

Indiabulls

Indiabulls Financial Services Limited

**ANNUAL REPORT
2010-11**

**Indiabulls Financial
Services Limited**



GIVING HOMES TO YOUR DREAMS

The Company 04-08

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Forward looking statement

In this Annual Report, we have disclosed forward-looking information to enable investors to comprehend our prospects and take investment decisions. This report and other statements - written and oral – that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance. We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in assumptions. The achievements of results are subject to risks, uncertainties, and even in accurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated, or projected. Readers should keep this in mind. We undertake no obligation to publically update any forward looking statements, whether as a result of new information, future events or otherwise.

Board of Directors

1. Mr. Sameer Gehlaut
2. Mr. Rajiv Rattan
3. Mr. Saurabh K Mittal
4. Mr. Gagan Banga
5. Mr. Aishwarya Katoch
6. Mr. Shamsheer Singh Ahlawat
7. Mr. Karan Singh
8. Mr. Prem Prakash Mirdha

Statutory Auditor

Deloitte Haskins & Sells
Chartered Accountants
12, Dr. Annie Besant Road,
Opp. Shiv Sagar Estate,
Worli, Mumbai-400 018

Rating Agencies

- CRISIL (A Standard & Poor's Company)
- ICRA (An Associate of Moody's Investor Service)
- CARE

Registered Office

F-60, Malhotra Building,
2nd Floor, Connaught Place,
New Delhi-110 001, India
Website: <http://financial.indiabulls.com>

Corporate Offices

Indiabulls House, Indiabulls Finance Centre,
Senapati Bapat Marg, Elphinstone Road,
Mumbai-400 013

"Indiabulls House", 448-451,
Udyog Vihar, Phase-V,
Gurgaon-122 001

Company Secretary

Mr. Amit Jain

Registrar & Transfer Agent

Karvy Computershare Private Limited
Plot No. 17 to 24,
Vittal Rao Nagar,
Madhyapur, Hyderabad-500 081

Internal Auditor

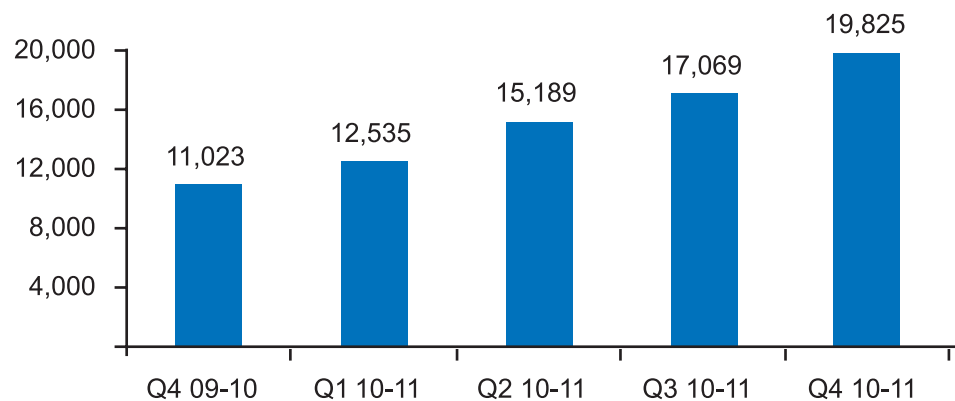
N.D. Kapur & Co.
Chartered Accountants
2-A, Shankar Market,
Connaught Place,
New Delhi-110 001

Allahabad Bank
Axis Bank Limited
Axis Mutual Fund
Bank of Baroda
Bank of India
Bank of Maharashtra
Barclays Bank
Birla Mutual Fund
Central Bank of India
Corporation Bank
DBS Bank Limited
Dena Bank
Deutsche Bank
HDFC Bank Limited
ICICI Bank Limited
ICICI Prudential Mutual Fund
IDBI Bank Limited
IDFC Mutual Fund
Indian Bank
Indian Overseas Bank
Karnataka Bank
Kotak Mahindra Bank Limited
Kotak Mutual Fund
LIC Nomura Mutual Fund
Oriental Bank of Commerce
Peerless Mutual Fund
Punjab & Sind Bank
Punjab National Bank
Reliance Mutual Fund
Religare Mutual Fund
SBI Mutual Fund
SIDBI
State Bank of Bikaner & Jaipur
State Bank of India
Syndicate Bank
Taurus Mutual Fund
The Nainital Bank Limited
UCO Bank
Union Bank of India
United Bank of India
United India Insurance Company Ltd.
UTI Mutual Fund
Vijaya Bank
Yes Bank

