



## IL&FS Investsmart Limited

(The Company was incorporated as Investsmart India Limited on September 1, 1997 under the Companies Act, 1956 and obtained Certificate of Commencement of Business on October 7, 1997. The Company was changed to IL&FS Investsmart Limited on March 25, 2003)

**Registered Office:** The IL&FS Financial Centre, Plot C-22, G Block, Bandra-Kurla Complex, Bandra (E), Mumbai 400 051

(Previously: Mahindra Towers, 4<sup>th</sup> Floor, 'B' Wing, Dr. G. M. Bhosale Marg, Worli, Mumbai 400 018 till June 14, 2000)

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**PUBLIC OFFER OF 11,400,000 EQUITY SHARES COMPRISING FRESH ISSUE OF 8,800,000 EQUITY SHARES OF THE FACE VALUE OF RS. 10 EACH AT A PRICE OF RS. 125 INCLUDING A PREMIUM OF RS. 115, FOR CASH AGGREGATING RS. 11,000 LAKHS AND OFFER FOR SALE OF 2,600,000 EQUITY SHARES OF THE FACE VALUE OF RS. 10 EACH AT A PRICE OF RS. 125 FOR CASH AGGREGATING RS. 3,250 LAKHS (COLLECTIVELY REFERRED TO AS THE "OFFER"), INCLUDING EMPLOYEE RESERVATION OF 11,40,000 EQUITY SHARES OF THE FACE VALUE OF RS. 10 EACH AT THE PRICE OF RS. 125 FOR CASH AGGREGATING RS. 1,425 LAKHS AND THE NET OFFER TO THE PUBLIC OF 10,260,000 EQUITY SHARES OF THE FACE VALUE OF RS. 10 EACH AT THE PRICE OF RS. 125 FOR CASH AGGREGATING RS. 12,825 LAKHS (HEREINAFTER REFERRED TO AS "NET OFFER")**

**THE NET OFFER TO THE PUBLIC WOULD CONSTITUTE 23.42 % OF THE POST OFFER PAID-UP CAPITAL OF THE COMPANY  
OFFER PRICE OF RS. 125 PER EQUITY SHARE OF FACE VALUE OF RS. 10 EACH**

**OFFER PRICE IS 12.5 TIMES OF THE FACE VALUE**

The Net Offer is being made through a 100% Book Building Process wherein 60% of the Net Offer to the Public shall be allocated on a discretionary basis to Qualified Institutional Buyers, not less than 10% of the Net Offer to the Public shall be allocated to Non-Institutional Investors and not less than 30% of the Net Offer to the Public shall be allocated to Retail Investors on a proportionate basis, subject to valid bids being received within the price band. If 60% of the Net offer to the Public cannot be allotted to Qualified Institutional Buyers then the entire application money shall be refunded forthwith.

### RISK IN RELATION TO FIRST OFFER

This being the first Issue of IL&FS Investsmart Limited (the "Company/IL"), there has been no formal market for the Equity Shares of the Company. The Face Value of the shares is Rs.10 each and the issue price is 12.5 times of the face value. The floor price is 11 times and cap price is 12.5 times of the face value. The Issue Price/Floor price/Price band (which has been determined and justified by the Book Running Lead Managers and the Issuer Company as stated under Basis of Offer Price on page no. 25) should not be taken to be indicative of the market price of the Equity Shares after the Equity Shares are listed. No assurance can be given regarding an active or sustained trading in the Equity Shares of the Company nor regarding the price at which the Equity Shares will be traded after listing.

### GENERAL RISKS



Investments in equity and equity-related securities involve a degree of risk and investors should not invest any funds in this Offer unless they can afford to take the risk of losing their investment. Investors are advised to read the risk factors carefully before taking an investment decision in this offering. For taking an investment decision, investors must rely on their own examination of the Issuer and the Offer including the risks involved. The Equity Shares offered in the Offer have not been recommended or approved by the Securities and Exchange Board of India (SEBI), nor does SEBI guarantee the accuracy or adequacy of this document. Specific attention of the investors is invited to the statements in Risk Factors beginning on page no. xi.

### COMPANY'S ABSOLUTE RESPONSIBILITY

IL&FS Investsmart Limited having made all reasonable inquiries, accepts responsibility for and confirms that this Offer document contains all information with regard to IL&FS Investsmart Limited and the Issue, which is material in the context of the Issue, that the information contained in the Offer document is true and correct in all material aspects and is not misleading in any material respect, that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which makes this document as a whole or any of such information or the expression of any such opinions or intentions, misleading in any material respect.

### LISTING

The Equity Shares offered through this document are proposed to be listed on National Stock Exchange of India Limited and The Stock Exchange, Mumbai. IL&FS Investsmart Limited has received in-principle approval from these Stock Exchanges for the listing of their Equity Shares pursuant to letters dated June 10, 2005 and May 24, 2005 respectively. National Stock Exchange of India Limited will be the Designated Stock Exchange.

BOOK RUNNING LEAD MANAGER	REGISTRAR TO THE OFFER
 <p><b>SBI CAPITAL MARKETS LIMITED</b> 202, Maker Tower 'E', Cuffe Parade Mumbai – 400 005 Tel: +91 – 22 – 2218 9166 Fax: +91 – 22 – 2218 8332 Email : iil.ipo@sbicaps.com Website : www.sbicaps.com</p>	 <p><b>KARVY COMPUTERSHARE PRIVATE LIMITED</b> "Karvy House", 46, Avenue 4, Street No. 1, Banjara Hills, Hyderabad – 500 034 Tel. : +91-40-2331 2454 Fax. : +91-40-2331 1968 E-mail : iil.ipo@karvy.com Website : www.karvy.com Contact Person : Mr. Murali Krishna</p>

### OFFER PROGRAMME

**BID / OFFER OPENS ON : Monday, July 04, 2005**

**BID / OFFER CLOSURES ON : Friday, July 08, 2005**

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## DEFINITIONS AND ABBREVIATIONS

### GENERAL TERMS

Term	Description
Articles/Articles of Association/ AoA	Articles of Association of IL&FS Investsmart Limited
Board of Directors	Board of Directors of the Company
Companies Act	The Companies Act, 1956 as amended from time to time
Depository	A depository registered with SEBI under the SEBI (Depositories and Participant) Regulations, 1996, as amended from time to time
Depositories Act	The Depositories Act, 1996, as amended from time to time
Depository Participant	A depository participant as defined under the Depositories Act
ESOP 2005	ESOP being employee stock option scheme of the Company framed pursuant to SEBI (Employee Stock Option Scheme and Stock Purchase Scheme) Guidelines, 1999
FEMA	Foreign Exchange Management Act, 1999, as amended from time to time, and the regulations framed there under
FII	Foreign Institutional Investor (as defined under SEBI (Foreign Institutional Investors) Regulations 1995) registered with SEBI under the applicable laws in India
Financial Year/Fiscal/FY	Period of twelve months ended March 31 of that particular year
I.T. Act	The Income-tax Act, 1961, as amended from time to time
Non Residents	Non-Resident is a person resident outside India
NRI / Non-Resident Indian	Non-Resident Indian, is a person resident outside India, as defined under FEMA and who is a citizen of India or a Person of Indian Origin under FEMA (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000
OCB/Overseas Corporate Body	A company, partnership, society or other corporate body owned directly or indirectly to the extent of at least 60% by NRIs including overseas trusts, in which not less than 60% of beneficial interest is irrevocably held by NRIs directly or indirectly as defined under FEMA (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000
SCRA	Securities Contracts (Regulation) Act, 1956, as amended from time to time
SCRR	Securities Contracts (Regulation) Rules, 1957, as amended from time to time
SEBI	The Securities and Exchange Board of India, constituted under the SEBI Act, 1992

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<b>Term</b>	<b>Description</b>
SEBI Act	Securities and Exchange Board of India Act, 1992 as amended from time to time
SEBI Guidelines	SEBI (Disclosure and Investor Protection) Guidelines, 2000 issued by SEBI on January 27, 2000, as amended, including instructions, clarifications, press releases, circulars, etc issued by SEBI from time to time

**OFFERING RELATED TERMS**

<b>Term</b>	<b>Description</b>
Banker(s) to the Offer	Bank where Escrow Account of the Company is opened
Allotment	Issue or transfer, as the context requires, of Equity Shares pursuant to the Offer to the successful Bidders as the context requires
Bid	An indication to make an offer made during the Bidding Period by a prospective investor to subscribe to Equity Shares of the Company at a price within the Price Band, including all revisions and modifications thereto
Bid Amount	The highest value of the optional Bids indicated in the Bid cum Application Form and payable by the Bidder on submission of the Bid in the Offer
Bid Closing Date /Offer Closing Date	The date after which the members of the Syndicate will not accept any bids for the Offer, which shall be notified in a widely circulated English national newspaper and Hindi national newspaper and a Regional language daily circulated at the place where registered office of the Company is situated.
Bid cum Application Form	The form in terms of which the Bidder shall make an offer to purchase the Equity Shares of the Company and which will be considered as the application for the Offer of Equity Shares in terms of this Prospectus
Bid Opening Date / Offer Opening Date	The date on which the members of the Syndicate shall start accepting bids for the Offer, which shall be the date notified in an English national newspaper and a Hindi national newspaper and a Regional language daily circulated at the place where Registered Office of the Issuer Company is situated.
Bidder	Any prospective investor who makes a Bid pursuant to the terms of this Prospectus
Bidding Period / Offer Period	The period between the Bid/Offer Opening Date and the Bid/Offer Closing Date inclusive of both days and during which prospective Bidders can submit their Bids
Book Building Process	Book building route as provided under Chapter XI of the SEBI Guidelines, in terms of which the Offer is made

Term	Description
BRLMs	Book Running Lead Managers to the Offer, in this case being SBI Capital Markets Limited, Kotak Mahindra Capital Company Limited & Enam Financial Consultants Private Limited (Collectively being referred to as BRLMs)
CAN/ Confirmation of Allocation Note	Means the note or advice or intimation of allocation of Equity Shares sent to the Bidders who have been allocated Equity Shares in the Book Building Process
Cap Price	The higher end of the Price Band, above which the Offer Price will not be finalized and above which no Bids will be accepted
Cut-off	Cut-off refers to any price within the Price Band. A Bid submitted at Cut-off is a valid Bid at all price levels within the Price Band
Designated Date	The date on which funds are transferred from the Escrow Account of the Company to the Public Offer Account after the Prospectus is filed with the RoC, following which the Board of Directors shall offer Equity Shares to successful bidders
Designated Stock Exchange	Designated Stock Exchange shall mean National Stock Exchange of India Limited
Draft Red Herring Prospectus / DRHP	Means this Draft Red Herring Prospectus offered in accordance with Section 60B of the Companies Act, which does not have complete particulars on the price at which the Equity Shares are offered and size of the Offer. It carries the same obligations as are applicable in case of a Prospectus and will be filed with RoC at least three days before the opening of the Offer. It will become a Prospectus after filing with Registrar of Companies after the pricing and allocation Employee(s) Employee means a) a permanent employee of the Company working in India or out of India; or b) a director of Company, whether a whole time director, part time director or otherwise; c) an employee as defined in clauses (a) or (b) above of a subsidiary, in India or out of India, or of a holding company of the Company)
Employee Reservation	The portion of the Offer being 11,40,000 Equity Shares of Face Value of Rs. 10 each reserved for allotment to Employee on a proportionate basis
Equity Shares	Equity shares of the Company of Face Value Rs. 10 each unless otherwise specified in the context thereof
Escrow Account	Account opened with an Escrow Collection Bank(s) and in whose favour the Bidder will offer cheques or drafts in respect of the Bid Amount when submitting a Bid

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<b>Term</b>	<b>Description</b>
Escrow Agreement	Agreement entered into amongst the Company, the Selling Shareholder, the Registrar, the Escrow Collection Bank(s) and the BRLMs for collection of the Bid Amounts and refunds (if any) of the amounts collected to the Bidders
Escrow Collection Bank(s)	The banks at which the Escrow Account of the Company will be opened. In this case being State Bank of India, ICICI Bank, HDFC Bank, Kotak Mahindra Bank, Standard Chartered Bank, Centurion Bank.
First Bidder	The Bidder whose name appears first in the Bid cum Application Form or Revision Form
Floor Price	The lower end of the Price Band, below which the Offer Price will not be finalized and below which no Bids will be accepted
Fresh Issue	Issue of upto 88,00,000 new Equity Shares by the Company.
Indian GAAP	Generally accepted accounting principles in India
Margin Amount	The amount paid by the Bidder at the time of submission of his/ her Bid, being 0% to 100% of the Bid Amount
Net Offer/ Net Offer to Public	The offer of equity shares other than that included in the Employee Reservation portion. i.e. offer of 1,02,60,000 Equity Shares
Non-Institutional Bidders	All Bidders that are not Qualified Institutional Buyers or Retail Bidders
Non-Institutional Portion	The portion of the Offer being a minimum of 10,26,000 Equity Shares of Face Value of Rs. 10 each available for allocation to Non-Institutional Bidders
Offer/ Offering/ Public Offer/ Issue/ Public Issue/Offer Size	Comprises of Fresh Issue by The Company and Offer for Sale by the Selling Shareholder
Offer for Sale	Offer for Sale comprises of offer by the Selling Shareholder viz. 26,00,000 equity shares by IL&FS
Offer Price	The final price at which Equity Shares will be offered in terms of this Draft Red Herring Prospectus, Red Herring Prospectus and Prospectus as determined by the Company and Selling shareholder in consultation with the BRLMs, on the Pricing Date
Pay-in Date	The last date specified in the CAN sent to Bidders.
Pay-in-Period	This term means (i) with respect to Bidders whose Margin Amount is 100% of the Bid Amount, the period commencing on the Bid Opening Date and extending until the Bid Closing Date, and (ii) with respect to Bidders whose Margin Amount is less than 100% of the Bid Amount, the period commencing on the Bid Opening Date and extending until the closure of the Pay-in Date
Price Band	Being the price band of a minimum price (Floor Price) of Rs. 110 and the maximum price (Cap Price) of Rs. 125 and includes revisions thereof.

