Indiabulls

Indiabulls Financial Services Limited

ANNUAL REPORT

2011-12

Indiabulls HOME LOANS

BRINGING DREAM HOMES TO LIFE

The Company

Reports & Analysis

Financial Section

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 in accurate, 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 Kumar Mittal
4. Mr. Gagan Banga
5. Mr. Aishwarya Katoch
6. Mr. Shamsher 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

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-122 016

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

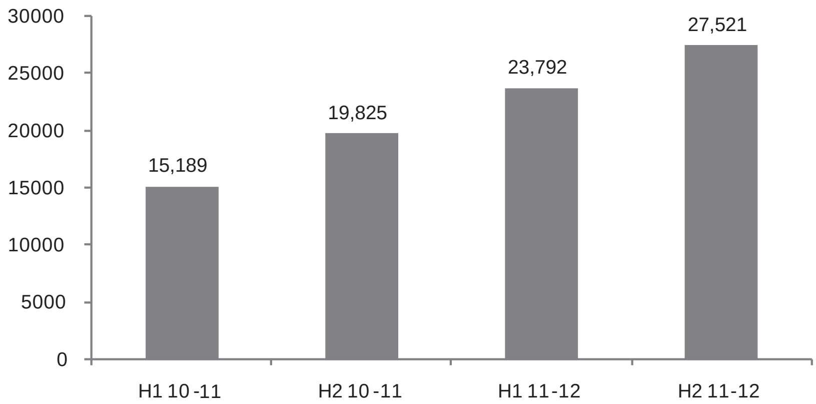
N.D. Kapur & Co.
Chartered Accountants
2-A, Shankar Market,
Connaught Place,
New Delhi-110 001

Banking, Financing & Investing Relationships

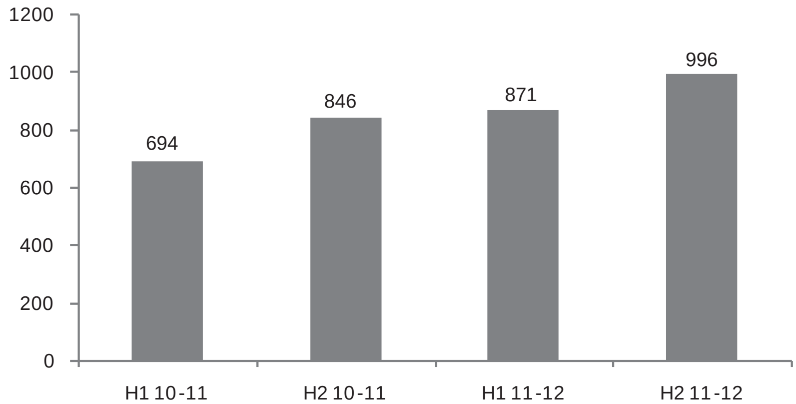
Allahabad Bank
Axis Bank Ltd.
Axis Mutual Fund
Bank of Baroda
Bank of India
Bank of Maharashtra
Barclays Bank
Birla Mutual Fund
Canara Bank
Central Bank of India
Citicorp Finance India Ltd.
Corporation Bank
Daiwa Mutual Fund
DBS Bank
Dena Bank
Deutsche Bank
Dhanlaxmi Bank Ltd.
HDFC Bank Ltd.
HSBC Bank
ICICI Bank Ltd.
ICICI Mutual Fund
IDBI Bank Ltd.
Indian Bank
Indian Overseas Bank
JM Financial Mutual Fund
Karnataka Bank
Kotak Mahindra Bank
Kotak Mutual Fund
Life Insurance Corporation of India
Oriental Bank of Commerce
Peerless Mutual Fund
Pramerica Mutual Fund
Punjab & Sind Bank
Punjab National Bank
Reliance Mutual Fund
Religare Mutual Fund
SBI Mutual Fund
SIDBI
Standard Chartered Bank
State Bank of Bikaner & Jaipur
State Bank of Hyderabad
State Bank of India
Syndicate Bank
Tata Capital Financial Services Limited
Taurus Mutual Fund
The Ratnakar Bank Ltd.
Uco Bank
Union Bank of India
United Bank of India
United India Insurance Company Ltd.
UTI
Vijaya Bank
Yes Bank Ltd.

Asset Growth

Asset Under Management (AUM) (Rs. in Cr.)



