ANNUAL REPORT 2004-2005

IndusInd Bank

Your single window
to products and services
for every stage of life

Testimony of Progress

ROHIT KHERA
Officer on Special Duty
Tele : 23015655
Fax : 23016857

PRIME MINISTER'S OFFICE

D.O. No. 82(23784)/2004-PMF

May 09, 2005

Dear Shri Pai,

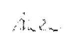
We acknowledge with thanks the generous contribution made by IndusInd Bank Limited and its employees to the Prime Minister's National Relief Fund.

2. The Prime Minister appreciates the thoughtful gesture and conveys his gratitude. The amount will be of immense help in rehabilitating those affected by the tsunami.

3. Formal receipts are enclosed.

With regards,

Yours sincerely,

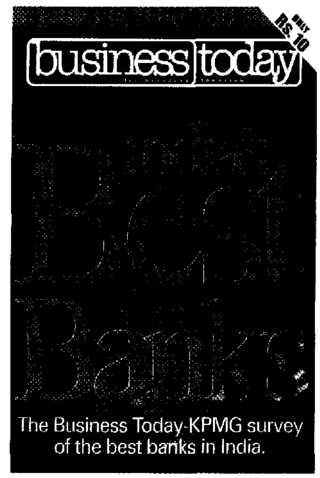


(Rohit Khera)

Encl.: As stated.

Best Banks survey 2004-Where do we stand ?

In December 2004, **KPMG** and **Business Today** announced their annual list of India's Best Banks. These included public sector Banks, old private sector Banks, new-generation private sector Banks and foreign Banks. IndusInd Bank was placed in the 19th position (with a total score of 3615) as opposed to 35th place in 2003.



The Business Today-KPMG survey of the best banks in India.

Highlights

- Improvement in overall rankings from 35 to 19
- Best in terms of Asset Liability Management
- 1st amongst private sector banks in terms of Employee Profitability (4th in top 10 banks)
- 1st amongst new private sector banks in terms of Return on Average Assets (4th amongst 59 banks)
- 1st amongst new private sector banks in terms of Cost to Income ratio (6th amongst 59 banks)
- Only private sector bank in top 10 banks in terms of Return On Capital Employed (2nd in top 10 banks)
- 2nd amongst 59 banks in terms of growth in Profit After Tax (PAT)
- 4th in top 10 banks in terms of Business Growth

IndusInd Q4 net jumps 29%

From left: S Nagarajan, joint managing director, IndusInd Bank, and Bhaskar Ghose, managing director and CEO, announcing the fourth-quarter results in Mumbai on Thursday. Suryakant Niwate

IndusInd features in ET500 Top 10 Banks

IndusInd Bank to focus on retail

Our Bureau
Kochi, Feb. 8

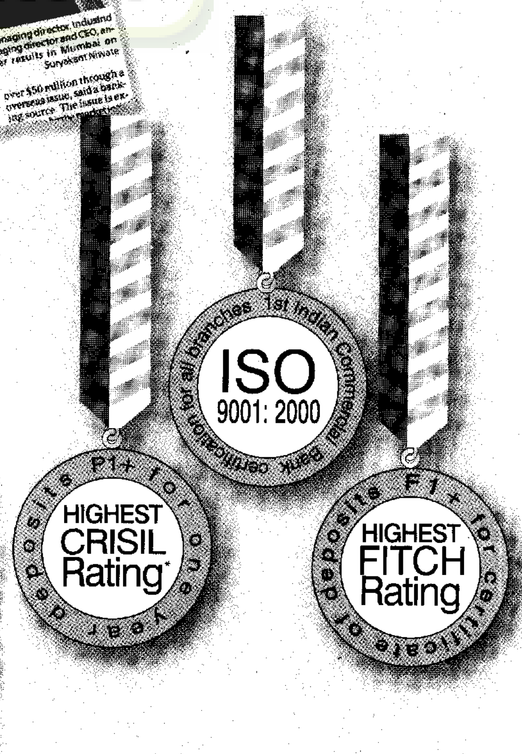
WITH a renewed focus on the retail sector, IndusInd Bank plans to balance its retail/corporate credit portfolio at 50:50 by March 2006.