Term	Description
Pricing Date	The date on which the Company in consultation with the BRLMs finalize the Offer Price
Prospectus	The Prospectus, filed with the RoC containing, <i>inter alia</i> , the Offer Price that is determined at the end of the Book Building Process, the size of the Offer and certain other information
Public Offer Account	Account opened with the Banker(s) to the Offer to receive monies from the Escrow Account for the Offer on the Designated Date
Qualified Institutional Buyers or QIBs	Public financial institutions as specified in Section 4A of the Companies Act, FIIs, scheduled commercial banks, mutual funds registered with SEBI, multilateral and bilateral development financial institutions, venture capital funds registered with SEBI, foreign venture capital investors registered with SEBI, state industrial development corporations, insurance companies registered with IRDA, provident funds with minimum corpus of Rs. 25 crore and pension funds with minimum corpus of Rs. 25 crore.
QIB Portion	The portion of the Offer being minimum of 61,56,000 Equity Shares available for allocation to Retail Bidder(s)
Red Herring Prospectus	The Red Herring Prospectus to be issued in accordance with Section 60B of the Companies Act, which does not have complete particulars on the price at which the Equity Shares are offered and size of the Offer. The Red Herring Prospectus will be filed with the RoC at least three days before the opening of the Offer and will become a Prospectus after filing with RoC after the pricing and allocation.
Registrar /Registrar to the Offer	Registrar to the Offer, in this case being Karvy Computershare Private Limited
Retail Bidders	Individual Bidders (including HUFs and NRIs) who have not Bid for an amount exceeding Rs. 1,00,000/- in any of the bidding options in the Offer
Retail Portion	The portion of the Offer being minimum of 30,78,000 Equity Shares available for allocation to Retail Bidder(s)
Revision Form	The form used by the Bidders to modify the quantity of Equity Shares or the Bid Price in any of their Bid cum Application Forms or any previous Revision Form(s)
Selling Shareholder	Infrastructure Leasing and Financial Services Limited
Stock Exchanges	BSE and NSE
Syndicate/ Underwriters/ Members of Syndicate	The BRLMs and the Syndicate Members
Syndicate Agreement	The agreement to be entered into among the Company, the Selling Shareholder and the Syndicate Members, in relation to the collection of Bids in this Offer

**IL&FS INVESTSMART LIMITED**

<b>Term</b>	<b>Description</b>
Syndicate Members	Intermediaries registered with SEBI and eligible to act as underwriters, appointed by the BRLMs
TRS or Transaction Registration Slip	The slip or document issued by the members of the Syndicate to the Bidder as proof of registration of the Bid
Underwriting Agreement	The agreement among the Underwriters, the Selling Shareholder, Registrar and the Company to be entered into on or after the Pricing Date

**COMPANY / INDUSTRY RELATED TERMS**

<b>Term</b>	<b>Description</b>
Auditors	The Statutory Auditors of the Company being M/s. S. B. Billimoria & Co.
Board of Directors	The Board of Directors of the Company or a committee thereof
Director(s)	Director(s) of the Company unless otherwise specified
DIL	Erstwhile DebitNet India Limited which was merged with the Company
“IL” or “the Company” or “we” or “us” or “our” or “Issuer” or “ Investsmart”	IL&FS Investsmart Limited, a public limited company incorporated under the Companies Act, 1956
IMBSL	Erstwhile IL&FS Merchant Banking Services Limited which was merged with the Company
IRDA	Insurance Regulatory and Development Authority constituted under the Insurance Regulatory and Development Authority Act, 1999
Memorandum / Memorandum of Association/ MoA	The Memorandum of Association of the Company
Promoter/ IL&FS	Infrastructure Leasing & Financial Services Limited
Registered Office of the Company	The IL&FS Financial Centre, Plot C-22, G Block, Bandra-Kurla Complex, Bandra (E), Mumbai 400 051
Share Subscription Agreement	Share Subscription Agreement dated February 24, 2000 between ORIX and the Company
Shareholders Agreement	Shareholders Agreement dated November 23, 2004 entered into between IL&FS, ORIX, ETRADE, SAIF and the Company
Share Purchase Agreement	Share Purchase Agreement dated November 23, 2004 entered into between IL&FS, ORIX, ETRADE, SAIF and the Company
Subsidiaries	Shall mean subsidiaries of the Company being IL&FS Investsmart Insurance and Risk Management Services Limited, Investsmart Insurance Agency Private Limited, IL&FS Investsmart Commodity Brokers Limited and IL&FS Academy for Insurance and Finance Limited
Share Transfer Agreement	Agreement between IL&FS and ORIX executed on April 20, 2005 for acquisition of shares of the Company by IL&FS from ORIX



## ABBREVIATIONS

Abbreviation	Full Form
ADR	American Depository Receipt
AMFI	The Association of Mutual Funds in India
AS/ GAAP	Accounting Standards as issued by the Institute of Chartered Accountants of India
BSE	The Stock Exchange, Mumbai
CAGR	Compounded Annual Growth Rate
CEGAT	Customs Excise and Gold (Control) Appellate Tribunal
CDSL	Central Depository Services (India) Limited
CSO	Central Statistical Organisation
DIL	DebtNet India Limited
ECB	External Commercial Borrowing
ENAM	Enam Financial Consultants Private Limited
EGM	Extraordinary General Meeting
EPS	Earnings Per Equity Share
ESOS	Employee Stock Option Scheme
ETM	E*Trade Mauritius Limited, Mauritius
FCCB	Foreign Currency Convertible Bond
FCNR Account	Foreign Currency Non Resident Account
FEMA	Foreign Exchange Management Act, 1999
FIPB	Foreign Investment Promotion Board
FY / Fiscal	Financial year ending March 31
GDR	Global Depository Receipt
GIR Number	General Index Registry Number
Gol	Government of India
HUF	Hindu Undivided Family
IL&FS	Infrastructure Leasing and Financial Services Limited
IIIRMSL	IL&FS Investsmart Insurance and Risk Management Services Limited (erstwhile Investsmart Insurance Distribution Private Limited)
IIAPL	Investsmart Insurance Agency Private Limited
IICBL	IL&FS Investsmart Commodity Brokers Limited
IAIFL	IL&FS Academy for Insurance and Finance Limited (erstwhile SAIFA Training Academy Limited)

**IL&FS INVESTSMART LIMITED**

<b>Abbreviation</b>	<b>Full Form</b>
IIDPL	Investsmart Insurance Distribution Private Limited
IPO	Initial Public Offering
IMBSL	IL&FS Merchant Banking Services Limited
Kotak	Kotak Mahindra Capital Company Limited
NAV	Net Asset Value
NRE Account	Non Resident External Account
NRO Account	Non Resident Ordinary Account
NSDL	National Securities Depository Limited
NSE	National Stock Exchange of India Limited
ORIX	ORIX Corporation, Japan
P/E Ratio	Price/Earnings Ratio
PAN	Permanent Account Number
Karvy	Karvy Computershare Private Limited
RBI	Reserve Bank of India
RoC	Registrar of Companies, Maharashtra, Mumbai
RONW	Return on Net Worth
SAIF	SAIF Investment Company Limited, Mauritius
SBICAP	SBI Capital Markets Limited
STAL	SAIFA Training Academy Limited

## **CERTAIN CONVENTIONS**

Unless stated otherwise, the financial data in this Prospectus is derived from the restated unconsolidated financial information as of and for the fiscal years ended March 31, 2001, 2002, 2003, 2004 and 2005, all prepared in accordance with Indian GAAP and included in this Prospectus. The fiscal year commences on April 1 and ends on March 31 of each year, so all references to a particular fiscal year are to the twelve-month period ended March 31 of that year. In this Prospectus, any discrepancies in any table between the total and the sums of the amounts listed are due to rounding.

Unless the context otherwise requires, all references to one gender also refers to another gender. References to “allotment” of Equity Shares in this Offer, unless the context otherwise requires, shall also include a reference to “transfer” of Equity Shares.

For additional definitions used in this Prospectus, see the section “Definitions and Abbreviations” on page i of this Prospectus. In the section titled “Main Provisions of Articles of Association” at page 214 of this Prospectus, defined terms have the meaning given to such terms in the Articles of Association of the Company.

All references to “India” contained in this Prospectus are to the Republic of India. All references to “Rupees” or “Rs.” are to Indian Rupees, the official currency of the Republic of India. All references to the “US” or the “U.S.” or the “USA” or the “United States” are to the United States of America.

**FORWARD-LOOKING STATEMENTS; MARKET DATA**

The Company has included statements in this Red Herring Prospectus which contain words or phrases such as “will”, “aim”, “will likely result”, “believe”, “expect”, “will continue”, “anticipate”, “estimate”, “intent”, “plan”, “contemplate”, “seek to”, “future”, “objective”, “goal”, “project”, “should”, “will pursue” and similar expressions or variations of such expressions, that are “forward-looking statements”.

Actual results may differ materially from those suggested by the forward looking statements due to risks or uncertainties associated with the expectations of the Company with respect to, but not limited to, their ability to successfully implement their strategy, their growth and expansion, technological changes, their exposure to market risks, general economic and political conditions in India which have an impact on the business activities or investments, the monetary and interest policies of India, inflation, deflation, unanticipated volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, the performance of the financial markets in India and globally, changes in domestic and foreign laws, regulations and taxes and changes in competition in the industry.

For further discussion of factors that could cause the actual results to differ, see the section entitled “Risk Factors” beginning on page xi of this Prospectus. By their nature, certain market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses could materially differ from those that have been estimated. Neither the Company nor the members of the Syndicate, nor any of their respective affiliates have any obligation to update or otherwise revise any statements reflecting circumstances arising after the date hereof or to reflect the occurrence of underlying events, even if the underlying assumptions do not come to fruition. In accordance with SEBI requirements, the Company and the BRLMs will ensure that investors in India are informed of material developments until such time as the grant of listing and trading permission by the Stock Exchanges.

Market/Industry data used throughout this Prospectus was obtained from the Company and various reports of NSE, RBI, AMFI, CSO, etc. The information contained in those publications has been obtained from sources believed to be reliable, but their accuracy and completeness are not guaranteed and their reliability cannot be assured. Although, the Company believes that the market data used in this Prospectus is reliable, it has not been independently verified. Similarly, data provided by the Company, while believed by the Company to be reliable, has not been verified by any independent sources.

## RISK FACTORS

An investment in equity shares involves a high degree of risk. The investor should carefully consider all of the information in this Red Herring Prospectus, including the risks and uncertainties described below, before making an investment in the Equity Shares of the Company. If any of the following risks actually occur, the business, results of operations and financial condition could suffer, the trading price of the Equity Shares of the Company could decline, and the investor may lose all or part of his investment.

