



Private Equity

IL&FS Investment Managers Limited

ANNUAL REPORT 2012



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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

NOTES FROM THE CHAIRMAN



Mr S M Datta
Chairman

Dear Shareholders,

The last financial year has witnessed a remarkable mood swing. It started on a buoyant note in April, 2011 with the economy projected to grow at 8.5% or above. As the year progressed, news flow from the developed markets especially from the European region has not been encouraging. Many parts of Europe are now in recession and the Euro remains under significant stress. On an aggregate, it is expected that growth in advanced economies will be weak and global output will expand at a slower pace

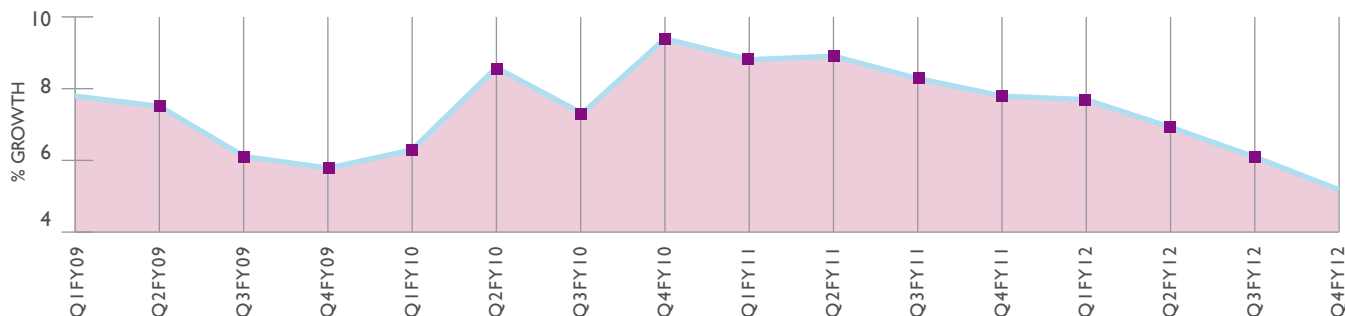
On the back of this lower external demand and capital flows reversals, the impact on the developing economies is a natural outcome. Driven by these externalities and on account of various local issues, the domestic economy has also been hit by high inflation, low industrial growth, high trade deficit and a steady decline in the value of our currency. The low 5.3% growth achieved in the March Quarter of 2012 further increased the economic gloom. The continuing uncertainties in the global financial and commodities markets signal the problems which lie ahead of us in the current year

The Private Equity sector was severely affected by these global and domestic concerns. A weak investment appetite adversely affected the raising of new funds while exits were hampered by the uncertainties in the Indian Capital markets. Seen against this background, your Company's record of investments worth ₹18.8 bn and divestments worth ₹5.2 bn reflect credit on the management team's ability to deliver profitable performance during challenging times

Fund raising by PE companies has become difficult during the last 12 months because of global uncertainties, but even within this space, the appetite for Indian venture capital has declined sharply because of fiscal and trade worries. India's share of the Private Equity funds raised for Emerging Markets as a whole has also declined significantly

Urgent steps are necessary to restore investor confidence in the Indian economy and its regulation. There are no easy short term solutions and the way ahead is going to be painful and difficult. The key would be to build on our strengths.

Moderation in Growth...



Source: GDP Growth Rate - Ministry of Statistics and Programme Implementation

India is blessed with a strong base of producers, consumers, entrepreneurs and institutions, each of which build on each other to generate growth and prosperity. While recent macro-economic events have impacted and could potentially impact growth in the short to medium term, we continue to have all the ingredients in place to deliver sustained long term growth, growth which would bring millions out of deprivation

Private Equity will have a key role to play in this transformation, in efficiently channelising capital to businesses best placed to take advantage and drive this growth. It is encouraging to note that policy makers are evaluating a series of steps to restore the credibility of India's growth story. We look forward to the resurgence of our economic growth and the consequent recovery of investor interest in the Indian markets

With Regards

Mr. S M Datta

Chairman

June 1, 2012

...and weakness in Key Parameters

Key Parameters	FY2011	FY2012
Inbound FDI (US\$ bn)	32.9	34.8
Net FII Investment (US\$ bn)	32.2	18.9
Export Growth	37.5%	21%
Import Growth	21.6%	32.2%
Trade balance (US\$ bn)	-104.4	-184.9
Fiscal Deficit (INR bn)	3736	5220
Sovereign Rating	BBB-/Stable	BBB-/Negative