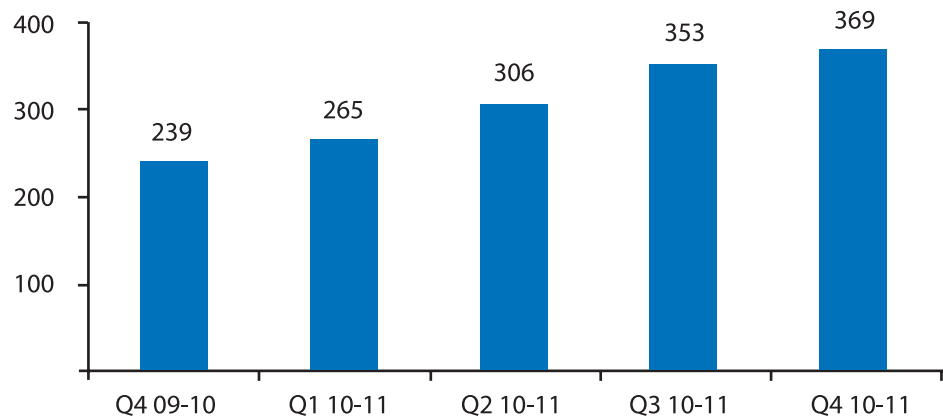
Financial Highlights

Asset Growth

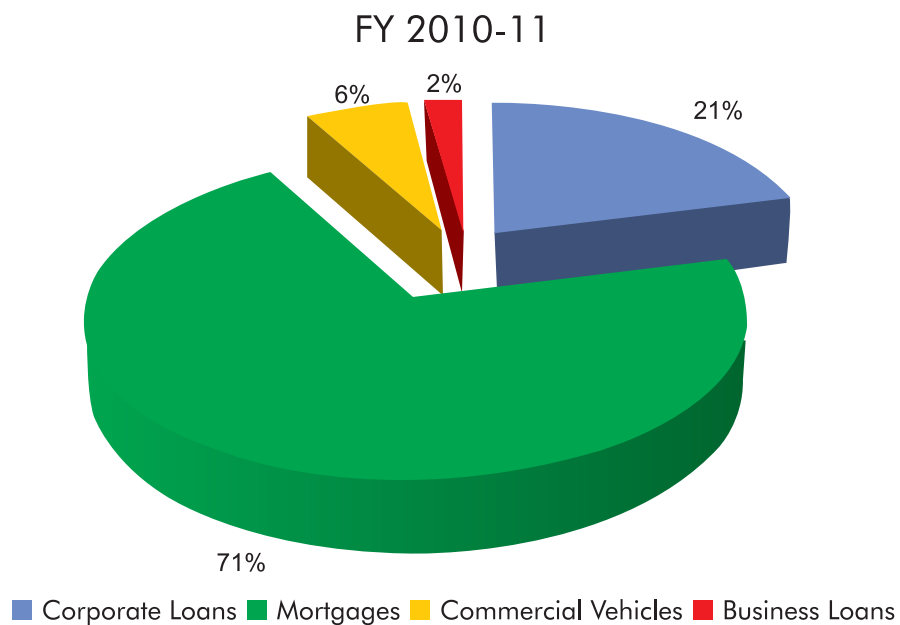
Assets Under Management (AUM) in Rs. Cr.



NII (Rs. Cr.)