### MATERIALITY

*The Risk factors have been determined on the basis of their materiality. The following factors have been considered while considering materiality:*

- a) *Some events may not be material individually but may be found material collectively.*
- b) *Some events may have material impact qualitatively instead of quantitatively.*
- c) *Some events may not be material at present but may be having material impacts in future.*

*The risk factors are as envisaged by the management along with the proposals to address the risk if any. Wherever possible, the financial impact of the risk factors has been quantified.*

### INTERNAL RISK FACTORS

**1) A) SEBI, BSE AND NSE HAVE IMPOSED PENALTIES ON THE COMPANY AND HAVE ALSO ISSUED SHOW CAUSE NOTICES TO THE COMPANY AND THE PROMOTER:**

**i) IL&FS Investsmart Limited**

- a) SEBI had imposed a penalty of Rs. 200,000 on the Company on November 18, 2004 for certain irregularities which were alleged to have been committed by the Company.
- b) SEBI has issued a show cause notice (no. IVD/ID2/AEL/2649/2004) dated November 24, 2004, to the Company for associating with the entities which had allegedly manipulated the share prices of Adani Exports Ltd. around December 2000 onwards. As per the notice, the Company's share of the total trade of this scrip was 0.83% of the gross quantity traded during the entire period under scrutiny. The Company has replied to this stating *inter alia* that these entities were duly registered as its broking clients and that the Company has executed transactions for them in good faith in the usual course of business and for a period of 86 days only. The Company has further stated that the transactions were executed on screen at the prevailing market price and the price of the scrip had gone up only by Rs.22 during the period when the Company had executed transactions for these entities as against an overall increase in share price from Rs. 580 to Rs. 869, which took place during the scrip investigation period.
- c) SEBI had made certain observations in relation to the margin trading business of the Company in its inspection report. The Company has responded to the same.
- d) SEBI had by its order dated May 7, 2002 issued a warning to IMBSL in relation to the public issue of Balaji Telefilms Limited, for failure on the part of IMBSL to exercise due diligence, exercise independent professional judgment and for not informing the regulatory authorities and thereby violating the SEBI (Merchant Bankers) Regulations, 1992.
- e) SEBI vide its letter PMIMD/AKD/23154/2001 dated February 9, 2001, sought an explanation from IMBSL in relation to the alleged violation of the Guidelines involving an advertisement in the public issue of Mid Day Multimedia Ltd., where IMBSL was acting as the BRLM. IMBSL replied vide its letter dated February 12, 2001, *inter alia* stating that the said advertisement had been published

## IL&FS INVESTSMART LIMITED

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inadvertently and that such an incident would not occur in future. Further in relation to the same public issue, SEBI had issued a show cause notice *PMD/SU/37963/2001* dated October 3, 2001, to IMBSL for non-disclosure of certain facts in the prospectus. IMBSL replied vide letter dated October 23, 2001 stating *inter alia* that there was no requirement in law for such disclosure.

- f) The NSE had made certain observations in its inspection report in relation to the derivatives trading business of the Company to which the Company has replied. Thereafter, the NSE has vide letter NSE/INVG/BADII-20/ACT/2005/13716-7 dated May 31, 2005 imposed a penalty of Rs. 50,000 on the Company in respect of trades in violation of Regulation 4.6.2.1 (b) of the Futures & Options (F&O) Regulations of the NSE.
- g) The NSE vide letter NSE/INSP/DABII-19/ACT/F&O/20005/13808-2 dated June 3, 2005 has imposed fines aggregating Rs. 1,90,000 and also issued warnings in respect of certain violations observed during the course of regular inspection in the F&O segment for the year 2003-2004. The Company has represented vide its letter dated June 15, 2005 has contested the penalty amounting to Rs. 115,000 out of the penalty of Rs. 190,000 imposed by NSE.
- h) The BSE has vide letter SURV/INV/MB/SN/MMTC/2005-06/CL dated June 2, 2005 issued a warning to the Company that its client contributed to the rise in the price of a scrip by entering into self-trades during the period February 15, 2005 to March 09, 2005, and has advised the Company them to exercise caution and due diligence while dealing on behalf of its clients.
- i) NSE has imposed various penalties for technical violations by the Company such as gross exposure violation/terminal disabled, nonallocation of institutional trade/non reporting of NCIT trade etc. aggregating Rs. 26,16,699. The penalties were primarily on account of errors, which occurred due to certain drawbacks in the existing trading software. The first intimation on such errors from the Exchange (which is on a quarterly basis) was received after a lapse of time leading to increase in the amount of penalty paid by the Company. The errors in the software have since been rectified.

The Company has taken constructive steps to prevent reoccurrence of the technical noncompliances occurring in the operations relating to secondary capital market of the Company. It has also taken precautionary measures in terms of conducting periodical routine as well as surprise audits at various locations. For further details refer to page 55 of this Prospectus.

### ii) Infrastructure Leasing and Financial Services Limited

- a. SEBI has issued a show cause notice no. MIRSD/DPS/-2/8138/2004 dated May 6, 2004, consequent upon an inspection, for alleged violation of many of the requirements stipulated by the SEBI (Depositories and Participants) Regulation, 1996, including lack of proper documentation and identification of persons opening beneficiary accounts, delay in closure of beneficiary accounts, non-recording of complaints etc.
- b. SEBI has issued a show cause notice no. A&E/GBR/227652004 dated October 6, 2004, *inter alia* for allegedly not entering into an agreement with the beneficial owner, before acting as a participant on behalf of such owner, co-mingling and mixing the securities of beneficial owners, and thereby violating provisions of the SEBI (Depositories and Participants) Regulation, 1996, and a circular dated August 4, 2000, issued thereunder.

For further details please refer to the section "Outstanding Litigations" on page 168 of this Prospectus.

**B) CRIMINAL PROCEEDINGS:****a) ORIX Auto Business Solutions Ltd (OABS).**

OABS has filed an application under section 482 of the Criminal Procedure Code, 1873, in the High Court of Judicature (Punjab and Haryana) at Chandigarh for quashing a complaint filed in respect of a vehicle re-possessed by OABS..

Three complaints have been filed by various persons against OABS for repossession of the complainants' vehicles for which OABS had provided finance by way of hire purchase.

**b) Noida Toll Bridge Company Ltd (NTBCL).**

NTBCL has filed a criminal defamation suit against NCR Land Developers and others before the Metropolitan Magistrate, Patiala House Court. NTBCL has since filed a revision petition

**2) Risk in relation to the objects of the Offer**

The net proceeds of the Fresh Issue are to be utilized amongst other for expansion of operations and branch network, revamping of online business through improved technology, business continuity planning, investment in subsidiaries, augmenting long-term working capital. The risk arising out of objects of the issue are as follows:

**a) Online business**

The Company already has online business in place, which it plans to scale up substantially. This will entail considerable investment of time and money on technology related infrastructure, creation of sales and marketing teams, brand building, etc. The benefits from such investments may not be forthcoming in the initial years.

Further such businesses are technology focussed and the inability on part of the Company to source and implement the right platform might result in loss of customers and in turn, loss of profits. The Company does not have the relevant experience in implementing such projects nor have they identified any partner for identifying, sourcing and implementing the required technology.

Reputed and well-known existing brokerage houses are already providing online business product to their customers. The Company's ability to deliver and sustain in this business will depend on its ability to tackle the competitors and establish itself in this business. Inability on the part of the Company to withstand the competition, may affect its future business.

E\*TRADE Financial Corporation, the holding company of ETM, a significant shareholder has considerable expertise in the field of online trading in the overseas capital markets. The Company proposes to avail the benefit of such expertise, which coupled with recruitment of experienced manpower locally would contribute to the success of the internet business.

**b) Investment in Subsidiaries**

The Company plans to utilize Rs.1750 lacs raised through this Offer to invest in developing its businesses through its subsidiaries, viz commodity broking through IL&FS Investsmart Commodity Brokers Limited (IICBL) and insurance broking through IL&FS Investsmart Insurance and Risk Management Services Limited (IIRMSL). The business in relation to commodity broking is relatively new to the Company. Thus, a part of the funds raised through the proposed Fresh Issue will be utilized for activities, which are relatively new activities for the Company, and for which the Company has no prior track record.

Insurance broking business is an extension of the distribution business being undertaken by the Company and thus it has necessary experience in undertaking this business. Further, the Company already

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operates in equity and derivatives broking on the Stock Exchanges. Thus, it possesses the required necessary domain expertise in broking, which can be utilised to undertake commodities broking business as it is just an extension of its currently operating businesses. Also, the Company has recruited professionals with the necessary experience in commodity broking business.

### **c) Setting up of Foreign Branches**

One of the objects of the Offer is to expand the Company's branches overseas. The Company does not have any prior experience in the setting up and running of branches abroad. The risk in overseas operation could arise from getting the necessary clearance / approvals and compliance with foreign regulatory requirements, as may be required for setting up of such branches and for its continued operations. Any delay/ non-receipt of such permissions/ approval or non-compliance with the applicable regulations could adversely affect the business plan of the Company. The Company would also be exposed to currency risk, political risk, etc. in those jurisdictions.

The Company is seeking support and guidance of its strategic investor viz. E\*TRADE Financial Corporation to commence business through those locations where they have a local presence. In other cases, the Company is planning to have an alliance with local banks who would ensure compliance of the applicable laws and regulations prevailing in those countries

### **d) Deployment of Funds**

The Company is yet to identify, acquire, enter into lease/ leave and licence agreement in respect of premises for the proposed expansion of its branch network. The Company intends to expand its operations in various locations in India and overseas. The objects of the Fresh Issue have not been independently appraised and are based on management estimates. The actual cost involved in setting up branches in India as well as abroad may be significantly different from those estimated by the management. Further there is no monitoring agency appointed for overseeing deployment of funds.

The Company has relevant experience in setting up branches across the country and has successfully created the retail branch network. It would be utilizing its experience and expertise to undertake the proposed expansion. The Company already has business plans indicating locations where it proposes to open branches. The estimates on costs are based on the Company's own experience in setting up branches at other locations. In the absence of monitoring agency overseeing the deployment of funds, the Board of Directors will monitor the deployment of the issue proceeds.

## **3) Dependence on the Promoter and conflict of interest**

The Company is dependent on its promoter in respect of its requirements of funds, support for its activities of Margin trade financing, IPO financing etc. Dependence also arise out of the management control that the promoter exercises over the Company, being a dominant shareholder.

The Company has availed entire secured loan of Rs. 256.29 lakhs as on March 31, 2005 in the form of property loans and amount of Rs. 2000 lakhs as unsecured loan from the Promoter. Unsecured loans carry an interest rate of 9.25% p.a. payable quarterly, with an option to Promoter at the end of each calendar quarter to recall/repay the entire facility. The Company's registered office in Mumbai and its offices in Delhi, Kolkata, and Bangalore have been leased from the Promoter. As with any other lease arrangement, termination of the leases may lead to the Company incurring additional expenses.

Out of its total income of Rs 10834.11 lakhs during FY05, income amounting to Rs. 3431.00 lakhs representing 31.67% was as a result of business transactions with the Promoter. Out of this, only an amount of Rs. 705.06 lakhs representing 6.51% of the total income was earned by the Company from business originated by IL&FS on account of broking, syndication transactions and in the form of interest on deposits in futures & options segment. The balance amount of Rs. 2725.94 lakhs has been earned from external customers on account of



IPO financing transactions, Margin Trade Finance transactions, etc jointly undertaken with Promoters where the income generation is not dependent on the Promoter.

The Company relies on the Promoter for carrying out certain activities such as IPO financing, margin trade financing etc. Share of income (net) from margin trade financing accounts for 3.71 % of total income in FY 2004-05. The Company has entered into an agreement dated April 1, 2004 with the Promoter for financing its clients towards subscription for initial public offering. Pursuant to the agreement, the Company is liable to bear a part of the losses, in the event of default towards recovery of the amount so advanced by the Promoter to the Company's clients.

The Promoter is under no obligation to continue to support the Company. Withdrawal of support for resources and / or operations of the Company will lead to a reduction in the business activities of the Company, which may adversely affect its income and profitability.

Promoter is engaged in capital market services including structuring of issues, development of financial plans and financial instruments and underwriting business. It also has SEBI registration for underwriting business. The Company is also engaged in capital market activity including managing and structuring issues and underwriting business and upto that extent pursue common activities. This might lead to conflict of interest between the Promoter and the Company.

For further details please refer to the section titled 'Related Party Transactions' under 'Financial Information' on page 127 of this Prospectus.

#### **4) Special rights to ORIX, ETM, SAIF and IL&FS**

The Company has entered into Share Purchase Agreement and Shareholders Agreement dated November 23, 2004 with IL&FS, ORIX, ETRADE and SAIF. Pursuant to agreement ETRADE and SAIF were inducted as strategic investor. In terms of the agreement, certain alterations were made in the memorandum and Article of Association. Pursuant to the above, even after the completion of the Offer, the principal shareholders of the Company (IL&FS, ORIX, SAIF and ETM) will continue to exercise certain special rights with regard to the operations of the Company including the right to appoint directors, the presence of at least one representative of IL&FS, ORIX, SAIF and ETM to constitute a quorum of a shareholders meeting and a meeting of the Board of Directors of the Company and the right to approve significant actions at the Board and at the shareholders' meetings, including any alteration of the Memorandum and Articles, alteration in the capital structure of the Company, change in the business, any diversification, modernisation or substantial expansion in the business, setting up of or disposal of any subsidiary and the listing of any securities of the Company on any stock exchange. For further details, please refer to the section "Brief History of Company" at page 59 of this Prospectus. There can be no assurance that the principal shareholders will not have conflicts of interest. Any such conflicts may adversely affect the Company's ability to execute its business strategy or to operate its business. Such conflicts may also result in a delay or prevention of significant corporate actions which could have been beneficial to the Company and the investors.