Source: IMA India

“ The key to growth would be to build on our strengths. India is blessed with a strong base of producers, consumers, entrepreneurs and institutions, each of which build on each other to generate growth and prosperity. Private Equity will have a key role to play in this transformation, in efficiently channelising capital to businesses best placed to take advantage and drive this growth ”



Dr. Archana Hingorani
Chief Executive Officer & Executive Director

Business Highlights

₹ 18.8bn

Invested in FY2012

₹ 5.2bn

Divested in FY2012

“We are cognizant of this challenging global and local environment. We, however, also remain confident of our ability to manage and adapt to this dynamic situation”

Dear Shareholders,

The world economy faced headwinds throughout the last financial year and continues to be in a state of disarray. Fiscal and financial uncertainty in the Euro area and the slow recovery in advanced economies remains a concern. More importantly, the developing economies, especially the growth power houses of China, Brazil and India have also started to de-accelerate. In India, fiscal deficit and an increasing subsidy burden, interest rates and inflation, weakening rupee and volatile foreign flows have all grabbed headlines. These factors have resulted in weak industrial growth, scaled down capital expenditures and a general dip in business confidence

The immediate and a more visible impact has been on the public markets, which have been generally directionless, though with a downward bias. Risk appetite has suffered and investors have been seeking perceived safer havens, away from offshore markets and back into home markets. These events have directly and adversely impacted the Private Equity industry as well. Private Equity fund raising in India has hit 7 year lows. Your Company's fund raising plans have also been impacted as well. We have been on the road for raising three new Funds. However, despite deep relationships with global investors and depth of our experience in the Indian markets, we have met with limited success. While fund raise timelines have been delayed, we continue to engage with investors and are working towards attainment of First Close for some of the new Funds during the first half of the present financial year

While business and investment environment is cyclical by nature, and concerns of risk averse investors can be addressed by a process of continuous engagement, the regulatory regime does have a long term impact on the growth prospects of the industry. Recent announcements in relation to retrospective change in rules to bring under the tax ambit offshore transactions involving Indian assets

and introduction of General Anti-Avoidance Rules (GAAR), have been perceived as a negative by offshore investors. While the GAAR implementation has been put back by a year, the overhang and the uncertainty arising from the form which the GAAR implementation would take next year weighs heavy on the decision making of our Fund investors, a process which has already been impacted on account of adverse India specific news flow. On the other hand Securities and Exchange Board of India (SEBI) has issued Alternative Investment Fund (AIF) guidelines which has taken into account various concerns expressed by the PE industry on the initial draft. This would provide a degree of clarity to the Fund Management industry

In such challenging times, having a strong on the ground network, and a rich experience across business cycles has helped your Company remain focused on its primary objective of delivering value in its Fund investments. Our conviction in the overall India growth story remains. Recognizing the opportunities which are being thrown up by a growing and vibrant economy, by its rising consumption levels and its spirited entrepreneurs, we have continued to invest. Our investments during FY2012 aggregated ₹ 18.8 bn, compared to ₹ 8.3 bn in FY2011. Likewise, despite lackadaisical performance of public markets, we have been able to craft exits aggregating ₹ 5.2 bn during FY2012

Going forward, a host of dynamic, interplaying and extraneous factors could have a significant macro economic impact during this year, an impact which would also play significantly into your Company's ability to attain its objectives as well. We are cognizant of this challenging global and local environment. We, however, also remain confident of our ability to manage and adapt to this dynamic situation. New fund products, leveraging different geographies of Middle East and Singapore, where our subsidiaries have opened offices, working with our investee companies to generate exits etc. are a part of our ongoing, continuous and diligent effort to build a portfolio spanning all aspects of the Indian economy and to generate value for our stakeholders. I would like to thank you all for your continued support and recognition of our efforts in this direction