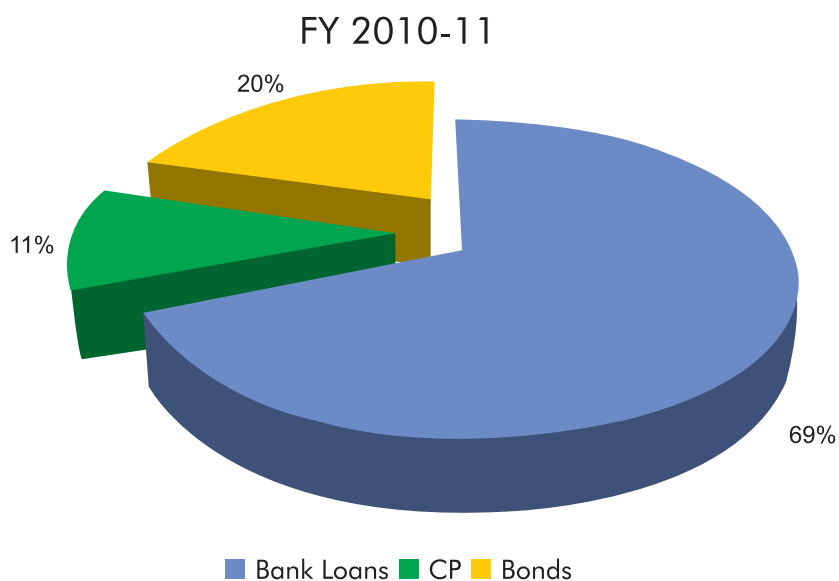


Asset Composition



Low-risk Mortgage Loans constitute 71% of the AUM

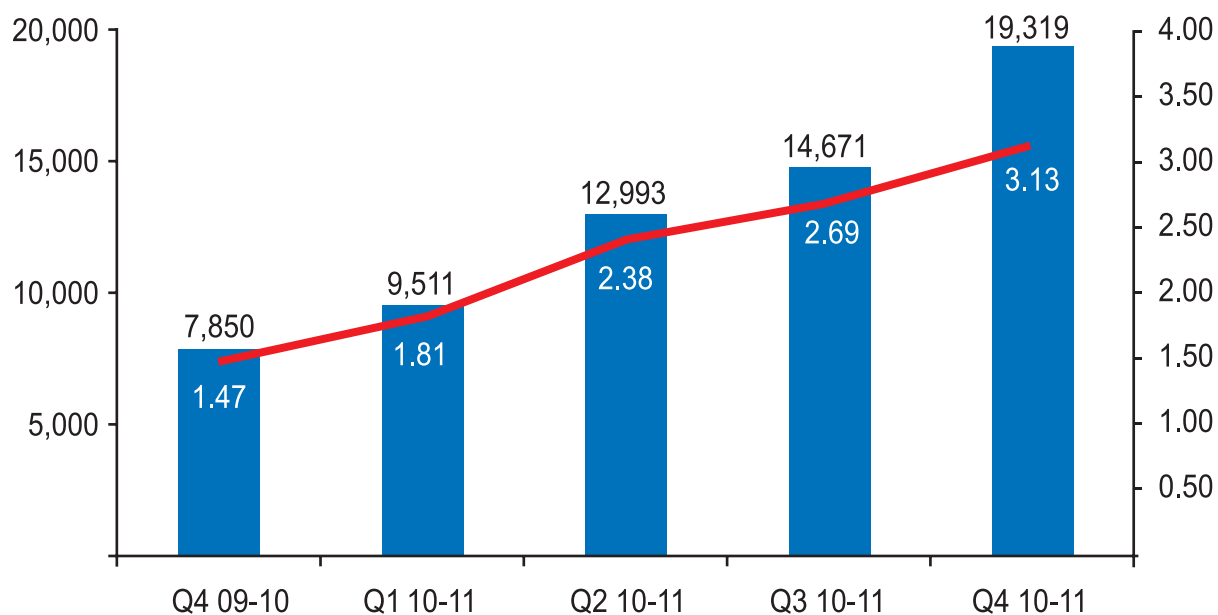
Improving Liability Profile



The company has raised long-term bonds and bank loans to match the increasing share of long-term assets

Financial Highlights

Headroom for Growth



Figures in Rs. Cr.