#### **5) Cases filed by, and against, the Company, its Promoter and group companies.**

##### **i) The Company**

##### **a) Criminal Proceedings:**

The Company has filed 14 criminal complaints for dishonour of cheques under Negotiable Instruments Act, 1881 in various courts aggregating to Rs. 22,06,982.

##### **b) Civil Proceedings:**

The Company has filed a suit for recovery of dues and initiated an arbitration proceeding against two of its customers. The aggregate amount involved is Rs. 10,82,882. The Company has also filed one

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winding up petition. There are currently 4 cases pending against the Company in respect of claims aggregating Rs. 9,91,871.

### **ii) The Promoter**

#### **a) Tax Proceedings**

There are 11 income tax appeals, relating to assessment years 1990-1992 and 1993-2002 filed by the Income Tax Department, pending before the Income Tax Appellate Tribunal and the High Court of Judicature at Bombay aggregating Rs. 42,970 lakhs. There are also 7 appeals relating to interest tax, for the assessment years 1992-1993 and 1994-2001 filed by the Income Tax Department, pending before the Income Tax Appellate Tribunal and the High Court of Judicature at Bombay aggregating Rs. 41,700 lakhs.

#### **b) Civil Proceedings**

There are 5 cases pending against the Promoter for recovery of claims in various courts amounting to Rs. 14,25,130.

### **iii) IL&FS Education & Technology Services (IETS)**

#### **a) Civil Proceedings**

IETS has filed 4 cases in various courts for recovery of claims amounting to Rs. 34,94,900.

### **iv) ORIX Auto and Business Solutions Ltd. (OABS)**

#### **a) Criminal Proceedings:**

OABS has filed 51 complaints against various persons before various courts in relation to dishonoured cheques under Section 138 of the Negotiable Instruments Act, 1881 aggregating approximately Rs. 209.5 lakhs.

#### **b) Civil Proceedings**

OABS has filed 6 civil cases against various parties in different courts with respect to the finance provided to those parties by way of hire purchase aggregating Rs. 34,19,422.

There are 6 civil cases pending against OABS before different courts of which, two cases are for monetary compensation aggregating to Rs. 7,10,000 and the remainder are for injunctions to restrain OABS from respossessing the vehicles.

#### **c) Labour Proceedings**

Certain employees of OVIRA Logistics Private Limited (OLPL) have filed a suit against OABS. No monetary claim has been made against OABS.

### **v) Noida Toll Bridge Co. Ltd. (NTBCL)**

#### **a) Civil Proceedings**

NTBCL has filed 2 cases against Klassic Ad Mod and one case against the Department of Irrigation, before various courts.

Six cases have been filed against NTBCL in connection with land acquisitions in various courts of New Delhi. In addition, arbitration proceedings are pending between NTBCL and the EPC Contractor for the Delhi Noida Bridge Project.

### **vi) Tamil Nadu Road Development Company Ltd. (TNRDC)**

a) **Civil Proceedings**

TNRDC has filed an appeal with the CEGAT against the orders of the Commissioner (Appeals) disallowing the benefit of duty exemption for the import of Boom Barriers. TNRDC has also appealed against the order of the commissioner of income tax with respect to the assessment years 2000-2001 and 2001-2002.

There are three writ petitions filed in the High Court of Judicature at Chennai against TNRDC seeking a writ of mandamus. In addition there are two other cases filed against TNRDC including a suit for permanent injunction.

vii) **Colliers International (India) Property Services Pvt. Ltd. (Colliers)**

a) **Labour Proceedings**

Two cases have been filed against Colliers in the Labour Court, Bandra, Mumbai, claiming reinstatement and back wages aggregating Rs. 369,022.

viii) **IL&FS Infrastructure Development Corporation Limited (IIDCL)**

a) **Labour Proceedings**

One complaint has been filed against IIDCL in the Labour Court, Mumbai claiming reinstatement and wages arrears.

ix) **TVC India Private Limited (TVC)**

a) **Civil Proceedings**

There are 2 cases pending against TVC for recovery of claims amounting to Rs. 13,91,118. TVC has filed 8 cases amounting to Rs. 11,842,254 for recovery of claims.

For further details please refer to the section "Outstanding Litigations" on page 168 of this Prospectus.

**6) Cases pending against two of the Directors of the Company.**

**Mr. Girish Dave**

Four criminal complaints are pending against Atash Industries Limited and all the directors of Atash Industries including Mr. Girish Dave for dishonour of cheques, under section 138 of the Negotiable Instruments Act, 1881. The aggregate amount of the cheques dishonoured is approximately Rs. 25.4 lakhs. Further, a civil case is pending before the debt recovery tribunal against Apple Credit Corporation and all the directors including Mr. Girish Dave, for the recovery of dues in relation to debentures issued by Apple Credit Corporation, although at the relevant time Mr. Dave was not a director. The matter is being contested.

**Mr. Neel Raheja**

There are 3 cases pending against Mr. Neel Raheja in the principal bench of the Company Law Board and the High Court of Judicature at Mumbai. In addition there are 9 wealth tax demands raised by the wealth tax authorities amounting to an aggregate sum of Rs. 12,166. Further, there are 3 demands raised by the income tax authorities amounting to an aggregate sum of Rs. 40,868.

- For further details in this regard, please refer to the section on "Outstanding Litigation" at page 168 of this Prospectus.

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### 7) Group companies have overdues and defaulted on payments:

#### a) IL&FS Education & Technology Services (IETS)

IETS has defaulted on the following payments amounting to a total of Rs. 16,344,614.

Sl. No.	Lender	Nature of default	Pending since	Amount (in Rs.)
1.	IL&FS	Lease Rentals	December 2004	11,05,635
2.	IL&FS	Interest	January 2005	52,38,979
3.	IL&FS	Principal	January 2005	1,00,00,000

#### b) IL&FS Infrastructure Development Corporation Limited (IIDCL)

IIDCL has rolled over the following loans:

- Short-term loan of Rs. 90 lakhs from IL&FS due in August 2004 has been rolled over.
- Short-term loan of Rs. 50 lakhs from IL&FS due in August 2004 has been rolled over to Rs. 54 lakhs.

### 8) Interest of Directors

Some of the directors are interested in the Company other than reimbursement of expenses incurred etc. Some of the Directors of the Company may be considered to be interested in transactions between the Promoter and the Company by virtue of their position as directors of both companies. Further, some Directors are interested to the extent of loans availed from the Company, property taken on lease and on leave and licence basis by the Company for their residential purposes from companies with which such directors are associated, from IL&FS and from the Company itself. Further, the Directors may also be considered interested in the Company to the extent of any equity of the Company held by or to be allotted to them or their relatives and associates or held by the companies, firms and trusts in which they are interested as directors, members, partners, and/or trustees, and to the extent of benefits arising out of such shareholding and to the extent of options under the ESOP 2005 scheme granted to the Directors.

For further details please refer page 78 of this Prospectus.

### 9) Activities of the Company are highly regulated

The Company is a registered Category I Merchant Banker with SEBI. Besides this it is also registered with SEBI

- As a Stock Broker on BSE and NSE, Cash segment and NSE Derivative segment,
- As an Underwriter
- As a Portfolio Manager

The activities and profitability of the Company may be affected on account of change in the regulatory environment. Such impact on the Company will be immediate and direct.

Beside SEBI, the broking activities of the Company are also regulated by the stock exchange on which it operates i.e. BSE and NSE. Any changes in directorships, shareholding pattern etc require prior approval of the exchanges.

Operating in highly regulated environment, the Company may be subject to penalties / penalty points, fines for routine operational delays and minor regulatory deficiencies arising in the ordinary course of business.

**10) Regulatory Approvals required for conducting business**

Licenses / renewals of licenses relating to the Shops and Establishments Acts in certain states are awaited. Non receipt of such approvals / renewals may lead to certain penalties. Please refer to the section on “Regulatory Approvals” at page 184 of this Prospectus

**11) Absence of business continuity and disaster recovery plan**

The Company has an inhouse information technology department to take care of its day to day affairs. It has outsourced maintenance of certain electronic equipments to third parties. The Company has not implemented its disaster recovery plan which may lead to temporary disruption in connectivity with the exchanges leading to financial losses. The Company maintains back up of all records at the same place where the transaction is originated i.e. the registered office. In case of unfortunate events or circumstances beyond the control of the Company, taking place at registered office might result in loss of data and records.

One of the objects of the issue is the implementation of the business continuity plan. Kindly refer to the section titled “Objects of an Offer” on page 19 of this Prospectus.

**12) Branch business risk**

With a view to servicing customers closer to their location, the Company runs its operations through a network of owned branches and branches maintained by independent business associates. There are risks associated with both.

**a) Business associates**

While business associates work under the overall supervision of the Company as per its policies, on a revenue sharing basis, they are typically independent entrepreneurs and not employees of the Company. There is a risk in terms of the business associates indulging in undesirable trade or market practices. Such business associates might face a conflict of interest with the Company on selling of products, profitability. The business associates might transgress the regulations or may fail to observe on compliance on business practices knowingly or unknowingly. These practices might result in loss of reputation and business for the Company.

The management follows the policy of conducting surprise visits to the franchise locations and carry out extensive audits of their operations. The Company has a centralized risk management system which monitors trading activities of the business associates and their clients. The Company is also in the process of implementing extensive compliance reporting from these business associates.

**b) Branches**

The Company intends to expand its branch network from 30 branches, as of March 31, 2005, to 47 branches excluding 5 overseas branches in coming years. Given the number and geographical dispersion of the branches the Company may not be able to effectively monitor or supervise the operations of the branches, which may result in breach of compliance requirements.

Evaluation and actual setting up of a branch entails a cost to the Company in terms of manpower, financial resources, etc. In case the location selected for setting up branch turns out to be unprofitable, the Company may have to close down such branches. In the past the Company had to close down three of its branches. This may lead to a strain on the Company in terms of investment made, which might affect the operations and financial performance of Company.

The Company follows centralized approach of monitoring risk from its Corporate Office. The Company has an evaluation methodology of selecting the location before proceeding to open any branch. The Company mostly operates its branches from leased premises and in case of closure of branch the manpower, equipment as well as clients can be shifted to nearest alternative location.

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### **13) Volatility in earnings on downturn in securities markets**

A significant portion of the revenues of the Company, are derived from the broking, merchant banking and portfolio management services offered by the Company. The revenues, level of operations and consequently the profitability of the Company are dependent on favourable capital market conditions, conducive regulatory and political environment and investor sentiment. The total income of the Company increased from Rs 3341.89 lakhs in FY03 to Rs 10,834.11 lakhs in FY05 and consequently adjusted profit after tax increased from Rs 38.12 lakhs to Rs 3,311.43 lakhs during the same period, primarily due to favourable capital market conditions. In the absence of such favourable environment in future, the revenues, level of operation and profitability of the Company may suffer.

### **14) The Company operates on leased premises.**

All the offices/branches through which the Company operate its business are taken on lease through leases/ leave and license agreements with third parties. The Company may in future also enter into such transactions with third parties. Any adverse impact on the title /ownership rights/ development rights of the landlords (including its Promoter or the group) from whose premises it operate its offices or breach of the contractual terms of such leave and license agreements may impede the Company's effective operations. Furthermore, some of the leave and license agreements that have been entered into between the Company and third parties are neither registered nor adequately stamped. In the event, these leases are not renewed, the operations and in turn profitability will be adversely impacted.

### **15) Dependence on Key Managerial Personnel**

The Company's business is dependent on its team of relationship managers who directly manage client relationships. The Company encourages dedicated relationship managers to service specific clients since the Company believes that this leads to long-term client relationships, a trust based business environment and over time, better cross-selling opportunities. The Company has relationship managers catering to its clients and while a particular relationship manager or an operating group of relationship managers contribute(s) a meaningful percentage of the business, the business would suffer materially if a substantial number of relationship managers either become ineffective or leave the organization. Such an event would be detrimental to the Company's business and profits.