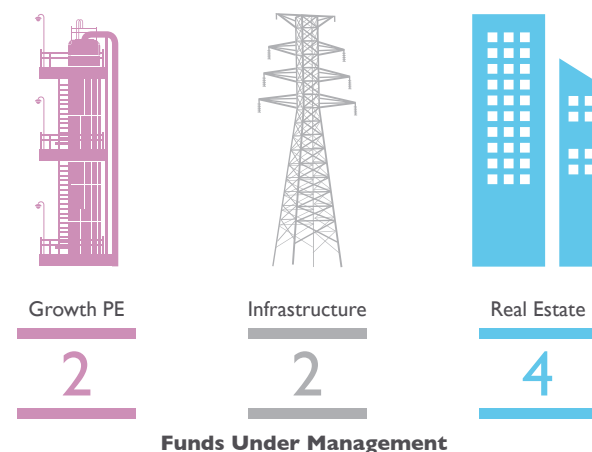
With Regards

Dr. Archana Hingorani

Chief Executive Officer & Executive Director

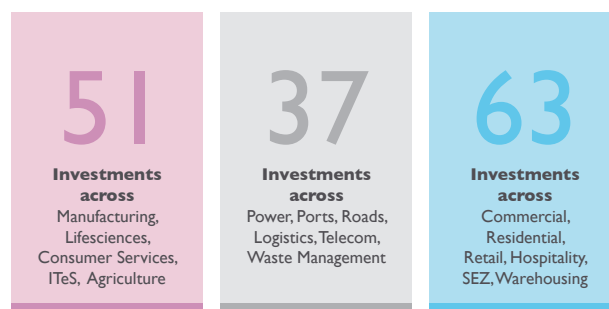
May 29, 2012

Cross Sectoral Funds & Investments



US\$ 3.2bn

Assets Under Management



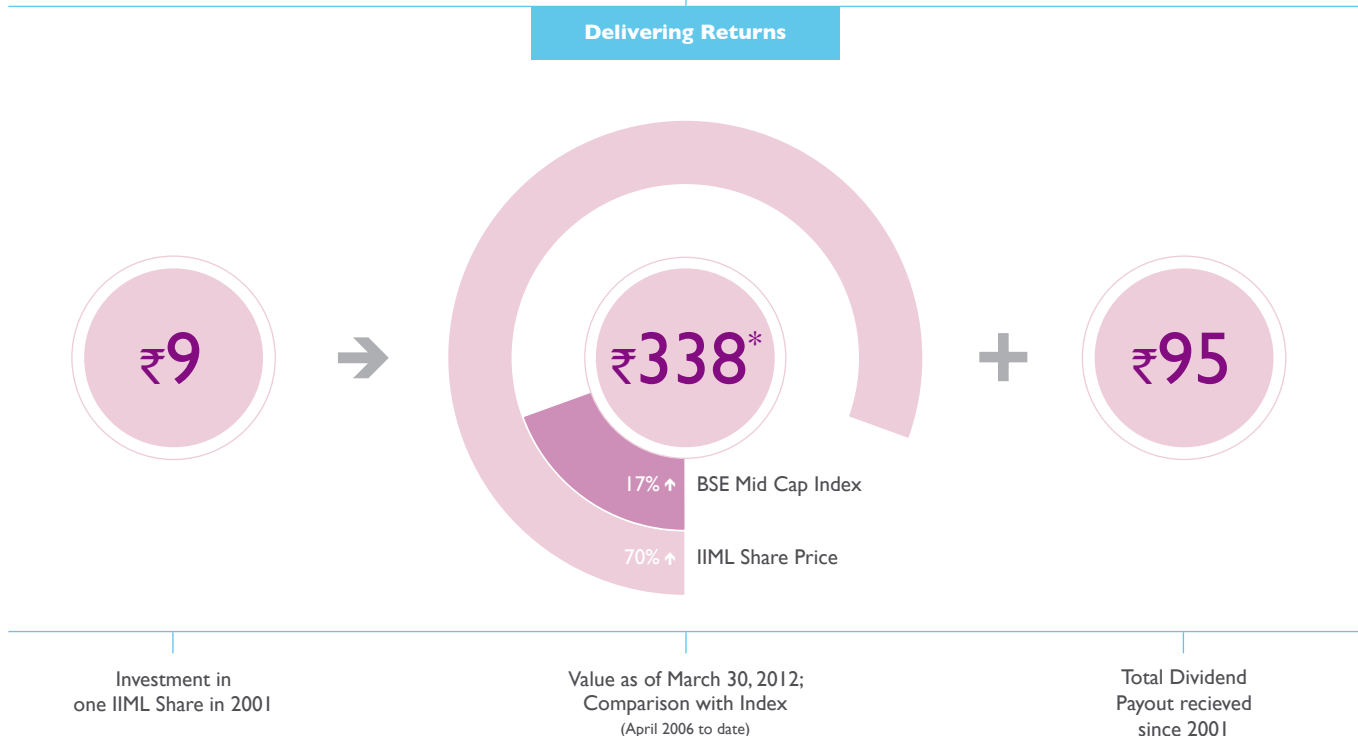
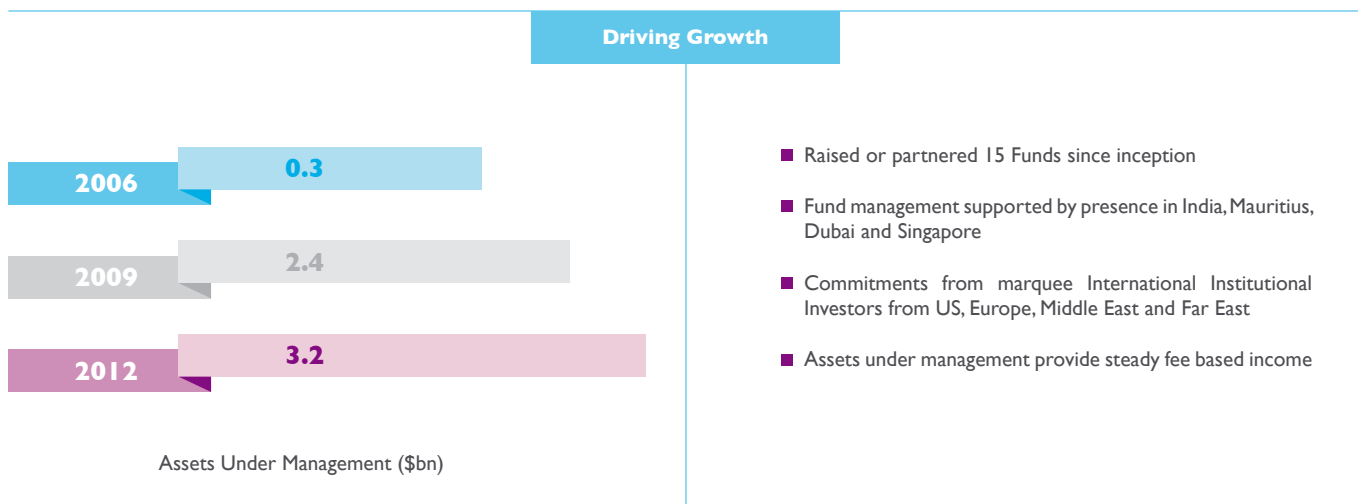
Over time, a well diversified portfolio of investments spanning all aspects of the Indian economy has been constructed. Primarily organized along 3 verticals, each vertical has undertaken investments across a host of sub-sectors