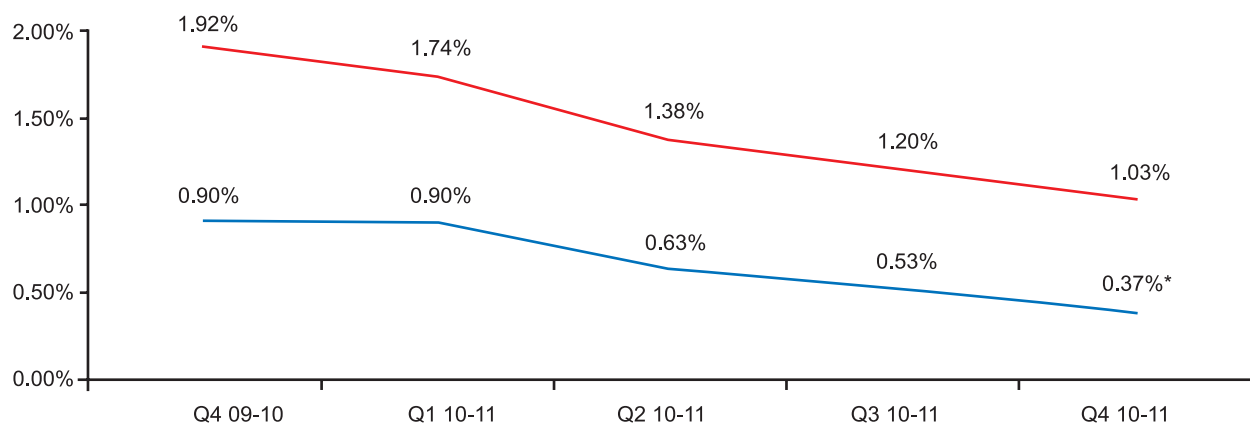
■ Borrowings ■ Net Gearing*

**Net Gearing: Borrowings Net of 'Cash & Cash Equivalents' and 'Investments in Liquid Schemes of Mutual Funds'*

Net Gearing of 3.13
Capital Adequacy of 20.09% as of March 31, 2011

Stable Asset Quality

NPA Levels



* Without deducting 'Floating Provision' and RBI prescribed 'Standard Asset Provision' from Gross NPA

Chairman's Speech



Dear Shareholders and friends,

In my last two years' annual report speeches, I had promised to accelerate your company's growth trajectory, partaking of the nation's burgeoning economy as well as contributing to its growth momentum. These last three years, while we were trying to deal with the aftermath of the 2008 meltdown, we had also simultaneously embarked on a major transformation of our business and took some hard decisions on the way. Today, I am here before you to redeem those promises as I announce a record performance by the company on all the business parameters for the year ended March 2011 – an Assets Under Management of Rs. 19,825 crore, Revenues of Rs. 2,510 crore, Profit After Tax of Rs. 751 crore. In keeping with our philosophy of rewarding our shareholders, your Board of Directors has recommended a very handsome dividend payout of Rs. 10/- per share for the full year, including Rs. 5/- per share interim dividend already paid. In the coming year, we'll redouble our efforts to take your company to the next level not only in terms of size & scale, but also in terms of profitability and sustainability.

Sharpening Our Focus

Sustainability comes with a long term vision and focus. We had envisioned a lucrative future for the company premised on three tenets inherent to our growth strategy:

**"Secure",
"Scalable" &
"Sustainable growth"**

The above three key elements continued to define our growth strategy. The year gone by represents a continuum in our quest for the last three years to morph into a successful mortgage lender. As promised in my last speeches, we have transformed our loan book into almost 100% secured lending, with 71% of it comprised of mortgage loans. Our continued focus on low risk mortgage loans, diversified & long duration liability base, reduction in cost-income ratio and lower delinquency levels has helped company post higher revenues and profits in FY 2010-11. This is a welcome indication of our magnitude in terms of growth and sustenance in this highly competitive market. Over the last couple of years, we have steadily grown our Home Loan portfolio by offering loans at competitive rates to borrowers with good credit profile. We have been able to carve a distinct niche in this segment not only by lending at rates comparable with the best in the industry, but also through our expeditious disbursal process, thereby contributing our bit to the socially desirable goal of home ownership.