The Company has a core team of professionals who form the management team, which oversees the operations and growth of its businesses. Loss of senior management and key managerial personnel could adversely affect the Company's business. Failure to attract and retain skilled manpower could also adversely affect the Company's business, financial condition and results of operations. Further, any increase in attrition rates, would adversely affect the Company's growth plans.

### **16) No formal agreement for use of brand name**

The brand name used by the Company includes the name of the Promoter. The Company has not yet entered into any binding agreement with the Promoter for the use of the IL&FS brand and is using the name on the basis of a No Objection Certificate (NOC) from the Promoter, obtained at the time of the change in the name of the Company, pursuant to which the RoC registered the change in name of the Company.

### **17) Risks associated pending registration of trademarks**

The Company has not yet obtained registration of its trademarks. For several of its Marks, applications for registration are pending. In respect of the *IL&FS Investsmart* trademark, no application has been made by the Company since the Promoter is the owner of the IL&FS Mark. Additionally, the Company is still to apply for registration of its Marks in the Service Marks class, eg telecommunications, financial affairs, transport, and monetary affairs.

## 18) Non Transfer of Shares from ORIX to IL&FS

IL&FS and ORIX have entered into an agreement in terms of which, the entire holding of ORIX will be transferred to IL&FS prior to allotment of shares in this Offer. In terms of the requirement of the Stock Exchanges, in order to be classified as the dominant promoter, IL&FS' holding in the Company should not fall below 51% at any time as long as the Company is unlisted and 40% after listing.

Post exercise of options granted to the Employees in terms of ESOP 2005, the shareholding of IL&FS in the Company may fall below 40% if the transfer of shares from ORIX to IL&FS does not materialise. In such a circumstance, the Company will be deemed to be a new entity and will be required to obtain a fresh registration from the Stock Exchanges. Consequently, amongst others, the Company will be liable to pay turnover tax based on its volume (0.01% on its equity market turnover and 0.001% on its debt market turnover) for a period of five years from the date of fresh registration. Since the Company has already completed more than 5 years, as on date it is not required to pay volume based turnover tax. A change in the above status will directly affect the profitability of the Company.

## 19) Dilutive effect of ESOP 2005 on Equity Shares of the Company

The Company is authorised to issue 35,50,000 equity shares pursuant to ESOP 2005, out of which the Company has presently granted 33,82,000 options. ESOP 2005 provides for a vesting period of between 1 and 4 years beginning from March 1, 2006. The Employees shall have an exercise period of three months during which the Employees can exercise the options granted to them. This would increase the equity capital of Company and may dilute the earnings per share of Company. This may affect future trading value of Equity Shares.

## 20) Shortfall in Promise Vs Performance

The Noida Toll Bridge Company Limited (NTBCL), a group company, had issued fully convertible debentures and deep discount bonds amounting to Rs. 2078 lakhs and Rs. 5000 lakhs respectively in 1999. The performance of NTBCL has not been in line with the projections given in the offer document for the issue of fully convertible debentures and deep discount bonds.

For details refer to the section titled "Group Companies" on Page 143 of this Red Herring Prospectus.

## 21) Loss Making Ventures of the Promoter

The Promoter is involved in the business of infrastructure development. For undertaking its activities in the infrastructure sector, it has set up a number of ventures. Some of the ventures set up by the Promoter have incurred losses in the previous years and some of them have negative networth. Details of ventures which have incurred loss in the FY04 and/or ventures with negative networth as on March 31, 2004 are as follows:

Sr. No.	Name of the Company	Profit After Tax (Rs. In Lakhs)	Net Worth (Rs. in Lakhs)
1.	MP Toll Roads Ltd.	(188.84)	(1158.02)
2.	Tamil Nadu Water Investment Company Limited	(589.17)	8986.49
3.	IL&FS Education and Technology Services Limited	(64.57)	2330.79
4.	Vadodara Halol Toll Road Company Limited	(1885.30)	(2791.44)
5.	Gujarat Toll Road Investment Company Limited	(9.71)	2971.53
6.	Noida Toll Bridge Company Ltd.	(2110.65)	12231.71
7.	TVC India Private Limited	(780.83)	(4021.70)

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### **22) Contingent Liabilities and Miscellaneous Expenditure not written off**

As on March 31, 2005, Rs 126.18 lakhs on account of contracts remaining to be executed on capital account. Rs. 0.44 lakhs on account of income tax matter pending in appeal.

- 23) Pursuant to the amalgamation of IMBSL and DIL with the Company, in terms of the scheme of Amalgamation approved by the Mumbai High Court, an amount of Rs. 1410 lakhs (comprising of miscellaneous expenditure not written off- Rs. 1069 lakhs, diminution in the value of fixed assets – Rs. 16 lakhs. and investments – Rs. 325 lakhs) was charged against the share premium account of the Company. Although the Scheme referred to the write-off of the balance in the Miscellaneous Expenditure Account as at 31st December, 2001, the Preliminary Expenses and Deferred Revenue Expenditure amount written-off were arrived at without considering the write-off aggregating Rs 366.23 lakhs for the nine months ended 31st December, 2001 based on the legal advice obtained by the Company in respect of the interpretation of the Order of the High Court of Judicature at Mumbai passed on 1st August, 2002. The Auditors in the Auditor Report for the year ended March 2002, as also in the Auditors Report included in the Prospectus, have not expressed any opinion on the matter.

### **External Risk Factors**

#### **1) Risk Arising out of Volatility of Capital Markets**

The prices of the Company's Equity Shares on the stock exchanges may fluctuate as a result of several factors, including:

- volatility in the Indian and global securities market;
- the Company's results of operations and performance;
- performance of the Indian economy
- significant developments in India's economic liberalization and deregulation policies, specifically those related to financial services sector; and
- significant developments in India's fiscal and environmental regulations.

There has been no public market for the Equity Shares of the Company and the prices of the Equity Shares may fluctuate. There can be no assurance that an active trading market for the Equity Shares will develop or be sustained after this Issue or that the prices at which the Equity Shares are sold through this issue will correspond to the prices at which the Equity Shares will trade in the market subsequent to this Offer.

#### **2) Risks arising from changes in taxation policies**

Statutory taxes and other levies may affect the margins in the event of Company's inability to pass on such expense to its customers. Any increase in any of these taxes or levies, or the imposition of new taxes and levies in the future, may have a material adverse impact on Company's business, results of operations and financial condition.

#### **3) Terrorist attacks or other acts of violence would adversely affect the Indian economy, the health of which the Company's business depends upon**

Terrorist attacks, such as the ones that occurred in New York and Washington D.C. on September 11, 2001, New Delhi on December 13, 2001, Mumbai on August 25, 2003 and Bali on October 12, 2002, and other acts of violence or war, including those involving India, the United States or other countries, may adversely affect Indian and worldwide financial markets. These acts may also result in a loss of business confidence and have other consequences that could adversely affect the Company's business, results of operations and financial condition.



More generally, any of these events could adversely affect fuel prices, cause consumer spending to decrease, cause increased volatility in the financial markets and have an adverse impact on the economies of India and other countries, including economic recession.

**4) Regional conflicts in South Asia could adversely affect the Indian economy, disrupt the Company's operations and cause its business to suffer**

South Asia has, from time to time, experienced instances of civil unrest and hostilities among neighbouring countries, such as between India and Pakistan. In recent years, there have been military confrontations along the India-Pakistan border. Military activity or terrorist attacks in the future could influence the Indian economy. This could have a material adverse effect on the market for securities of Indian companies, including the Equity Shares.

Some parts of India have experienced communal disturbances and riots during recent years. If such events recur, the Company's business activities may be adversely affected, resulting in a decline in the Company's income.

**5) Stability of economic policies and the political situation in India could adversely affect the fortunes of the industry**

The government has traditionally exercised and continues to exercise a significant influence over many aspects of the Indian economy. The Company's business, and the market price and liquidity of the Equity Shares, may be affected by interest rates, changes in Government policy, taxation, social and civil unrest and other political, economic or other developments in or affecting India.

The Government of India plays an important role by regulating the policies and regulations governing the securities markets. The current economic policies of the government may change at a later date. The pace of economic liberalization could change and specific laws and policies affecting the industry and other policies affecting investment in the Company's securities could change as well. A significant change in India's economic liberalization and deregulation policies could disrupt business and economic conditions in India and thereby affect the Company's business. Unstable internal and international political environment could impact the economic performance in both the short term and the long term.

**6) An economic downturn may negatively impair the Company's operating results**

An economic downturn or slowdown may adversely affect the Company's business, which may result in lower gross and operating profits.

**Notes:**

- The book value per Equity Share of Rs.10 each is Rs.24.75 as at March 31, 2005, as per the restated unconsolidated financial information of the Company under Indian GAAP
- The net worth of the Company as of March 31, 2005 was Rs. 8,663.35 lakhs as per the restated unconsolidated financial information under Indian GAAP.
- Public issue of 1,14,00,000 Equity Shares comprises Fresh Issue of 88,00,000 Equity Shares of Rs.10 each at a price of Rs.125 for cash aggregating Rs.11,000 lakhs and Offer for Sale of 26,00,000 Equity Shares of Rs.10 each by Infrastructure Leasing and Financial Services Limited at a price of Rs. 125 for cash aggregating Rs. 3,250 lakhs.
- The Offer is being made through a 100% Book Building Process wherein at least 60% of the Net Offer will be allotted on a discretionary basis to Qualified Institutional Buyers ("QIBs"). Further, not less than 10% of the Net Offer will be available for allocation on a proportionate basis to Non-Institutional Bidders and the remaining

## IL&FS INVESTSMART LIMITED

30% of the Net Offer will be available for allocation on a proportionate basis to Retail Individual Bidders, subject to valid bids being received at or above the Offer Price.

- The cost of acquisition of Equity Shares currently held by the Promoter as on April 20, 2005 is Rs. 37.76 per Equity Share. This does not include the cost of shares proposed to be acquired by the Promoter from ORIX pursuant to a Share Transfer Agreement. For details of Share transfer Agreement, refer page 13 of this Prospectus.
- Pursuant to an agreement dated November 23, 2004 entered into between IIL, IL&FS, ORIX, E\*TRADE and SAIF, IL&FS has sold a total of 88,99,847 equity shares of Rs. 10 each at consideration of Rs.54 per equity share to SAIF and ETM.
- For disclosure on interests of Directors/Key management personnel, please refer page 78 of the Prospectus
- For details of transactions undertaken by the Company, relatives and directors, please page 127 of the Prospectus.
- Investors may note that in case of over-subscription in the Offer, allotment shall be on proportionate basis to Retail Bidders, Non-Institutional Bidders and Employees. Please refer to the paragraph on "Basis of Allotment" on page 210 of this Prospectus.
- Investors are free to contact the BRLMs for any clarification, information or complaint relating to the Offer, who will be obliged to provide the same to the investor. Investors are advised to refer to the paragraph entitled "General Information" on page 1 of this Prospectus.
- Investors are advised to refer to the paragraph entitled "Basis for Offer Price" on page 25 of this Prospectus.