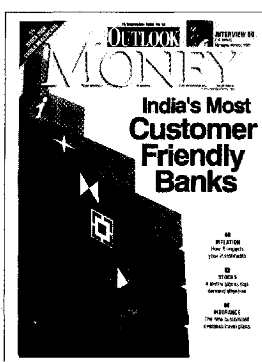
Currently, the bank has just 30 per cent of its credit portfolio in the retail sector, while the wholesale sector constitutes the remaining 70 per cent, said Mr Varghese Thampi, Head of Retail Banking and Senior Vice-President. With the change in strategy, the bank is on a branch expansion spree to reach out to more customers.

The bank's network of 61 branches is poised to more than double to 132 at the end of the current year. The bank has already increased its branch network to 103 and another 29 more branches will be added in the coming months. The accelerated pace in branch expansion was rendered possible by the merger of Ashok Leyland Finance with the bank and acquisition of their premises, Mr Thampi added.

The merger of the profit-making NBFC has also added on to the customer base of the bank substantially, from three lakh jumped to eight lakh post-merger.

As a part of its branch expansion, the bank opened its Kottayam and Alappuzha branches in Kerala on Monday, while the Kannur branch was opened couple of days ago.





Outlook Money -C Fore survey

In September 2004, Outlook Money along with a market research agency did a survey on India's most customer-friendly Banks, wherein IndusInd Bank was placed 8th in the overall list with a score of 6.36. Among private sector banks, IndusInd Bank ranked 4th. Under various parameters IndusInd Bank scored as under:

Category	Score	Topper Bank Score	Overall Ranking in Top 10	Ranking among Private Sector Banks
Branch Facilities	8.38	8.95	4	1
Service Quality	7.23	7.81	6	3
ATM Service	5.36	8.42	-	9
Card Service	5.44	8.46	-	4
Home Loans	4.88	8.53	-	8
Phone/Net Banking	3.37	7.75	10	5

*Rating for deposits with contractual maturities of upto 1 year

CARE AT EVERY STAGE OF LIFE

Branch Inaugurations ... Cherished Moments

February 2005
Shri Babu Divakaran, Honourable Minister for Labour, Kerala, inaugurating our Kollam Branch. Looking on are Mr. Bhaskar Ghose, Managing Director and Mr. G. Unnikrishnan, Regional Head, Kerala

February 2005
Shri Virbhadra Singh, Honourable Chief Minister of Himachal Pradesh inaugurating our Shimla branch. Looking on is Mr. Suresh Pai, Executive Vice President

February 2005
Shri R.R Patil, Honourable Deputy Chief Minister of Maharashtra inaugurating the 100th branch of the Bank at Dadar, Mumbai. Looking on are Shri Jagannathrao Hegde, then Sheriff of Mumbai, Mr. Bhaskar Ghose, Managing Director and Mr. Suresh Pai, Executive Vice President

February 2005
100 balloons go up at the inauguration of the 100th Branch at Dadar, Mumbai

December 2004
Mr. Suresh Pai, Executive Vice President with Shri N.D Tiwari, Honourable Chief Minister of Uttaranchal during the inauguration of our Dehradun branch

June 2004
Shri Lal Tolani, our Director inaugurating the London Representative office. Looking on is Mr. Sharukh Wadia, Senior Vice President (the then Chief Representative Officer)

Board of Directors

Mr. R. J. Shahaney, Chairman
Mr. Vijay Vaid
Mr. Anil Harish
Mr. Ram Buxani
Mr. O. P. Sodhani
Mr. R. Sundararaman
Mrs. Kanchan U. Chitale
Mr. T. Anantha Narayanan
Mr. Bhaskar Ghose, Managing Director
Mr. S. Nagarajan, Joint Managing Director

Company Secretary

Mr. Suresh T. Viswanathan

Auditors

M/s. S. R. Batliboi & Co.
Express Towers, 6th Floor
Nariman Point
Mumbai - 400 021.

Solicitors

M/s. Crawford Bayley & Co.
Solicitors and Advocates
State Bank Building
NGN Vaidya Marg
Mumbai – 400 023.

Registrar and Share Transfer Agent

Intime Spectrum Registry Limited
C-13 Pannalal Silk Mills Compound
L.B.S. Marg, Bhandup (West)
Mumbai - 400 078.
Tel: 5555 5454

Contents

Registered Office

2401, Gen. Thimmayya Road
(Cantonment),
Pune - 411 001.

Corporate Office

701, Solitaire Corporate Park,
167 Guru Hargovindji Marg,
Chakala, Andheri (East),
Mumbai - 400 093.

DIRECTORS' REPORT

To All Members,

Your Directors have pleasure in presenting the Eleventh Annual Report on the business and operations of your Bank, together with the audited accounts for the year ended March 31, 2005.