Ahead of the curve

Thanks to our prudent approach and thrust on mortgage based lending, IBFSL could not only come out of the preceding few years' economic turmoil unscathed, but reaped rich dividend when the economy started showing signs of revival during the last year. Call it our farsightedness or nimble footedness; we had adopted a cautious lending approach when others were jumping the sub-prime wagon, and accordingly shifted our focus to relatively safer, stable and sustainable business model. A tribute to these visionary steps came in the form of our enhanced long term debt rating of AA+, making us one of the very few NBFCs in the country to enjoy this rating. The rating is a testament to your company's strong business growth with its safer asset class of mortgage loans, improvement in maturity profile of its liabilities and improvement in its profitability. The robust financials of the company as reflected in the rating upgrade, together with our single minded focus to pursue opportunities helped fuel our growth.

Robust Outlook

Today, we are one of the best capitalized NBFCs (our CRAR stands upwards of 20% as against the prescribed 15%) with healthy ratings for both its long term (AA+) and short term (P1+) debt, comfortable liquidity and fund raising capabilities as demonstrated by the stupendous success of our bond offerings to the tune of over Rs. 3,000 crore in FY 2010-11. The Company has seen six quarters of continuous reduction in Gross and Net NPA levels as low-risk mortgage portfolio increases the asset base, while contributing very low incremental delinquencies. The Gross NPA stood at 1.03% and Net NPA stood at 0.37%. Total provisions were 4.19 times the regulatory requirement. On the back of a strong and steady demand for Home Loans, the company has seen sustained growth in its Assets Under Management during the year. Loan Assets have grown to Rs. 19,825 crore as of March 31, 2011. Long-term, Low-risk Mortgage Loans constitute 71% of the Asset Book.

Building Relationships Key to Improved Resource Profile

Our ongoing efforts to broaden and deepen our banking relationships are borne out by the fact that despite being primarily reliant on the wholesale liabilities, your company has a well diversified resource base. Amongst its lenders, the company now counts 54 strong relationships: 21 PSU banks, 11 private and foreign banks, and 22 mutual funds, provident funds, pension funds and insurance companies. These include almost all the marquee lenders in their respective domains, resulting in stable and long term sources of funding. Funding cost has been brought under control while the maturity profile of our borrowings has been elongated so as to manage our ALM in a much better way.

Yielding Dividends

Growth means delivering strong returns for our shareholders: IBFSL's audited report for the year 2010-11 depicts an excellent performance: The Consolidated Total Revenues stood at Rs. 2510 crore, while the Profit After Tax was at Rs. 751 crore, as on March 31, 2011 as compared to March 31, 2010.

The Directors have recommended final dividend of Rs. 5/- (250%) per share of face value of Rs. 2/- Proposed total dividend for FY 2010-11 (including interim dividend of Rs. 5/- already paid) is Rs. 10/- (500%) per share of face value of Rs. 2/-. EPS is Rs. 23.86 up by 140% from Rs. 9.94 for FY 2009-10. Return on Equity (ROE) has grown to 17%. Growth in Low Risk Mortgage Loans, Diversified and Long Duration Liabilities, Decreasing Cost-Income Ratio (down to about 20%) and falling delinquency levels have boosted the company's revenues and profits in the year 2010-11. Improvement in our internal systems and controls has also resulted in reduced operating costs for the last three successive years, and we hope to continue this trend.

New Business Initiative

Indiabulls Mutual Fund, sponsored by your company has got final approval from Securities & Exchange Board of India to launch its mutual fund business. The company plans to hit the market with its maiden offering in both equity and fixed income segment in a couple of months. It is at an advanced stage of operational preparedness with almost the entire research and operations team in place, and is currently working on the initial product profile. IBFSL together with other group companies has a strong country wide presence in its lending business. It considers mutual funds business a natural extension of its existing financial services business. Given the opportunity Indian markets offer, Indiabulls Mutual Fund would be retail focused, targeting India's growing investor base.