### Related Party Disclosures are as follows:

- (1) As per the Accounting Standard on 'Related Party Disclosure' (AS-18) issued by the Institute of Chartered Accountants of India, the related parties are as follows :

	31 <sup>st</sup> Mar., 2002	31 <sup>st</sup> Mar., 2003	31 <sup>st</sup> Mar., 2004	31 <sup>st</sup> Mar., 2005
<b>(i) Holding Company :</b>				
Infrastructure Leasing & Financial Services Ltd.	✓	✓	✓	✓
<b>(ii) Subsidiaries :</b>				
Investsmart Insurance Agency Pvt. Ltd.	✓	✓	✓	✓
IL&FS Investsmart Insurance and Risk Management Services Ltd. (Erstwhile Investsmart Insurance Distribution Pvt.Ltd.)	✓	✓	✓	✓
IL&FS Investsmart Commodity Brokers Ltd.	-	-	✓	✓
IL&FS Academy for Insurance and Finance Ltd. (Erstwhile SAIFA Training Academy Ltd.)	-	-	✓	✓

	31 <sup>st</sup> Mar., 2002	31 <sup>st</sup> Mar., 2003	31 <sup>st</sup> Mar., 2004	31 <sup>st</sup> Mar., 2005
<b>(iii) Fellow Subsidiaries :</b>				
<b>(a) Companies :</b>				
M P Toll Roads Ltd.	✓	✓	✓	✓
IL&FS Finvest Ltd. (Erstwhile IL&FS Asset Management Co.Ltd.)	✓	✓	✓	✓
IL&FS Energy Development Co. Ltd. (Erstwhile IL&FS Wind Farms Ltd.)	✓	✓	✓	✓
Tamil Nadu Water Investment Co. Ltd.	✓	✓	✓	-
IL&FS Infrastructure Development Corporation Ltd.	✓	✓	✓	✓
IL&FS Trust Company Ltd.	-	✓	✓	✓
IL&FS Education & Technology Services Ltd. (IETS) (Erstwhile Schoolnet India Limited)	✓	✓	-	-
PDCOR Ltd.	-	✓	-	-
Learnet India Ltd.	-	✓	-	-
Consolidated Toll Network India Ltd.	-	✓	-	-
Ecosmartindia Ltd.	-	✓	-	-
IL&FS Merchant Banking Ltd.	✓	-	-	-
Gujarat Toll Road Investment Company Ltd.	-	-	-	✓
Vadodra Halol Toll Road Company Ltd	-	-	-	✓
<b>(b) Enterprises :</b>				
IL&FS Infrastructure Equity Fund	-	✓	✓	-
IL&FS Investment Trust I	-	✓	✓	-
<b>(iv) Key Management Personnel :</b>				
Mr. Hemang Raja (from 1 <sup>st</sup> August, 2003) Managing Director and Chief Executive Officer	-	-	✓	✓
Mr. R.C. Bawa (from 1st August, 2003) Deputy Managing Director	-	-	✓	✓
Mr. Sachin Joshi ( upto 31st July, 2003 ) Manager	✓	✓	✓	-

## IL&FS INVESTSMART LIMITED

The nature and volume of transactions for the year ended 31st March, 2005 with the above related parties are as follows:

Rs. lakhs

	Holding Company	Subsidiaries	Fellow Subsidiaries	Key Management Personnel	Total
<b>Income</b>					
Broking	203.85	-	101.30	0.89	306.04
Other Interest	114.08	0.42	-	2.92	117.42
Syndication	387.13	-	-	-	387.13
Rent	-	-	-	-	-
Dividend	-	-	-	-	-
Other services	2,725.94	-	107.60	-	2,833.54
Interest	-	-	-	-	-
<b>Total</b>	<b>3,431.00</b>	<b>0.42</b>	<b>208.90</b>	<b>3.81</b>	<b>3,644.13</b>
<b>Expenses</b>					
Syndication Fees	9.53	-	-	-	9.53
Remuneration	-	-	-	148.09	148.09
Sitting Fees	-	-	-	-	-
Interest	271.59	-	-	-	271.59
Rent	548.06	-	-	-	548.06
Licence & Fees	152.50	-	-	-	152.50
Other expenses	-	-	-	-	-
<b>Total</b>	<b>981.68</b>	<b>-</b>	<b>-</b>	<b>148.09</b>	<b>1129.77</b>
Investments	-	345.00	-	-	345.00
Purchase of Fixed Assets	-	-	-	-	-
Sale of Fixed Assets	-	-	-	-	-
<b>Assets</b>					
Other Deposits	3,723.20	-	-	-	3,723.20
Interest Accrued	-	-	-	-	-
Secured Loans	-	-	-	28.61	28.61
Other	-	-	-	2.18	2.18
<b>Total</b>	<b>3,723.20</b>	<b>345.00</b>	<b>-</b>	<b>30.79</b>	<b>4098.99</b>

	Holding Company	Subsidiaries	Fellow Subsidiaries	Key Management Personnel	Total
<b>Borrowings &amp; Other Liabilities</b>					
Secured Loans					
- Term Loans					
Repaid during the year	243.73	-	-	-	243.73
<b>Outstanding balance</b>	-	-	-	-	-
- Lease Loans					
Repaid during the year	70.51	-	-	-	70.51
<b>Outstanding balance</b>	<b>256.29</b>	-	-	-	<b>256.29</b>
Unsecured Loans					
- Term Loans					
Repaid during the year	1,250.00	-	-	-	1,250.00
Taken during the year	500.00	-	-	-	500.00
<b>Outstanding balance</b>	-	-	-	-	-
- Other Loans					
Taken during the year	22,700.00	-	-	-	22,700.00
Repaid during the year	20,700.00	-	-	-	20,700.00
<b>Outstanding balance</b>	<b>2,000.00</b>	-	-	-	<b>2,000.00</b>
Interest accrued and due	-	-	-	-	-
Other Liabilities	-	-	-	-	-
<b>Net Receivables/ (Payables)</b>	<b>(946.34)</b>	-	<b>0.67</b>	<b>(1.77)</b>	<b>(947.44)</b>

**Note:** The above excludes Performance Related Pay to the Managing Director and the Deputy Managing Director which has been provided in aggregate by the Company and their share is yet to be determined. The disclosure as remuneration of Performance Related Pay is on cash basis

### INTRODUCTION

#### SUMMARY

#### BUSINESS SUMMARY

***You should read the following summary with the Risk Factors and the more detailed information about the Company and their financial statements included in this Prospectus.***

#### Company Overview

The Company was incorporated as Investsmart India Limited on September 1, 1997, as a wholly owned subsidiary of Infrastructure Leasing & Financial Services Limited. The Company is a financial services company engaged in intermediation of financial products and financial advisory services for retail, institutional investors and corporates. The Promoter set up IL&FS Merchant Banking Services Limited (IMBSL) as a wholly owned subsidiary to provide full-fledged Merchant Banking services and the same was registered as a Category I Merchant Banker with SEBI. The Promoter also had a controlling interest in DebitNet India Limited (DIL), which was set up to provide an automated and transparent platform, using the Internet tools for book built debt issuances.

In order to consolidate IL&FS's interests in the capital markets, IMBSL and DIL were merged with the Company in 2002.

The Company entered into the area of insurance distribution through its wholly owned subsidiaries Investsmart Insurance Agency Private Limited and IL&FS Investsmart Insurance and Risk Management Services Limited (erstwhile Investsmart Insurance Distribution Private Limited). The Company made its foray in commodity broking through its subsidiary IL&FS Investsmart Commodity Brokers Limited. The Company also acquired a controlling stake in IL&FS Academy for Insurance and Finance Limited (erstwhile SAIFA Training Academy Limited) from IL&FS Education & Technology Services Limited on March 31, 2004.

#### Management

The Company is, currently managed by a Board of Directors comprising 11 Directors (excluding 2 alternate directors). Mr. Ravi Parthasarathy is currently the Chairman and Mr. Hemang Raja is the Managing Director & CEO. Mr. Ravi Parthasarathy, Chairman, has experience in infrastructure, banking and finance services sector for over three decades. Mr. Hemang Raja, Managing Director & CEO, has more than 20 years of experience. His core competencies in financial services industry encompasses the functions of accounts, finance, project related exposure, all India marketing and investment banking. Mr. R.C. Bawa, Dy. Managing Director has more than 2 decades of experience in the Indian banking sector, with an intimate knowledge of the banking sector.

#### Promoter

The Company has been promoted by IL&FS, one of India's leading non-banking finance companies. IL&FS was promoted primarily for the development of infrastructure in the country. IL&FS currently holds, as at May 31, 2005 51.33% of the equity share capital of the Company. The Company derives its strength from its Promoter, in terms of management support, funding support as well as in relation to business development.

#### Product offerings

The Company offers a comprehensive range of financial services products to its clients, which include:

- (i) Retail offerings covering a variety of transaction related and advisory products for retail clients covering debt, equities, insurance, commodities and liability products
- (ii) Project syndication - assisting projects in accessing long term debt funding
- (iii) Equity broking for institutional segment of customers covering financial institutions, mutual funds, Foreign Institutional Investors etc.
- (iv) Primary debt placement of corporate paper and secondary market broking for institutional customers
- (v) Merchant banking covering all SEBI regulated merchant banking activities such as public offers, private equity, buyback of shares, rights issuance's, open offers etc

## THE OFFER

### Equity Shares offered:

Fresh Issue	88,00,000 Equity Shares
Offer for Sale by IL&FS	26,00,000 Equity Shares
<b>Total Equity Shares Offered</b>	<b>1,14,00,000 Equity Shares</b>
Reservation for Employees	11,40,000 Equity Shares
<b>Net Offer to Public</b>	<b>1,02,60,000 Equity Shares</b>

### Of which:

- Qualified Institutional Buyers portion      Mandatory minimum of 61,56,000 Equity Shares  
*Constituting 60% of the Net Offer to the Public  
(Allocation on a discretionary basis).*
- Non-Institutional portion      Minimum of 10,26,000 Equity Shares  
Constituting 10% of the Net Offer to the Public  
(Allocation on a proportionate basis)
- Retail portion      Minimum of 30,78,000 Equity Shares  
*Constituting 30% of the Net Offer to the Public  
(Allocation on a proportionate basis)*

Under-subscription in the reserved category shall be added back to the net offer to the public. In case of under-subscription in any category, other than QIB category, the undersubscribed portion may be allocated to the Bidders in the other category. The minimum subscription from and allotment to QIBs shall be for 61,56,000 shares, failing which the entire subscription money shall be refunded. The allocation to QIBs, shall be determined by the Company, in consultation with the Book Running Lead Manager(s), based on prior commitment, investor quality, price aggression, earliness of bids, etc.

Equity Shares outstanding prior to the Offer      3,49,99,716 Equity Shares

Equity Shares outstanding after the Offer      4,37,99,716 Equity Shares

Object of the Offer      The Company intends to deploy the proceeds from the fresh issue of shares for expansion of operations and branch network, technology investments, investment in subsidiaries, augmenting of working capital and meeting issue expenses. Please see the section entitled "Objects of the Offer" on page 19 of this Prospectus for additional information.

### Corporate Information

The Company was incorporated as Investsmart India Limited on September 1, 1997 and obtained Certificate of Commencement of Business on October 07, 1997 under the Companies Act, 1956. Pursuant to the change in its name, the Company received a fresh Certificate of Incorporation on March 25, 2003. The Registered Office of the Company is located at The IL&FS Financial Centre, Plot C-22, G Block, Bandra-Kurla Complex, Bandra (E), Mumbai 400 051 (Previously, the Registered Office of the Company was at Mahindra Towers, 4th Floor, 'B' Wing, Dr. G. M. Bhosale Marg, Worli, Mumbai 400 018). Tel No. is +91-22-2653 3333, Fax No. +91-22-2653 3075. Email ID : iil.ipo@investsmartindia.com, Website: www.investsmartindia.com. Contact Person: Mr. Shekhar Deshpande.

**IL&FS INVESTSMART LIMITED****FINANCIAL SUMMARY**

The summarised adjusted financial position of the Company for the FY ended March 31, 2005, 2004, 2003, 2002 and 2001 is as follows:

Rs. in Lakhs

<b>Particulars</b>	<b>March 31, 2001</b>	<b>March 31, 2002</b>	<b>March 31, 2003</b>	<b>March 31, 2004</b>	<b>March 31, 2005</b>
Share Capital – Paid Up	3000.00	3000.00	3499.97	3499.97	3499.97
Share Capital Suspense Account	-	499.97	-	-	-
Reserves	2061.86	1121.92	1365.09	2769.99	5185.03
Net Worth ( Adjusted)	4301.92	4563.13	4818.67	6235.94	8663.35
Fixed Assets- Net Block	1017.56	4381.09	4026.98	1168.33	1257.18
Total Income	2129.28	2552.88	3341.89	8235.00	10834.11
Profit after Tax (Adjusted)	307.00	33.10	38.12	2194.60	3311.43
<b>Ratios</b>					
Earning Per Share (Rs.)	1.02	0.11	0.11	6.27	9.45
Book Value Per Share (Rs.)	14.35	15.22	13.78	17.83	24.75
Return on Net Worth (%)	7.1%	0.7%	0.8%	35.2%	38.2%





## IL&FS Investsmart Limited

(The Company was incorporated as Investsmart India Limited on September 1, 1997 under the Companies Act, 1956 and obtained Certificate of Commencement of Business on October 7, 1997. The Company was changed to IL&FS Investsmart Limited on March 25, 2003)

**Registered Office:** The IL&FS Financial Centre, Plot C-22, G Block, Bandra-Kurla Complex, Bandra (E), Mumbai 400 051  
(Previously: Mahindra Towers, 4<sup>th</sup> Floor, 'B' Wing, Dr. G. M. Bhosale Marg, Worli, Mumbai 400 018 till June 14, 2000)  
Tel+91-22-2653 3333; Fax +91-22-2653 3075, e-mail: iil.ipo@investsmartindia.com, Website: www.investsmartindia.com  
Registration no.:011-110386,

Address of ROC: The Registrar of Companies, Maharashtra, 100, Everest, Marine Lines, Mumbai - 400 002.

### GENERAL INFORMATION

#### Board of Directors

The Company is currently managed by the Board of Directors comprising of 11 directors. Mr. Ravi Parthasarathy is currently the Chairman and Mr. Hemang Raja is the Managing Director & CEO.