Financial Performance

(Rs. in crores)

	As on March 31, 2005	As on March 31, 2004
Deposits	13114.28	11200.26
Advances	8999.75	7301.15
Operating Profit (before depreciation and provisions and contingencies)	446.10	481.41
Net Profit	210.14	262.07

Your Directors recommend appropriation of profit as under:

Rs. in crores

Operating Profit before Depreciation	**446.10**
Less: Depreciation on Fixed Assets	44.87
Less: Provisions and Contingencies	191.09
Net Profit	**210.14**
Less: Tax Adjustment for previous year	4.63
Add: Transfer from contingency reserve	118.02
Less: Provision for contingencies	118.02
Amount available for Appropriation	**205.51**
Transfer to Statutory Reserve	52.54
Transfer to Capital Reserve	4.05
Transfer to Investment Fluctuation Reserve	9.03
Proposed Dividend	52.26
Tax on Dividend	6.83
Balance carried over to Balance Sheet	80.80
Total Appropriations	**205.51**

Profit

Operating Profit and Net Profit were lower during the year under review (compared to the last year) on account of substantially lower profit from trading in securities (Rs. 57.95 crores compared to Rs. 226.83 crores in the previous year), which was a phenomenon observed for the entire banking industry, due to the hardening of interest rates. The Return on Assets (ROA) for the year was 1.35%.

Dividend

Your Directors recommend a dividend of 18%, for the year ended March 31, 2005. (Dividend for the year 2003-04 was 17.5% plus a special dividend of 5% to mark the successful completion of ten years by your Bank.)

The Bank will be liable to pay tax on the amount of dividend paid, while it will be tax free in the hands of the shareholders.

Share Capital

As at March 31, 2004 the equity capital of your Bank consisted of 22,02,26,983 shares of Rs. 10 each. Ashok Leyland Finance Ltd. (ALFL) was merged with your Bank during the year through orders of the Hon'ble High Courts of Judicature at Bombay and Madras and 7,04,74,853 equity shares of Rs. 10 each of the Bank were issued to the shareholders of ALFL, the exchange ratio being 9 shares of the Bank for every 4 shares of ALFL. During the year 3,84,200 shares, upon which calls remained unpaid despite repeated call/forfeiture notices, were forfeited. Accordingly, as on March 31, 2005 the paid up capital of your Bank consisted of 29,03,17,636 equity shares of Rs. 10 each.

Tier II Capital

Your Bank successfully mobilised Rs. 268 crores by way of Tier-II Bonds, constituting subordinated debt, during the year under review.

Capital Adequacy

The Capital to Risk-weighted Assets Ratio (CRAR) of your Bank as at March 31, 2005 was at a comfortable 11.62%, well above the regulatory minimum of 9%. Of this, Tier I CRAR was 7.24%.

Ratings

Your Bank received high ratings for various instruments during the year, from several rating agencies of repute. Among these were the ratings of 'P1+' from CRISIL (on short-term fixed deposits and certificates of deposit), 'F1+' from Fitch Ratings (on certificates of deposit), 'AAA (so)' from CRISIL (on securitisation transactions), 'A+ (ind)' from Fitch Ratings (on Tier-II bonds) and 'LA+' from ICRA (on Tier-II bonds).

Economic Scenario

The Indian economy witnessed GDP growth rate of 6.9% on top of a high 8.5% growth achieved in the preceding year. The resilience that the economy has achieved was demonstrated by the fact that this growth of 6.9% took place in the face of deficient monsoons, steep hikes globally in oil and steel prices, the tragic and calamitous tsunami that hit India, and a change of Government at the Centre.

The latest World Bank report places India, for the first time, among the top ten economies in the world, in terms of absolute GDP size. If purchasing power parity is taken into consideration, India jumps to the fourth position among all countries.

While the industrial sector registered a growth of 8.3% (6.5% previous year) reflecting buoyancy in manufacturing activities, services sector maintained its earlier growth momentum and grew by 8.6%. However, for the agricultural sector, growth increased by only 1.1% due to erratic monsoons. In spite of a deceleration in the overall growth rate, the continuing momentum in the growth of industry and services sectors has kept business confidence at a high level.