Lastly, I take this opportunity to warmly thank all our shareholders, customers, employees, bankers, and regulators for reposing their faith in us and motivating us to excel in all facets of our business.

Thank you!

Sameer Gehlaut

Founder & Chairman

Management Discussion and Analysis



Mr. Gagan Banga, CEO
Indiabulls Financial Services Limited

Management Discussion and Analysis (IBFSL)

For the purpose of the Management Discussion and Analysis, Indiabulls Financial Services Limited (IBFSL) is defined as the consolidated entity consisting of the standalone parent; the wholly-owned subsidiary Indiabulls Housing Finance Limited (IHFL) and other subsidiaries. The terms 'the company' and 'Indiabulls' also refer to the consolidated entity. HFC and NBFC refers to Housing Finance Company and Non Banking Finance Company respectively

Economic Scenario

On a global level, economic growth during FY 2011 outpaced expectations. This raises hopes for a sustained albeit slow recovery during FY 2012. The Indian economy continued to outperform most emerging markets during 2010-11 retaining its position as the second fastest growing economy, after China, amongst the G-20 countries.

Indian GDP growth during 2010-11 reverted to the high growth trajectory after a moderation in the preceding two years due to a slowdown in the global economy. Overall growth indicators are mixed; while prospects for agriculture appear encouraging, industrial growth, however, moderated in the second half.

As inflation stayed above the indicated projections during 2010-11, monetary policy was continually tightened through the year. Interest rates firmed up responding to monetary policy signals. Banks progressively passed on the increased costs in the form of higher lending rates.

With a recovering economy Indiabulls witnessed a strong demand for its loan products especially Home Loans. With a diversified and stable resource profile the company was able to proactively manage its cost of funds and was able to offer Home Loans to its core target base of salaried customers at competitive rates.

Industry overview

The HFC and NBFC sectors are emerging as strong financial intermediaries in the retail lending space. With high branch penetration, product and process innovation and continued focus on core business, the sector continues to grow steadily. The sectors have also been early adopters of technology to effectively and efficiently deliver loan products. The HFC and NBFC sectors are today the mainstay of the financial services landscape and in many cases provide last-mile delivery of credit. Increasing regulatory coverage of the HFC and NBFC sectors has resulted in greater transparency and has strengthened the sector, enhancing stakeholder confidence.

Business Review

Indiabulls Financial Services Limited (IBFSL) is one of India's largest lending operations with total consolidated loan assets on a managed basis of Rs. 198,249 million as at March 31, 2011. Indiabulls lending business, is primarily focused on mortgage loans with specific emphasis on Home Loans to the salaried segment, through its HFC wholly owned subsidiary IHFL. The company also provides other loans like Loan Against Properties, Commercial Vehicle Loans, Secured loans to SMEs and Corporate Loans. Indiabulls has a presence in 160 locations in India, spread across 18 states and union territories. Over the past several years, Indiabulls has expanded its branch network, focusing on geographical areas that are of greater relevance to the products it offers.

The company generates its revenues through the following activities:-

Financing activities: Indiabulls is primarily a mortgage loan provider with focus on Home Loans to the salaried segment through IHFL. The company also provides other loans like Loans Against Properties, Commercial Vehicle Loans, Secured loans to SMEs and Corporate Loans. The customers repay the loans through regular payment which also include interest on the loan amount outstanding. The financing activity generates revenues from these interest payments made by our borrowers.

Fee-based activities: Such activities involve selling life insurance policies, pension plans and other financial products by Indiabulls in its capacity as corporate agent for insurance companies such as Max New York Life (life insurance) and ICICI Lombard (non-life insurance). Fee based activities generate revenues from fees and commissions paid on each such policy or product sold by Indiabulls. Processing fees are also charged as a percentage of the disbursed amount.

Indiabulls recorded a total income of Rs.25,099.56 million for the fiscal year ended March 31, 2011 vs Rs. 16,350.40 million for the prior fiscal year.