#### Brief Profile of the Directors

**Mr. Ravi Parthasarathy**, aged 54 years, holds a Bachelors degree in Science (B.Sc) from Madras University and a Post graduate degree in management from IIM-Ahmedabad., He has over three decades of experience in the infrastructure, banking and financial services sector . He has worked with private sector companies like 20<sup>th</sup> Century Finance Corporation and Citibank N.A.. He is currently heading IL&FS as the Chairman & Managing Director and has been at the helm of affairs since the organization commenced operations in 1988. He has worked with 20<sup>th</sup> Century Finance Corporation Limited as its Executive Director. Prior to that he gained exposure to merchant banking as well as corporate banking functions at Citibank N.A. Mr. Parthasarathy is on the board of several companies. In addition, he has been co-opted on various committees of the government and trade associations in relation to development of new structures in the financial sector, infrastructure and overall economic development. He is also a Member of the expert committee on infrastructure, constituted by the Government of India.

**Mr A.R. Barwe**, aged 66 years, holds a Masters degree in Science (M.Sc) and is a CAIIB. He has experience in the areas of commercial banking, merchant banking, securities management, term lending and institutional finance. He has worked with the State Bank of India group as the Managing Director of SBI Capital Markets Limited and as the CFO at IDFC.

**Mr. Arun Saha**, aged 52 years, holds a Masters degree in Commerce (M.Com) and is a Chartered Accountant and Company Secretary. He has over two decades of experience in the financial sector in the areas of financial services, infrastructure, asset management and distribution, etc. He has been associated with IL&FS for around 17 years and is currently working as the Executive Director and Company Secretary of IL&FS and is in charge of finance, operations, compliance and risk management portfolios for the IL&FS group. His responsibilities at IL&FS include contribution to the strategic growth and development of the institution, building expertise in the area of corporate law in respect of infrastructure projects, managing relationships with the domestic and international shareholders of IL&FS, management of multilateral agencies and various agencies of governments, enabling and facilitating cost effective resource mobilization and deployment, etc. Prior to joining IL&FS he worked for about 4 years with WIMCO Limited, where he handled finance, accounts, budgets, MIS and dealing with banks and financial institutions.

**Mr. Vibhav Kapoor**, aged 49, holds a Masters degree in Business Administration (MBA). He has been a part of the financial services sector for over two decades and is experienced in equity research, merchant banking, mutual funds, treasury management, investment strategies, etc. As the group investment strategist of IL&FS, his primary responsibility includes looking after the overall investment decisions of IL&FS including managing proprietary equity portfolio of IL&FS. He is also engaged in guiding the treasury team in various transactions relating to foreign exchange and money management and monitoring the mutual fund investments of IL&FS. He is also actively involved in strategic investment decisions of the group. Prior to this, he worked as the Managing Director of IL&FS Finvest Limited (formerly IL&FS Asset Management Company) and was instrumental in building up the company from a nascent stage. He was head of investment team, which acted as an advisor to Oppenheimer India Fund of USD 510 mn listed on New York Stock Exchange. Prior to this, he worked as the portfolio manager in the merchant banking division of ANZ Grindlays Bank. At ANZ Grindlays Bank, his

## IL&FS INVESTSMART LIMITED

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primary responsibilities included the management of Non-Resident Indians' portfolios. Prior to this, he also worked with Unit Trust of India, as in-charge of Corporate Finance and Equity Research.

**Mr. Neel Raheja**, aged 30 years, has completed post graduation with specialization in banking, finance and economics and is graduate in law holding LLB degree. He has over nine years of experience in the real estate development and hospitality industry and in retail industry. He on behalf of the K Raheja Corp group overlooks the day to day functioning of the hospitality business of the group. He has visualized and developed the "Inorbit" shopping mall at Malad, Mumbai. He is also involved in the "Crossword" retail business and takes interest in development of the Shoppers' Stop business.

**Mr. Girish Dave**, aged 67 years, holds a masters degree in Commerce (M.Com), LL.B and is C.A.I.I.B. He is an eminent lawyer. He has the requisite expertise and vast knowledge in respect of matters relating to company laws, securities legislation and other general provisions of law. He is the senior partner in Dave and Girish & Co. Prior to this he acted as a legal officer in merchant banking division of Grindlays Bank Plc. He has also worked as Law officer to Reserve Bank of India and State Bank of India. He has co-authored book titled "Principal of Joint Authorship" and "Project Finance". He has contributed articles to various international journals on taxation and banking laws. He is member of Indian Council of Arbitration.

**Mr. Yoshitaka Matsuno**, aged 60 years, holds a Bachelor in Arts degree. He has been recommended by ORIX, a shareholder of the Company. He is currently incharge of the international operations of ORIX worldwide. He has over three decades of experience and has been a part of Nissho Iwai Corporation, Japan for over two decades and is currently serving ORIX as Executive Officer of International Headquarters.

**Mr. Hemang Raja**, aged 46 years, holds a Master's degree in Business Administration (MBA) from Abilene Christian University, Texas, USA, and a Bachelor's degree in Commerce (B.Com) from Bombay University. He has more than 20 years of experience in the financial services sector, his core competencies encompass the functions of accounts, finance, project related exposure, all India marketing and investment banking. During his career, he has been associated with companies like Candy Filters India Limited, Blue Star Limited, 20<sup>th</sup> Century Finance Corporation Limited, Yokogawa Keonics Limited, and he joined IL&FS in 1990. He joined IL&FS Investsmart Limited on April 16, 1999 and has since been heading the organization. Under his tenure, the Company has developed itself into full fledged investment bank with strong presence in area of retail and wholesale business of marketing financial products. He is a visiting faculty at Indian Institute of Management – Calcutta and Bangalore, dealing with subject of infrastructure project financing. He has presented several papers in international and domestic fora on project financing and corporate finance. He is member of managing committee of Associated Chamber of Commerce and Industries (ASSOCHAM) and was elected as co-chairman of banking and finance committee of the chamber for the year 1998-99. He is a member of the Youngs President Organisation (YPO) an international forum of CEOs under the age of 49 at the Bangalore chapter.

**Mr. R C Bawa**, age 51 years, holds a Masters degree in Arts (M.A), a Bachelors degree in Arts (B.A) and a post graduation in Personal Management & Industrial Relationship. He has more than 2 decades of experience in the Indian banking sector, with an intimate knowledge of the banking sector. He is very well networked in the Indian banking community and carries strong relationships with many Indian banks. After being associated with organizations like Syndicate Bank and the National Housing Bank, joined IL&FS in 1996 and moved to the Company on April 01, 2002. Currently, he is responsible for sourcing as well as syndication of project debt. He has been instrumental for a number of initiatives of the IL&FS group with the banking sector.

**Mr. Chosei Azuma (Alternate Director to Mr. Yoshitaka Matsuno)**, age 46 years, has over two decades of association with ORIX group. He is resident representative of ORIX Corporation in IL&FS. Prior to this, he was associated with ORIX group at various locations worldwide in diversified areas like investment banking, international business, marine business and sales.

**Mr. Ravi Adusumalli**, age 29 years, holds a Bachelors of Arts (B.A) in Economics from Cornell University. He joined SAIF in early 2002 and is currently a General Partner and head of SAIFs India operations. Prior to joining SAIF, Mr. Adusumalli was an Associate Partner with Mobius Venture Capital, a \$1.25 billion early stage venture capital firm in the Silicon Valley. He previously worked at Credit Suisse First Boston as an associate and with Wasatch Funds, a mutual fund with over \$9 billion in assets that specialized in small cap and micro cap companies listed on the United States and international stock exchanges. He was elected to Board of Directors of the Company in January, 2005.

**Mr. Robert Jarrett Lilien**, aged 43 years, holds a Bachelor's degree in Arts (B.A) in Economics from the University of Vermont. He is the President and Chief Operating Officer of E\*TRADE FINANCIAL Corporation. He is responsible for managing the Company's operations and maintaining E\*TRADE FINANCIAL Corporation's position as a leading provider of integrated trading, investing, banking and lending services. His role is focussed on driving revenue growth and enhancing profitability, while simultaneously ensuring that all business operations are directly aligned with the Company's retail and institutional customer segments. Mr. Lilien joined E\*TRADE FINANCIAL Corp. in August 1999. Prior to his election as President and Chief Operating Officer in March 2003, Mr. Lilien served as Chief Brokerage Officer and President, E\*TRADE Securities LLC. In this capacity, he effectively reorganized the business, adding new product lines and providing innovative brokerage capabilities to the Company's retail, institutional and corporate clients around the world. With experience in more than 40 global markets, Mr. Lilien has been instrumental in developing a flexible infrastructure for the

company's brokerage units designed to provide retail and institutional clients with seamless execution, clearing and settlement. He has also served E\*TRADE as Managing Director, Asia – Pacific and Latin America. He also spent ten years as Chief Executive Officer of TIR Holdings, which E\*TRADE acquired in August 1999. Before TIR, he held various positions at Paine Webber and Autranet, a division of Donaldson, Lufkin & Jenrette, Inc. He is also a board member of the Barton Group.

**Mr. Todd C. Mackay, (Alternate Director to Mr. Robert Jarrett Lillien)**, aged 31 years, holds a Bachelor's degree in Arts (B.A.) in Economics with emphasis on mathematics from Princeton University. He is responsible for facilitating all mergers and acquisitions, strategic alliances and strategic investments for E\*TRADE FINANCIAL. During his tenure, Mr. Mackay has orchestrated several acquisitions and partnerships which have furthered E\*TRADE FINANCIAL's corporate strategy while achieving optimal financial returns. He joined E\*TRADE FINANCIAL Corp. in early 2000 after the Company's acquisition of Telebanc Financial Corporation, where he served as Senior Vice President of Corporate Finance. Prior to joining Telebanc, Mr. Mackay served in the Financial Institutions Group of the corporate finance department for Robertson Stephens. He has also served in the Media and Technology Group of the corporate finance department for Alex, Brown and Sons.

#### **COMPANY SECRETARY AND COMPLIANCE OFFICER**

**Mr. Shekhar Deshpande**

Company Secretary & Head- Legal  
IL&FS Investsmart Limited  
The IL&FS Financial Centre,  
Plot C-22, G Block,  
Bandra-Kurla Complex, Bandra (E),  
Mumbai 400 051  
Tel: +91-22-2659 3333  
Fax +91-22-2653 3075  
E-mail: iil.ipo@investsmartindia.com

**Investors can contact the Compliance Officer in case of any pre-offer or post-offer related problems such as non-receipt of letters of allotment, credit of allotted shares in the respective beneficiary account, refund orders, etc.**

#### **LEGAL ADVISORS TO THE OFFER**

**Amarchand & Mangaldas & Suresh A. Shroff & Co.**

Advocates & Solicitors  
Peninsula Chambers,  
Peninsula Corporate Park,  
Ganpatrao Kadam Marg,  
Lower Parel, Mumbai – 400 013  
Ph. No.: +91-22-24964455  
Fax No.: +91-22-24963666  
E-mail: ipo.mumbai@amarchand.com

#### **BANKERS TO THE COMPANY**

**HDFC Bank Limited**

Manekji Wadia Building, Nanik Motwani Marg,  
Fort, Mumbai 400 001  
Ph. No.: +91-22-2498 8484 / 2492 1750  
Fax No.: +91-22-2492 341  
E-mail: satish.chandra@hotmail.com

**Union Bank of India**

Union Bank Bhavan, First Floor,  
239 Vidhan Bhavan Marg, Nariman Point, Mumbai 400 021  
Ph. No.: +91-22-2202 4647/ 2285 3522/ 2285 1055  
Fax No.: +91-22-2285 5037  
E-mail: unionifb@bol.net.in

## **IL&FS INVESTSMART LIMITED**

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### **UTI Bank Limited**

Mangal Mahal,  
Turner Road, Bandra (West),  
Mumbai 400 050  
Ph. No. : +91-22-2641 2960/61/87, 5601 6817/18/19  
Fax No. : +91-22-2641 2989/ 5601 682  
Email : adminbandra@utibank.co.in

### **Canara Bank**

Lavelle Road, Bangalore 560 001  
Ph. No. : +91-22-2221 3200/ 2221 5760/ 2224 1457  
Fax No. : +91-22-2224 4385  
Email : fcsbla@canarabank.co.in

### **Jammu & Kashmir Bank**

G-40, Ground Floor, Connaught Place, New Delhi  
Ph. No. : +91-11-2335 2863/ 2335 2102  
E-mail: circus@jkbmail.com

### **Citibank N.A.**

Air India Bldg., Ground Floor,  
Nariman Point  
Mumbai – 400 025  
Ph. No. : +91-22-5638 5227  
Fax No. : +91-22-2202 0251  
Email: shefali.chawla@citigroup.com