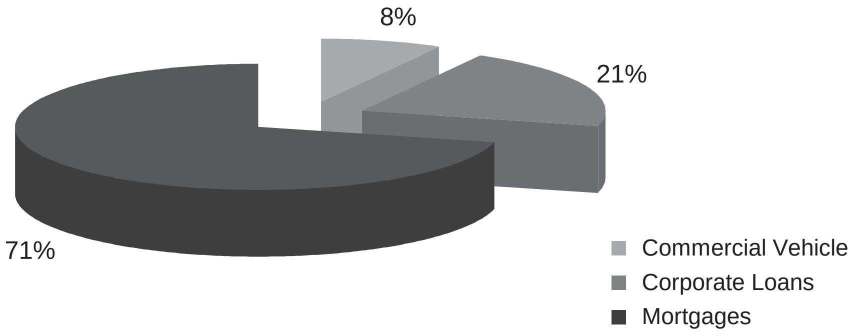
Net Interest Income (NII) (Rs. in Cr.)



*NII = Interest Income + Fee Income less Interest Expense

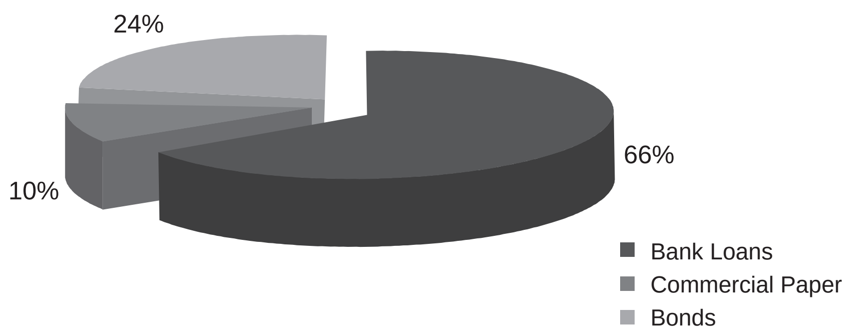
Asset Composition

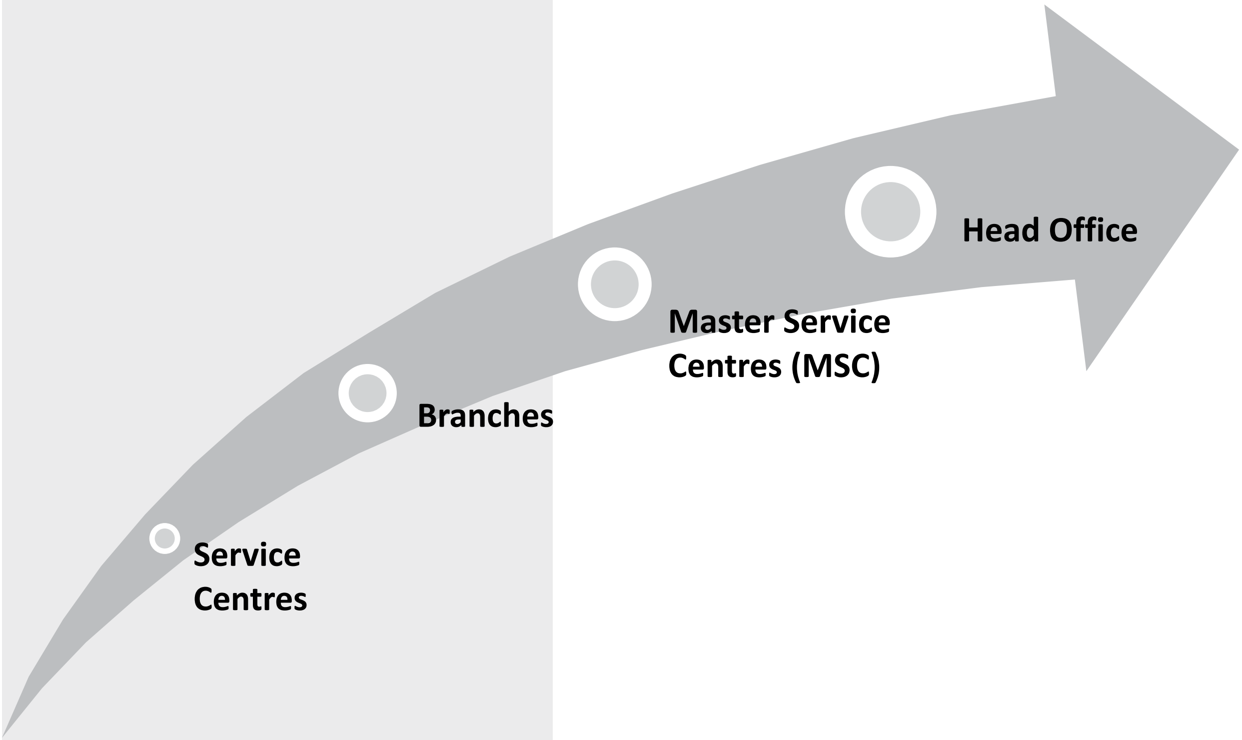
FY 11-12

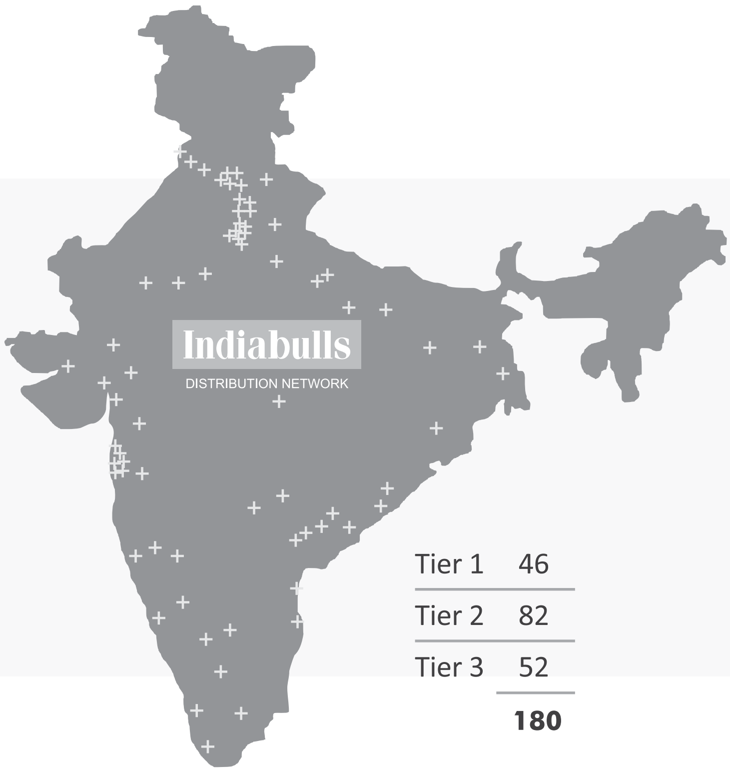


Improving Liability Profile

FY 11-12







Tier 1	46
Tier 2	82
Tier 3	52
	180

Dear Shareholders and friends,

It gives me great pleasure in sharing our Company's stupendous achievements in the year gone by. In a way, the year 2011-12 marks the culmination of a transformation journey we embarked upon four years ago. As I have been stressing in my last three successive annual speeches, we have charted our Company's growth trajectory by following the three key mantras integral to our strategy: "Secure, Scalable, and Sustainable growth." The difficult but fail-safe steps we implemented post 2008 meltdown, namely our thrust on high quality secured lending, our focus on collections and consolidation, drastically curtailing our reliance on short term funds, and deepening our banking relationships to access long term funds from varied and diverse lenders have stood us in good stead. Your Company has crossed many impressive milestones in this journey which has made us the one of the most dominant players in the private financial services sector today.

Important milestone

I take pride that today I redeem the promises I made over the last four years as I announce a record performance by the Company on all business parameters for the year ended March 2012. We crossed an important milestone as we posted a record Rs 1,006 crore Profit after Tax (PAT), up 34% from a year ago. Asset under management grew more than 38% to Rs 27,521 crore. The consolidated total revenues stood at Rs 3,846 crore, up 53%. The Net Interest Income (NII) has grown by 21% to Rs 1,866 crore. Return on Equity (ROE) works out to 20.35% with Earnings Equity per Share (EPS) of Rs 32.00. In keeping with our philosophy to reward our shareholders, your Board of Directors has recommended a final dividend of Rs 7 per share (in addition to interim dividend of Rs 6 per share). These numbers are all the more remarkable achieved as they were in a year when the economy showed marked signs of slow down, with inflation and consequent rate hikes by RBI continuing to be the dominant theme. Underpinning this credible performance was our mortgage business, which withstood the overall sluggishness in the economy.