Inflation, which registered a sharp increase during the first half from 4.6% (March 2004) to 8.7% (August 2004) slid back to 5% (March 2005) in the second half. The average inflation rate at 6.4% reflected a reversal of the benign situation obtaining in the earlier years. This necessitated the initiation of certain monetary measures by Reserve Bank of India (RBI) – viz., increase in the Cash Reserve Ratio and Reverse Repo Rate. There was consequently an impact on the overall interest rate situation; the downward trend in interest rates of the last few years halted, and interest rates started firming up during the year.

Exports were buoyant with an increase of 24.4% (in US Dollar terms) during the year. However, as imports increased at a higher rate of 35.6%, the trade deficit widened to US$ 26.5 billion. Capital inflows, however, continued and the country's foreign exchange reserves stood at US$ 141.5 billion at the end of March 2005, with a net accretion of US$ 28.6 billion during the year.

The capital market has also been lively and turnover on both the NSE and the BSE increased substantially. Foreign Institutional Investors (FIIs) remained net buyers almost throughout the year. The market indices (SENSEX and NIFTY) touched new highs and market capitalisation reached higher levels due to substantial increases in stock prices.

The domestic financial markets remained stable although the hardening of interest rates had an impact on the profitability of banks. Credit offtake, especially non-food credit, increased significantly and outstripped deposit growth in the banking system. The trend of high growth in retail credit continued during the year. Retail lending (especially mortgage financing) accounted for a significant portion of the portfolio for most banks. There was also sizeable growth in industrial credit.

Issues of long-term impact including mergers and acquisitions among banks and the criteria for entry for foreign banks continued to engage the attention of the authorities. RBI unveiled a road-map for foreign banks in India, both existing and prospective, and also issued guidelines for ownership in private sector banks. The Finance Minister in his Budget Speech in February 2005 referred to the need to have banks in India that match the size of international banks. The days ahead promise to be eventful for the banking industry.

Management Discussions and Analysis

Post-Merger Developments

The merger of ALFL with your Bank became effective from June 11, 2004 (with April 1, 2003 as the appointed date). The benefits of the merger started flowing in during the year under review. The most visible signs have been the spectacular branch expansion that your Bank has witnessed, coupled with an exceptional rise in disbursement of relatively high-yielding advances (commercial vehicle loans, etc.) and a simultaneous decrease in borrowings. This resulted in an improvement in operating results from lending activities on account of improved net interest income and more stable income streams. Thus your Bank in the post-merger scenario has emerged as a financiallystrong entity with an enlarged branch network and an enhanced asset portfolio, both in corporate and retail businesses, along with a pool of experienced and skilled human resources with the requisite infrastructure.

Operating Performance

The salient features of your Bank's operating performance during the year 2004-05 are summarised in the table below:

(Rs. in crores)

	2004-05	2003-04	YOY growth %
Interest earned	1134.39	986.15	15.03
Interest expended	718.89	669.25	7.42
Net Interest Income	415.50	316.90	31.11
Other Income:			
Profit on sale of investments	57.95	226.83	(74.46)
Commission & others including bad debts recovery	192.80	118.10	63.25
Total Operating income	666.25	661.83	0.67
Operating Expenses (excluding depreciation)	220.15	180.43	22.01
Operating Profit before depreciation & provisions	446.10	481.41	(7.33)
Less: Depreciation on Fixed Assets	44.87	36.72	22.19
Less: Provisions & Contingencies	191.09	182.62	4.64
Net Profit	210.14	262.07	(19.82)

As will be seen, the performance during the year reflected a positive shift in your Bank's income streams, which enabled your Bank to reduce its reliance on profit on sale of investments as a major source of earnings. Operating expenses increased by 22%, mainly because of expenditure on new branches opened during the year. The increase in provisions and contingencies could be contained at 4.64%, thanks to the improvement in the quality of the loan book. Owing to the drop in profit on sale of investments consequent to firming up of interest rates, both operating and net profits earned during the year were lower than those in the previous year.

Deposits and Advances

The total deposits of your Bank as on March 31, 2005 aggregated Rs. 13,114 crores, registering a growth of 17% over the level of deposits as on March 31, 2004.

The share of current and savings account deposits in the total deposits of your Bank continued at 11%, while the balance 89% was in the form of term deposits as shown in the table below. In tune with its retail orientation, your Bank is endeavouring to increase the share of current and savings account deposits in its total deposits by broadening the deposit base through its wider network.

