on the need to grow our Assets under Management (AUM). Towards this end we initiated roadshows for 3 new Funds during the last quarter of FY2011. Given the prevalent investment climate, we do expect a longer lead time in Fund marketing and Closings. However, backed by our Fund management experience and deep relationships with our Fund investors, we expect these new Fund raises to gain significant traction during the current year, with some of these Funds attaining Closings during FY2012 itself

During the last year, another significant achievement has been our ability to divest from or attain liquidity in many of our investments. We effected 15 divestments during the year, thereby returning US\$ 221 mn capital to our Fund investors. We expect the pace of divestments from the older vintage Funds to continue. This would lead to lower earning AUM. However, this reduction is expected to be largely offset by increased AUM from Closings of new Funds. Thus while the net impact on AUM growth during this year would be neutral, these divestments would bring us closer to the performance upside of Carried Interest

During the last two years, we also undertook two important steps to seed future growth; first, we operationalized our Dubai office in order to capture expansion in non-India jurisdictions. Second, we set an industry trend when Saffron Asset Advisors merged with IIML, providing us with an inorganic AUM growth. Apart from size, the merger also helps us gain competence and enables us to develop a new breed of funds. Going forward, the key to future growth would be to leverage IL&FS skillsets for enhancing the infrastructure focus, by raising a variety of funds catering to each aspect of infrastructure development. These strategic initiatives are expected to show results in the next couple of years

We believe that these initiatives reinforce our ability as a Fund manager and are key building blocks to success. We believe that we have strong foundations for delivering growth woven into our corporate DNA - innovation, integrity and institutional parentage backed by people, partners and processes. We believe that we have been able to leverage off these foundations for delivering performance in the past and that the road ahead is promising. We thank you for being our partner in this journey

With Best Wishes

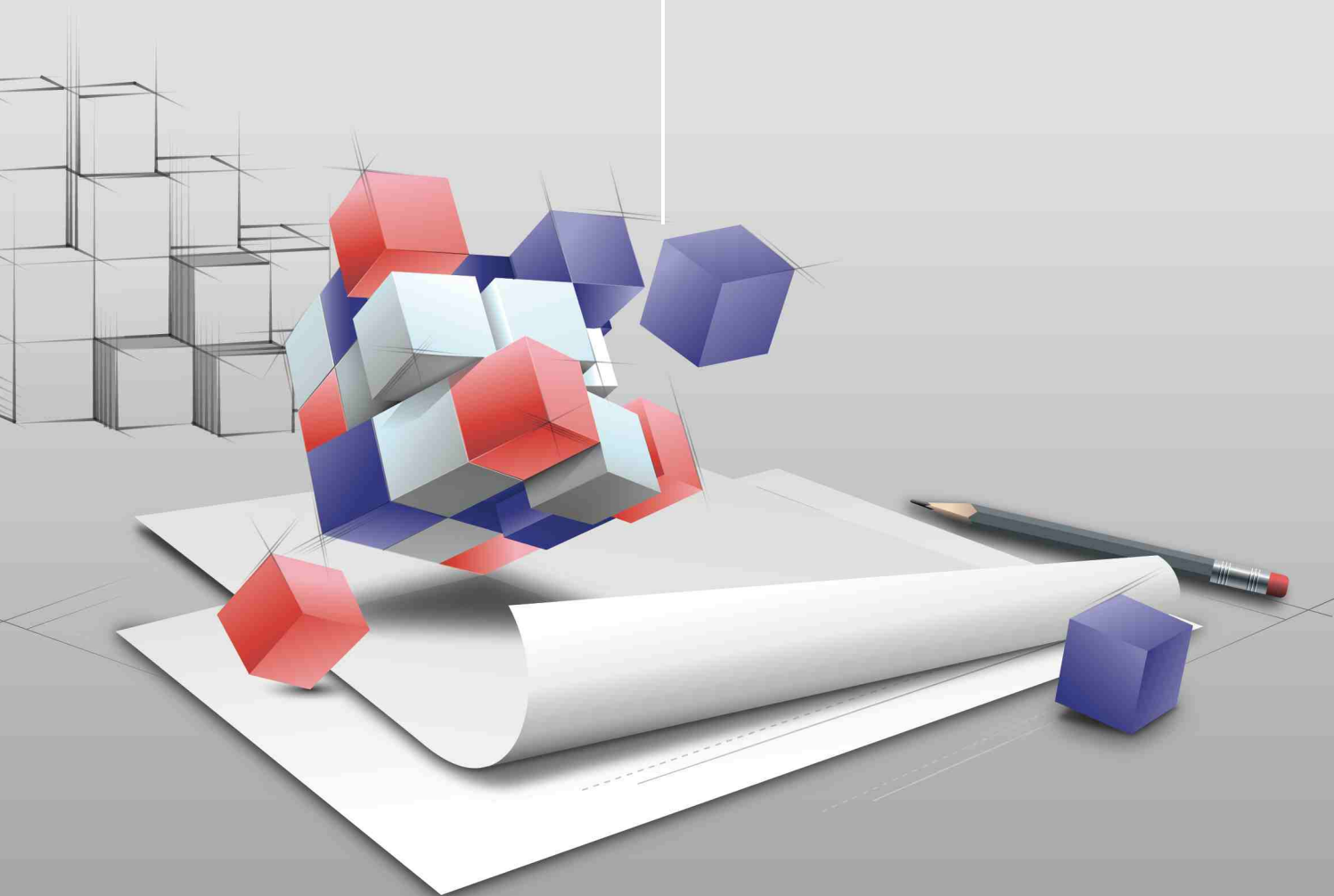
Dr. Archana Hingorani
Chief Executive Officer & Executive Director