FINANCIAL HIGHLIGHTS

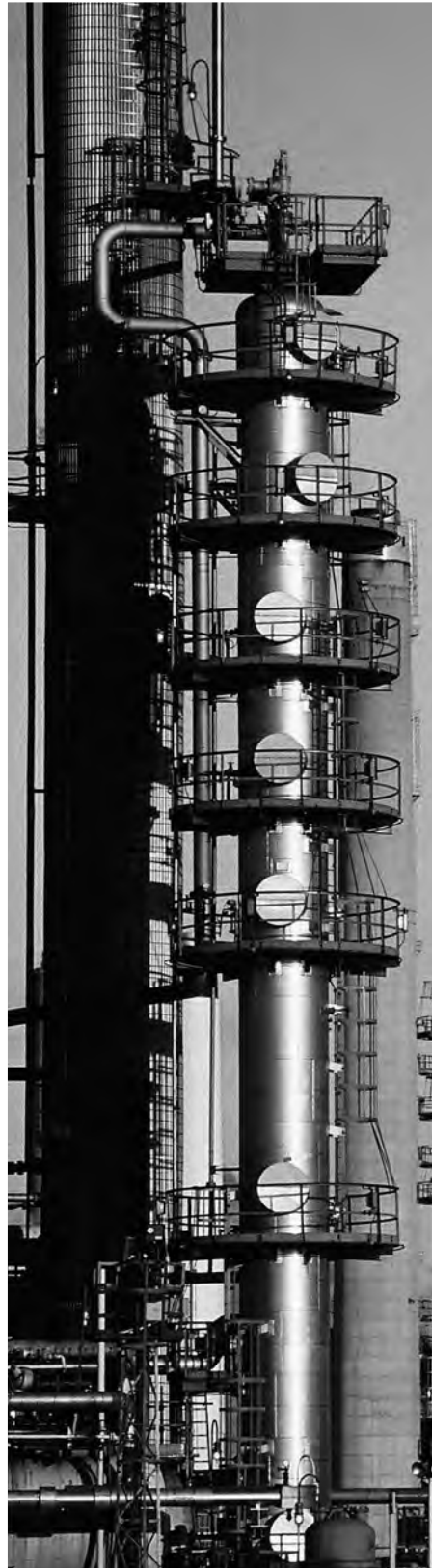
₹ mn

CONSOLIDATED FINANCIALS	FY2008	FY2009	FY2010	FY2011	FY2012
Total Income	1,057	1,642	1,813	2,012	2,247
Total Operating Cost	490	578	680	830	1,022
PBT	466	846	957	905	953
PAT	320	622	738	690	735
PAT (%)	30	38	41	34	33
EPS * (₹)	2.46	3.13	3.69	3.39	3.56