Strong fundamentals underpinning robust performance

Today, we are one of the best capitalized NBFC's (our CRAR stands at 18.86% as against the prescribed 15%) with healthy ratings for both its long term (AA+) and short term (A1+) debt, comfortable liquidity and fund raising capabilities as demonstrated by the fact that our bonds become an established currency with almost all the leading institutional subscribers. Funds raised through bonds have grown to Rs 6,167 crore in March 2012, up from Rs. 3,903 crore in March 2011. In keeping with its stated strategy, the company continues to maintain healthy levels of liquidity with cash and bank balances & current investment adding up to Rs 5,976 crore at the end of FY 11-12. Among its lenders, the company now counts 67 strong relationships: 23 PSU banks, 15 Private and Foreign banks and 29 mutual funds, pension funds and insurance companies. The company continues to witness improving operational efficiency, with cost to income ratio further declining to below 19%. Despite a somewhat challenging business environment, we continued to maintain, and indeed improve, our asset quality with Gross NPA and Net NPA at 0.79% and 0.33% respectively at the end of FY 12. The total provision pool, including floating and standard asset provisions, stood at Rs 329.83 crore as on March 31, 2012, compared to Rs 219.74 crore last year. In a nut shell, today, more than ever before, I am confident that your Company is well positioned to take advantage of the opportunities that our nation's burgeoning economy offers as well as to contribute to its growth momentum.

Housing finance: the new frontier

Home loan business for us has been the new frontier as stated in my last year’s communication. Mortgage penetration in India, despite a rising trend, is still quite low not only relative to advanced economies but even relative to its peers like Malaysia, Korea, Thailand and China. Mortgage to GDP ratio in India is currently only 9% and is expected to grow to 12% by FY 15. This implies huge growth opportunity for the sector as also for your Company. According to a CRISIL report, Home loan industry in India is expected to grow at 15.7% CAGR from FY 12 to FY 16. Indian home loan industry is characterized by low average LTV of 65 to 70%, implying significant borrower equity. Your Company is ideally poised to take the next big leap in the segment.

Focus on home loans to drive business growth

According to a Ministry of Housing and Urban Poverty Alleviation Report, there is currently housing shortage of 26.53 million units in the country. Increasing urbanization and demographic evolution will result in a sizeable shift of population to cities in the coming decade. We had envisioned these trends well in time and over the last few years, we have steadily built our home loan portfolio by lending at competitive rates to retail borrowers with good credit profile. We see a huge opportunity in this business due to the fact that tax benefit on home loans has lowered the effective interest rates for the home buyers. For instance, for a home loan of Rs 20 lacs with a tenure of 15 years and interest rate of 10.75%, the effective rate post tax works out to 6.75%. Further, increase in the disposable income in tandem with the property prices has kept the affordability at 5 times the annual income.

Strategic restructuring

You may recall in my previous speeches, I have always reiterated our resolve to transform your company into a world class mortgage lender. And we have been taking very clear and cogent steps toward that goal. The thrust and focus of our business over the last few years has been housing finance. While our 100% subsidiary, Indiabulls Housing Finance Ltd (IHFL) has been steadily growing its home loan business, as the parent company too, a major chunk of our existing and incremental business relates to housing finance – either directly or indirectly. With the result, our Company’s asset profile is already more akin to that of a Housing Finance Company. Time has now come to take the final step in that direction, and accordingly, your Board of Directors has decided to merge the Company (IBFSL) with the Indiabulls Housing Finance Ltd (IHFL).

The merger of two entities is both a business necessity as well as a strategic imperative, as it would allow us to consolidate the capital, resulting in higher capital being available to the merged HFC entity. The proposed merger would result in business synergies as the combined entity would have a better capital adequacy, improved risk profile, enhanced credit rating, hopefully leading to lowering of cost structure of funds. The merger would be effected through a scheme of amalgamation as per the provisions of section 391 to 394 of the Companies Act, 1956.

In summary, I am proud to chair a business with a strong organic growth profile, with leadership and with people to take difficult decisions, to embrace opportunities, and effectively manage risk. A business positioned for growth and well placed to chart a successful path through the challenges and opportunities that come along the way. Finally, I would like to thank you, our shareholders for your continued support. I would also like to thank our customers, employees, bankers and regulators for their faith in us and their support and guidance.

Thank you!

Sameer Gehlaut
Founder & Chairman

Mr. Gagan Banga, CEO
Indiabulls Financial Services Limited

Management Discussion and Analysis

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

For the Indian economy, FY 2012 was a year of recovery interrupted. The sovereign debt crisis in the Euro zone intensified, political turmoil in Middle East injected widespread uncertainty, crude oil prices rose, an earthquake struck Japan and the overall gloom refused to lift.