June 20, 2011

**“...the key to future growth
would be to leverage
IL&FS skillsets for enhancing
the infrastructure focus...”**

Dr. Archana Hingorani

Chief Executive Officer & Executive Director



FINANCIAL HIGHLIGHTS

₹ mn

Consolidated Financials	FY2007	FY2008	FY2009	FY2010	FY2011
Total Income	601	1,057	1,642	1,813	2,012
Total Operating Cost	221	490	578	680	830
PBT	273	466	846	957	905
PAT	182	320	622	738	690
PAT %	30	30	38	41	34
EPS *	1.49	2.46	3.13	3.69	3.39

* Face Value of ₹ 2 per share. Adjusted for 1:2 Bonus Issuances in FY2007 and FY2009

DELIVERING PERFORMANCE OVER THE LAST 10 YEARS

22x

Increase in Assets under Management

The Company has raised, acquired or partnered 12 new funds across the General Purpose Private Equity, Infrastructure and Real Estate space in the last 10 years, making it the largest domestic Fund Manager

Growth in Revenues since FY2001

High quality revenue profile with management fee providing a highly visible annuity revenue stream over the 6-10 years of Fund life and carried interest providing performance upside through profit sharing

19x

19x

Growth in Profits since FY2001

Profit growth locks step with increase in revenues and Assets under Management

Total Dividend Payout Per Share*

Exceptional profit margins translate into shareholder rewards, with the Company paying dividends consistently for the last 10 years. Equity participation also enhanced through two 1:2 bonus issues and a 5:1 share split

₹80

41x

Increase in Stock Price

Growth in the Company's stock price over the last 10 years has been significantly higher compared to public markets, with the Sensex growing 5x during the same period