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



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



HARVESTING GROWTH :
PORTFOLIO CONSTRUCT & STRATEGY

GROWTH PRIVATE EQUITY



Despite significant headwinds, India continues to showcase a relatively higher growth compared to the rest of the global economies. India's sustained growth has been supported by economic diversification and an expanding domestic market. International companies continue to be drawn to the country's global cost competitiveness and its abundant, well-educated labour pool

India's competitive advantage is expected to be bolstered by an increase of 270 mn people in its working-age population (equivalent to over four times the total population of the United Kingdom today) over the next two decades. India is also experiencing an unprecedented expansion of its middle class, the size of which is forecast to triple over the next 15 years. This will have a significant impact on GDP and enable more businesses to expand and new businesses to take root

The Private Equity (PE) market opportunity therefore lies in sectors that are expected to benefit from the rising domestic consumer demand and the growing "consumer culture" such as the consumer services, infrastructure services, healthcare and pharmaceutical industries. These sectors have witnessed emergence of first generation entrepreneurs, whose growth ambition is only limited by the capital availability, a gap which is addressed effectively by PE

PE investments in India have grown from a few hundred million during early 2000s to ~\$ 10 bn in 2011. PE investments not only bring in capital but also expertise in building governance frameworks, assisting financial structuring, developing an organizational framework to support growth, providing strategic inputs and the network to drive growth beyond the Company's past secular growth trends and enabling liquidity / value realization for all stakeholders

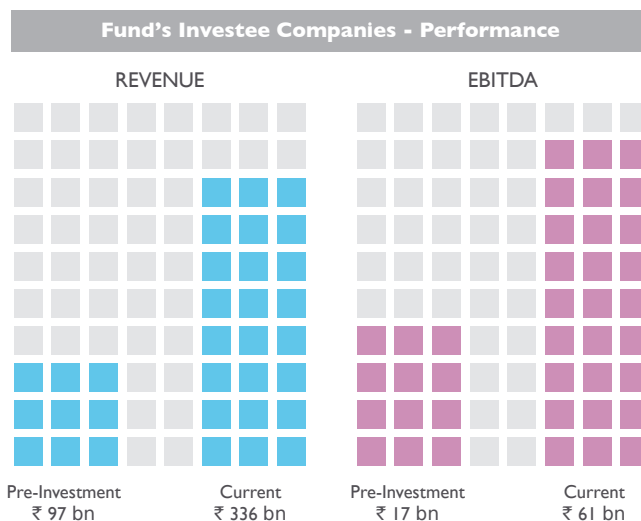
Leveraging the above investment thesis, IIML's private equity practice primarily targets Indian middle-market companies that are managed by successful entrepreneurs who enjoy a proven track record, and have a favourable competitive position and attractive growth prospects. IIML therefore evaluates investments across a diversified range of high-growth sectors

Over the last decade and a half, IIML has replicated this investment strategy across 4 Funds

I	1997	40	Fully Divested
II	2005	154	Partly Divested
III	2008	225	Invested
IV	2012		Fund Raising

Fund size in US\$ mn. Size of Fund I pertains to the 6 Investments managed by IIML

IIML's PE investments are largely in post-revenue companies that are at an inflection point of their growth curve. IIML has focused on identifying established management teams that display strong leadership, are dedicated to their business and have generated strong results. IIML has been able to deliver on this investment thesis - revenue growth of IIML's investee companies has been 39% p.a. for Fund II companies and 34% p.a. for Fund III companies



This growth is reflected in the investments returns as well - the 6 investments managed by IIML in Fund I generated a gross IRR and gross cash multiple of 27.2% and 3.6x respectively. Likewise Fund II has generated a gross IRR and gross cash multiple of 42.9% and 2.4x respectively for the 11 realized exits. However, volatility in the capital markets has impacted the underlying Fund valuations, especially