(Rs. in crores)

Deposits	As on 31.03.2005	As on 31.03.04	Growth %
Current	893.44 (7%)	856.78 (8%)	4.28
Savings	508.62 (4%)	394.74 (3%)	28.85
Term	11712.21 (89%)	9948.75 (89%)	17.73
Total	**13114.27 (100%)**	**11200.27 (100%)**	17.09

The net advances of your Bank (net of securitisation) stood at Rs. 9000 crores as on March 31, 2005 as compared to Rs. 7301 crores as on March 31, 2004, recording a growth of 23%.

Retail Banking

Retail Banking now occupies centre-stage in your Bank's plans and strategies. This is in line with the retail revolution that is currently sweeping across India and the huge surge that the retail segment of the Indian banking industry has witnessed over the last few years. Apart from network expansion, the merger with ALFL has positioned the Bank to 'leap-frog' several stages in the process of expansion and diversification of business spread over a wider asset base.

Your Bank has a unique retail loan portfolio among all banks, made up largely of high-yielding retail assets such as commercial vehicle loans, car loans, two / three-wheelers loans, etc. During the year, your Bank succeeded in steeply increasing disbursements of such loans. Even within these, a conscious shift was effected towards such higher-yielding assets as two-wheeler and three-wheeler loans, used car loans, utility vehicle loans, etc. Disbursements aggregating Rs. 3710 crores (as against Rs. 2620 crores during the previous year) were made during the year for financing the acquisition of commercial vehicles, two-wheelers and three-wheelers, used cars, utility vehicles etc. The year under review also witnessed a large increase in the securitisation of retail assets by your Bank.

Your Bank also continued its initiative of disbursing loans to small traders and small businesses. In the months to come, your Bank intends to build up a strong portfolio of loans to this segment of borrowers.

In the area of liabilities, the focus has been on mobilising low-cost deposits (current accounts and savings bank accounts). To this end, a number of new and attractive products were developed, with an eye on every age group and every segment of the society. Efforts were also made to further strengthen the alternate delivery channels of your Bank (such as Internet Banking and ATMs) and, in keeping with the times, various innovative products and services including International Mahila Card, Mobile Top-ups, Utility Bill Payment, etc., were offered by your Bank to its clients.

With a view to increasing its customers reach, besides putting in place additional offsite ATMs, your Bank has entered into bilateral arrangements with other banks - the Bank's customers can now utilise 2473 ATMs across the country under bilateral tie-up with Corporation Bank and with UTI Bank. Similar arrangements with more banks are under active negotiation.

To cater to the investment needs of its customers, your Bank is active in the distribution of third party products, including mutual funds and insurance products.

Corporate Banking

During 2004-05, your Bank's efforts in the area of corporate banking have been directed towards building long-term relationships with customers. Extending the association with customers through more than one product or service was one of the strategies adopted for strengthening such relationships. While nurturing the relationships developed with large industrial houses, profitable Public-Sector Undertakings and Multi-national Corporations in the earlier years, your Bank revisited its core customer segment of Small and Medium Enterprises (SMEs) and focussed attention was paid on developing relationships with SME firms, thereby diversifying your Bank's credit risk, improving its yield on advances, and achieving an optimal risk-yield profile.

Our Corporate Banking business is driven primarily through specialised Corporate Banking Branches strategically spread across the major commercial locations across the country. Corporate advances aggregating about Rs 4200 crores were disbursed during the period under review. A heartening feature was that a substantial proportion of this growth was generated from branches located in such smaller towns as Coimbatore, Ahmedabad and Indore.

Priority Sector Banking

Priority-sector advances at Rs. 2793 crores as at the end of March 2005 represented 34.95% of your Bank's Net Bank Credit (NBC). The thrust initiated during the year for the growth of direct agricultural advances saw your Bank finance over 18000 agriculturists during the year, leading to an increase in credit to the agricultural sector from 4.5% (as at March 2004) to 7.1% (as at March 2005) of its NBC.

Treasury

Treasury continued to retain its dominance in the marketplace during the year under review, both in the foreign exchange and the Money Market segments. A full-fledged Bullion Desk became functional. Your Bank's trading desk handles the proprietary trading positions of the Bank across different markets including foreign exchange, fixed income securities, and derivatives. The year saw considerable volatility in USD / INR rates as well as G7 currency movements, and the trading desk used the opportunity to generate trading gains for your Bank. On the Fixed Income side the opportunities in the first half of the year were fully encashed, while in the second half, the trading desk shifted focus to interest rate swaps in an increasingly hardening interest rate situation.