*on 1 share of ₹10 from 2000

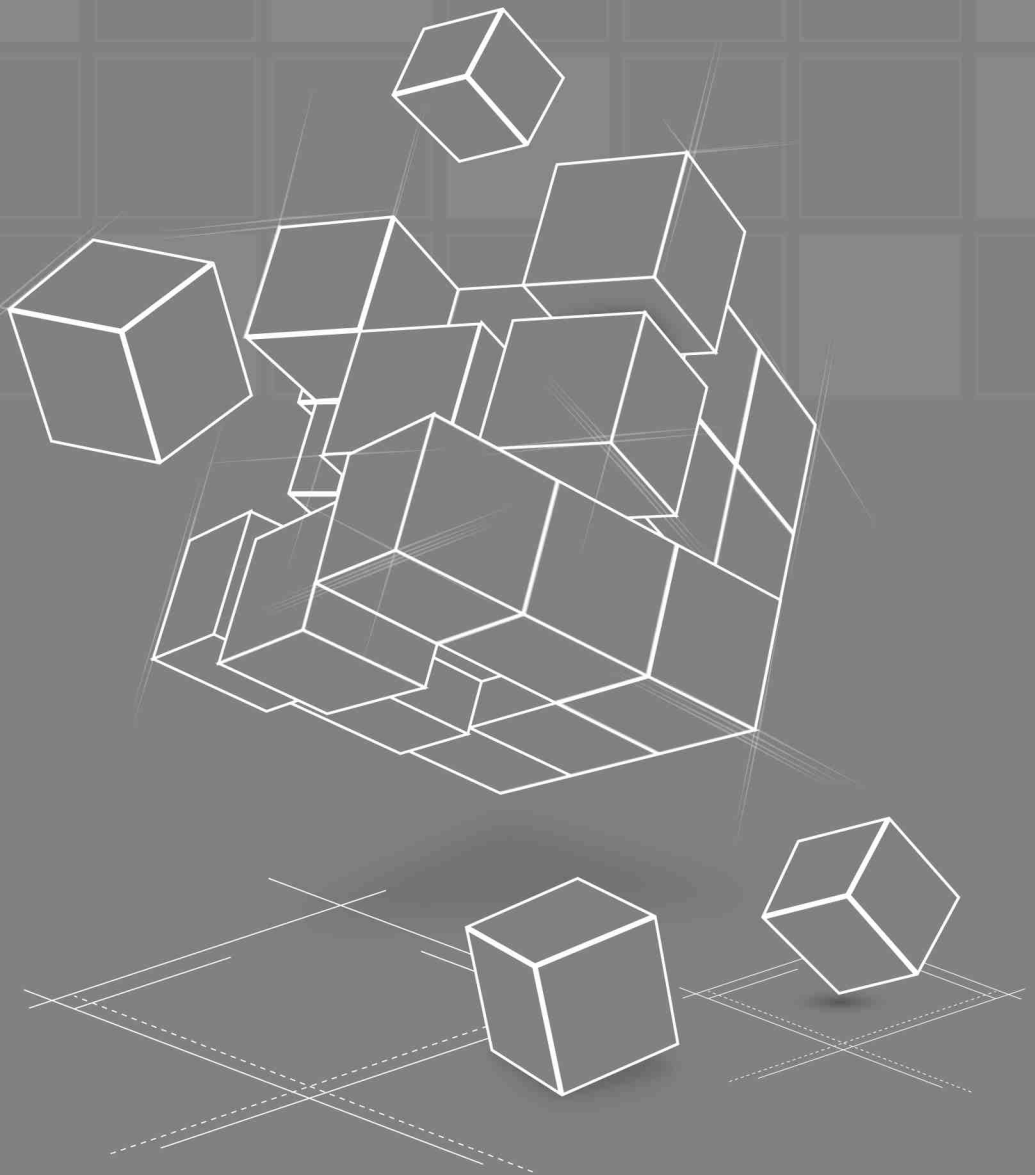
THE BUILDING BLOCKS OF OUR SUCCESS

Constituents of our Corporate DNA

Innovation | Integrity | Institutional Parentage

The Enablers

People | Partners | Processes



ENABLING DEVELOPMENT • DELIVERING PERFORMANCE

LAYING THE FOUNDATION FOR FUTURE GROWTH

CONSTITUENTS OF CORPORATE DNA

Right from 1996, when IL&FS Investment Managers Limited (IIML) began to manage first of its large format Private Equity (PE) Funds, the organization has been guided by three pillars which have become the basic fundamentals of its business. These support pillars have been the guiding force to the way our business is conducted and the base on which we intend to grow the Company

Innovation

At IIML, innovation is about constantly challenging status quo; it is about being better at what we do and creating and enhancing value. The focus of innovation at IIML is aided by our long standing experience across market cycles, and the 'feet on the street' approach which has ensured that IIML has and continues to be a thought leader in the Indian PE market place; an approach which has now made IIML the largest domestic Fund Manager in India

Integrity

The Global Financial crisis in 2008 brought to focus the dynamics of how the financial industry functions and attracted greater scrutiny from stake holders and regulators on ensuring the highest levels of corporate discipline and integrity. At IIML, focusing on transparency, corporate governance and ensuring integrity in practice and process has always been the key focus, right from inception

Integrity is not only just about ensuring that the Company's operations are in compliance with law, it is also about going beyond the stated requirements - having in place strong monitoring systems for a fully transparent reporting for our Fund investors, ensuring that Fund's investee companies follow industry best practices and by undertaking environmentally and socially responsible investing



IIML has been at the forefront of environmentally and socially responsible investing. IIML has adopted an Environmental and Social Policy Framework (ESPF) which is founded on the concept of Sustainable Development

Infrastructure projects funded by IIML managed Funds, for instance, need to ensure sound environmental and social impact assessment as well as ensure that environment management plans are implemented to the satisfaction of the government, lenders and local communities

IIML's ESPF Policy Statement

IIML recognizes Environmental, Health, Safety and Social (E&S) considerations in its business operations to add value and minimize adverse impacts and risks, in order to enhance value of its Fund's investments

To achieve this, IIML will establish and implement mechanisms to encourage, influence or mandate its stakeholders and business partners to conserve natural resources, protect the environment, provide safe and healthy workplace for their employees and contractual staff and restore standards of living for those affected by its project operations, wherever relevant and necessary