The global crisis has affected our country. India's Gross Domestic Product (GDP) is estimated to grow by 6.9 per cent in 2011-12, after having grown at the rate of 8.4 per cent in each of the two preceding years. Though India has been able to limit the adverse impact of this slowdown on our economy, this year's performance has been disappointing. But it is also a fact that in any cross-country comparison, India still remains among the front runners in economic growth.

For the better part of the past two years, India had to battle near double-digit headline inflation. The monetary and fiscal policy response during this period was geared towards taming domestic inflationary pressures. A tight monetary policy impacted investment and consumption growth. The fiscal policy had to absorb expanded outlays on subsidies and duty reductions to limit the pass-through of higher fuel prices to consumers. As a result growth moderated and the fiscal balance deteriorated.

However, with agriculture and services continuing to perform well, India's slowdown can be attributed almost entirely to weak industrial growth. Numerous indicators suggest that the economy is now turning around. There are signs of recovery in coal, fertilizers, cement and electricity sectors. These are core sectors that have an impact on the entire economy. Indian manufacturing appears to be on the cusp of a revival.

Industry overview

The home loan industry is expected to grow at a compounded annual growth rate of 15.7% from FY-12 to FY-16 on a large base of over Rs. 6 lacs crores. The expected growth in the low risk home loan industry gives opportunity for Indiabulls to sustain current growth in its mortgage finance business. HFCs continue to play a critical role in making home loans accessible to a wider set of India's population with their keen understanding of customer needs, HFCs remain focused on product innovation and customization alongwith investments in Legal and Technical appraisal skill sets —factors that help them gain an edge over banks while maintaining their niche positioning.

The recent trends of strong growth and improving asset quality and profitability are likely to continue, strengthening the credit risk profiles of HFCs over the medium term.

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. 275,212 million as at March 31, 2012. 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 Residential Properties for home improvement and to small businesses, Commercial Vehicle Loans, and Corporate Loans for housing projects. Indiabulls has a presence in 180 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 Residential Properties for home improvement and to small businesses, Commercial Vehicle Loans, and Corporate Loans for housing projects. 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 and syndication of loans. 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.38,464.20 million for the fiscal year ended March 31, 2012 vs Rs. 25,099.56 million for the prior fiscal year.

The profitability of the Company increased to Rs.10,064.63 million for the fiscal year March 31, 2012 as against Rs. 7,509.23 million for the prior fiscal year.

Business Strengths

The Company believes that its success in becoming one of India's leading financial services companies has been driven by the following:

Stable and Long-term Liability Mix

The Company has seen a continuing improvement in its liability profile and this has been a major area of success for the C ompany in FY 2011-12. As of March 31, 2012, 66% of the Company's borrowings come from bank loans. During the year, the Company raised 5-yr and 10-yr term loans from the banks / Financial Institutions. A further 24% of the borrowings are in the form of Bonds. Dependence on short-term debt has substantially reduced and now constitutes only 10% of the total borrowings.

An Asset Base of High-Quality Secured Assets

With strong focus on mortgage loans, the Company has been able to build a book of long-term, low-risk secured assets. As a consequence the company has witnessed a steady growth in its asset base at a quarterly average of appx. Rs. 2,000 crores over the course of last 10 quarters. The NPAs have also continuously declined with Gross NPA at 0.79% and Net NPA at 0.33% as of March 31st, 2012. This is the 8th consecutive quarter end at which the percentage of NPAs have been lower than the corresponding quarter in the previous year.

Improved Credit Rating

IBFSL's long term facilities have been assigned the rating of AA+ by CARE, signifying high degree of safety regarding timely servicing of debt obligations. The Company's short term facilities have been assigned the rating of A1+ by CRISIL, considered to have very strong degree of safety regarding timely payment of financial obligations - such instruments carry lowest credit risk. The rating factors in strong business growth of the Company with focus on the relatively safer asset class of mortgage loans, improvement in maturity profile of its liabilities with lower dependence on short term borrowings and improvement in profitability.

ISO 9001:2008 Certification:-

In recognition of maintenance of quality Document Management Process, the Company was awarded ISO 9001:2008 certification by OSS Certification Services, a JAS-ANZ (Joint Accreditation System of Australia and New Zealand) accredited certification body.