Treasury Department's balance sheet desk is primarily responsible for managing interest rate sensitivity by rebalancing the duration of the investments portfolio and by active using rupee interest-rate swaps. During the year, the interest rate cycle reversed, with yields rapidly hardening following the shift in RBI's Monetary Policy. The 10-year benchmark yield moved from a low of 5.06% p.a. to a high of 7.31% p.a. during the year. Your Bank anticipated the reversal in the interest rate situation well ahead of the market and accordingly reduced the duration of its entire SLR book. This exercise insulated the Bank from adverse interest rate movements and significantly reduced the provisioning that the Bank would otherwise have been required to make in shifting securities to the 'Held To Maturity' category. The net contribution to profits for the year 2004-05, on account of SLR investments (trading gains net of depreciation) remained positive, despite an adverse interest rate situation. This notable achievement was made by few banks during the year under review. Your Bank also achieved an Investment Fluctuation Reserve (IFR) of over 6% as at end- March 2005, exceeding the RBI's prescription of 5%. The corporate sales desk of Treasury

Department concentrated on increasing its presence in the market by considerably enhancing the volume of customer-driven transactions with special thrust on customer relationships. This group will continue to play a key role in establishing customer contact and building new relationships with target customers.

International Division

The International Division of your Bank plays an active role in business development in the areas of International trade finance, trade remittances and Non-Resident Indian (NRI) business, in addition to acting as a support unit to all branches conducting foreign exchange business. The division also provides business strategies, rolls out new products and services, and establishes business relationships with banks, financial institutions, and exchange houses. The objective is to increase your Bank's market share in international trade and NRI business, generate fee-based income, and extend specialised support to branches for creating new customer relationships and leveraging higher business volumes from existing customers.

Your Bank achieved a 60% growth in merchant foreign exchange business with a total business turnover of Rs. 14883 crores during the year as against Rs. 9014 crores during the previous financial year.

The Representative Offices in Dubai and London have enhanced your Bank's international presence.

Investment Banking - Capital and Commodity Markets

The capital market related activities of the Bank witnessed high growth during the year. Even as opportunities arising from the increased activity in the market were tapped, care and caution were exercised in entering into new relationships. Business segments which received special attention during the year include depository services, IPO financing, loans against shares, issue of guarantees (and other services) to brokers, etc.

Your Bank aims to extend its reach to the Commodities sector by offering solutions to participants in the commodity market. Having secured clearing and settlement bank status with the National Commodity and Derivatives Exchange Ltd. (NCDEX) and the Multi Commodity Exchange (MCX), your Bank is among just a handful of banks to have such a tie-up with the principal stock and commodity exchanges in the country (NSE, BSE, NCDEX and MCX). With commodity markets expected to grow rapidly, this activity will add significant value to the operations of your Bank in the coming years.

Asset Management

For managing its non-performing assets (NPAs), your Bank has had a well-documented recovery and compromise policy since 1998, which is updated from time to time. This policy covers the process of identification of potential NPAs, their classification as NPAs, monitoring and follow-up action, and preparing strategies for recovery / rehabilitation / restructuring of assets, including exit routes where necessary. Your Bank participates in the Corporate Debt Restructuring Scheme, which was initiated by RBI.

Besides legal action in Debt Recovery Tribunals (DRTs) in respect of various accounts, your Bank makes use of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 as an effective tool. During the year under review, your Bank concentrated on recovery of written off debts and recovered Rs. 90.97 crores of written off assets.

As a result of initiatives taken by your Bank in improving asset quality, the ratio of net Non Performing Assets (NPA) to net advances as on March 31, 2005 stood at 2.71% as against 2.72% of the last year.

Branch Network

The distribution network of your Bank as on March 31, 2004 consisted of 61 branches, 12 extension counters, 80 offsite ATMs, and one Representative Office at Dubai. During the year under review, with the merger of ALFL, and with the conversion of a number of ALFL branches into your Bank's branches, the Bank added 54 new branches, taking the total number of outlets as at end-March 2005 to 204, consisting of 115 Branches, 9 Extension Counters and, 80 Offsite ATMs (excluding 115 on-site ATMs), and opened a new Representative Office at London.

Publicity

During the year 2004-05 your Bank unveiled its updated corporate logo with vibrant colours, reflecting its reinforced strength and renewed retail focus, consequent upon the merger of Ashok Leyland Finance Ltd. The communication and publicity strategy for the year was built around the launch of the revised logo, new products, and new branches. The opening of the 100th branch of your Bank at Dadar (in Mumbai) in February 2005 was a landmark event and its inauguration was appropriately celebrated.