### **ICICI Bank Limited**

Capital Markets Division,  
30, Mumbai Samachar Marg,  
Mumbai – 400 001  
Ph. No. : +91-22-2265 5285  
Fax No. : +91-22-2261 1138  
Email: sidhartha.routray@icicibank.com

### **ING Vysya Bank**

Plot No. 509, Sharda  
32<sup>nd</sup> Road, Opp R D National College,  
Bandra (W)  
Mumbai – 400 050  
Ph. No. : +91-22-2655 3221/ 2645 3333  
Fax No. : +91-22-2651 2345  
E-mail: bandrabr@ingvysyabank.com, bandrabm@ingvysyabank.com

### **Punjab National Bank**

(Foreshore Road Branch), Raheja Chambers,  
Nariman Point, Mumbai 400 021  
Ph. No. : +91-22-2279 0002  
Fax No. : +91-22-2202 6072/ 2282 3033  
E-mail: agm@pnbn.com

### **Standard Chartered Bank**

Institutional Banking,  
90, Mahatma Gandhi Road, Fort  
Post Box No. 725  
Mumbai – 400 001  
Ph. No. : +91-22-2269 0253  
Fax No. : +91-22-2269 6925  
Email: jamwal.rohit@in.standardchartered.com,  
prakash.guptan@in.standardchartered.com

**BOOK RUNNING LEAD MANAGERS****SBI CAPITAL MARKETS LIMITED**

202, Maker Tower 'E' Cuffe Parade, Mumbai – 400 005

Tel: +91 – 22 – 2218 9166

Fax: +91 – 22 – 2218 8332

Email: iil.ipo@sbicaps.com

Website: www.sbicaps.com

Attn : Mr. Prasad Chitnis

**ENAM FINANCIAL CONSULTANTS PRIVATE LIMITED**

801, Dalamal Towers, Nariman Point, Mumbai 400 021

Tel: +91 – 22 – 5638 1800

Fax: +91 – 22 – 2284 6824

Email: iilipo@enam.com

Website: www.enam.com

Attn : Mr. Vasan Paulraj

**KOTAK MAHINDRA CAPITAL COMPANY LIMITED**

3rd Floor, Bakhtawar,

229, Nariman Point, Mumbai 400 021

Ph: +91-22-56341100

Fax No.: +91-22-22840492

Email: iil.ipo@kotak.com

Website: www.kmcc.co.in

Attn : Mr. Ashish Kapur

**SYNDICATE MEMBERS****Karvy Stock Broking Limited**

529, Road No.4, Banjara Hills, Hyderabad 500 034.

Tel: +91 – 040 – 2331 2454

Fax: +91 – 040 – 2337 6718

E-mail : vtrehan@karvy.com

Attn: Mr. Vishal Trehan

**Enam Securities Private Limited**

801/802, Dalamal Towers,

Nariman Point, Mumbai 400 021.

Tel: +91 – 22 – 5638 1800

Fax: +91 – 22 – 2284 6824

Email: iilipo@enam.com

Attn: Mr. M. Natarajan

**Kotak Securities Limited**

1st floor, Bakhtawar, 229, Nariman Point,  
Mumbai - 400 021.

Tel: +91 – 22 – 5634 1100

Fax: +91 – 22 – 5630 3927

Email: iil.ipo@kotak.com

Attn : Ms. Kiran Devnani

**REGISTRAR TO THE OFFER****Karvy Computershare Private Limited**

"Karvy House", 46, Avenue 4,  
Street No. 1, Banjara Hills, Hyderabad – 500 034

Tel. : +91- 40-2331 2454

Fax. : +91- 40-2331 1968

E-mail: iil.ipo@karvy.com

Website: www.karvy.com

Contact Person: Mr. Murali Krishna

## **IL&FS INVESTSMART LIMITED**

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### **BANKER TO THE OFFER AND ESCROW COLLECTION BANKERS**

#### **State Bank of India**

New Issues and Securities Services Division  
Mumbai Main Branch, Mumbai Samachar Marg, Fort,  
Mumbai 400 023.  
Tel. : 022 - 2265 1579/2266 2133/2265 1363  
Fax : 022 - 22670745  
E-mail : agmnissd@vsnl.net; nissdmmb@hotmail.com  
Website : www.statebankofindia.com  
Attn.: Mrs. Anuradha Kurma

#### **ICICI Bank**

Capital Markets Division  
30, Mumbai Samachar Marg,  
Mumbai 400 001.  
Tel. : 022 - 2265 5285  
Fax : 022 - 22611138  
E-mail : sidhartha.routray@icicibank.com  
Website : www.icicibank.com  
Attn.: Mr. Siddharth Routray

#### **HDFC Bank**

26A, Narayan Properties,  
Chandivli Farm Road,  
Saki Naka, Andheri (E),  
Mumbai 400 072.  
Tel. : 022 - 2856 9202  
Fax : 022 - 2856 9272  
E-mail : viral.kothari@hdfcbank.com  
Website : www.hdfcbank.com  
Attn.: Mr. Viral Kothari

#### **Kotak Mahindra Bank**

2nd Floor, Bakhtawar,  
229, Nariman Point,  
Mumbai - 400 021.  
Tel. : 022 - 5659 6375  
Fax : 022 - 2281 7527  
E-mail : pankaj.thakkar@kotak.com  
Website : www.kotak.com  
Attn.: Mr. Pankaj Thakkar

#### **Standard Chartered Bank**

90, M.G. Road, Fort, Mumbai 400 001.  
Tel. : 022 - 2266 3294  
Fax : 022 - 2269 6925  
E-mail : chaitanya.j.sampat@in.standardchartered.com  
Website : www.standardchartered.com  
Attn.: Mr. Chaitanya J. Sampat

#### **Centurion Bank Limited**

Central Bombay Infotech Park,  
Ground Floor, 101, K. Khadye Marg,  
Mahalaxmi, Mumbai 400 011.  
Tel. : 022 - 5554 0000  
Fax : 022 - 5554 0022  
E-mail : sramkumar@centurionbank.com  
Website : www.centurionbank.com  
Attn.: Mr. S. Ramkumar

**AUDITORS TO THE COMPANY****S. B. Billimoria & Co.**

Chartered Accountants  
12, Dr. Annie Besant Road,  
Opp. Shiv Sagar Estate, Worli, Mumbai 400 018  
Phone: +91-22-56679000  
Fax: +91-22-56679025 / 56679100  
E-mail: mumbai@sbbandco.com

**TAX CONSULTANTS****Lakhani & Co.**

Chartered Accountants  
Jeevan Udhyog,  
278, D. N. Road, 2<sup>nd</sup> Floor,  
Above Khadi Bhandar, Mumbai 400 001  
Ph.: +91 22 2207 1224  
Fax No.: +91 22 2207 4321  
E-mail: lakhani@bom8.vsnl.net.in

## IL&FS INVESTSMART LIMITED

### STATEMENT OF INTER-SE ALLOCATION OF RESPONSIBILITIES AMONGST BRLMS

The responsibilities and co-ordination for various activities in this Offer have been distributed amongst the BRLMs as under:

Sr. No.	ACTIVITIES	RESPONSIBILITY	CO-ORDINATOR
1.	Capital structuring with the relative components and formalities such as type of instruments, etc.	SBICAP	SBICAP
2.	Due diligence of the Company's operations / management / business plans/legal etc.	SBICAP	SBICAP
3.	Drafting & Design of Offer Document and of statutory advertisement including memorandum containing salient features of the Prospectus. The designated Lead Manager shall ensure compliance with stipulated requirements and completion of prescribed formalities with Stock Exchange, Registrar of Companies and SEBI	SBICAP	SBICAP
4.	Drafting and approval of Issue and statutory publicity material, etc.	SBICAP	SBICAP
5.	Drafting and approval of all corporate advertisement, brochure and other publicity material	SBICAP ENAM KMCC	ENAM
6.	Appointment of Registrar, Bankers and Ad agency	SBICAP	SBICAP
7.	Appointment of Printer	SBICAP	SBICAP
8.	Marketing of the Offer, which will cover inter alia, <ul style="list-style-type: none"> <li>Formulating marketing strategies, preparation of publicity budget</li> <li>Finalize Media &amp; PR strategy</li> <li>Finalizing centers for holding conferences for brokers, etc.</li> <li>Finalize collection centers</li> <li>Follow-up on distribution of publicity and Offer material including form, prospectus and deciding on the quantum of the Offer material</li> </ul>	SBICAP ENAM KMCC	ENAM
9.	Finalizing the list of QIBs. Divisions of QIBs for one to one meetings, road show related activities and order procurement	SBICAP ENAM KMCC	KMCC
10.	Finalizing of Pricing & Allocation	SBICAP ENAM KMCC	KMCC
11.	Post bidding activities including management of Escrow Accounts, co-ordination with Registrar and Banks, Refund to Bidders, etc.	SBICAP	SBICAP
12.	The post Offer activities of the Offer will involve essential follow up steps, which must include finalisation of listing of instruments and dispatch of certificates and refunds, with the various agencies connected with the work such as Registrars to the Offer, Bankers to the Offer and the bank handling refund business. BRLM shall be responsible for ensuring that these agencies fulfill their functions and enable him to discharge this responsibility through suitable agreements with the issuer company.	SBICAP	SBICAP

The selection of various agencies like the Registrar to the Offer, Bankers to the Offer, Escrow Collection Bank(s), Syndicate Members, brokers, advertising agencies, public relations agencies, printer etc. will be finalised by the Company in consultation with BRLMs in terms of inter-se allocation of responsibilities.

#### Credit Rating

As this is an offer of equity shares there is no credit rating required for the offer.



**Trustees**

As this is an offer of equity shares, the appointment of Trustees is not required.

**Monitoring Agency**

No agency has been appointed to monitor the utilisation of funds.

**Book Building Process**

Book building refers to the process of collection of bids from investors, which is based on the price band, with the offer price being finalized after the Bid/Offer Closing Date. The principal parties involved in the Book Building Process are:

- (1) The Company
- (2) The Selling Shareholder being IL&FS
- (3) The Book Running Lead Managers, in this case being SBICAP, Kotak and ENAM
- (4) The Syndicate Members, who are intermediaries registered with SEBI, and eligible to act as underwriters, appointed by the BRLMs
- (5) The Registrar to the Offer being Karvy Computershare Private Limited

SEBI through its guidelines has permitted an issuer proposing to offer securities to the public to have an option to offer 100% Book Building Process wherein at least 60% of the Net Offer will be allocated on a discretionary basis to Qualified Institutional Buyers. Further, not less than 10% of the Net Offer will be available for allocation on a proportionate basis to Non-Institutional Bidders and the remaining 30% of the Net Offer will be available for allocation on a proportionate basis to Retail Individual Bidders, subject to valid bids being received at or above the Offer Price.

The Company shall comply with the guidelines issued by SEBI for this Offer. In this regard, the Company has appointed SBICAP, Kotak and ENAM as the Book Running Lead Managers (collectively being referred to as BRLMs) to the Offer to procure subscription to the Offer.

The process of book building, under SEBI guidelines, is relatively new and the investors are advised to make their own judgment about investment through this process of book building prior to making a Bid in the Offer. QIBs are not allowed to withdraw their Bid after the Bid/Offer Closing Date. See page 197 in this Prospectus.

**Steps to be taken for bidding:**

1. Check eligibility for bidding (please refer to the section "Offer Procedure- Who Can Bid" on page 195 of this Prospectus);
2. Ensure that the bidder has a demat account; and
3. Ensure that the Bid-cum-Application Form is duly completed as per instructions given in this Prospectus and in the Bid-cum-Application Form.

**Underwriting Agreement**

After the determination of the Offer Price and allocation of the Equity Shares but prior to filing of the Prospectus with RoC, the Company and the Selling Shareholder will enter into an Underwriting Agreement with the Underwriters for the Equity Shares proposed to be issued through the Offer. It is proposed that, pursuant to the terms of the Underwriting Agreement, the BRLMs shall be responsible for bringing in the amount devolved in the event that the Syndicate Members do not fulfill their underwriting obligations.

## IL&FS INVESTSMART LIMITED

The Underwriters have indicated their intention to underwrite the following number of Equity Shares:

<b>Name and Address of the Underwriters</b>	<b>Indicated Number of Equity Shares to be Underwritten</b>	<b>Amount Underwritten (Rs. in Lakhs)</b>
<b>SBI Capital Markets Limited</b> 202, Maker Tower 'E', Cuffe Parade Mumbai – 400 005 Attn : Mr. Prasad Chitnis	37,99,900	4749.875
<b>ENAM Financial Consultants Private Limited</b> 801/802, Dalamal Towers, Nariman Point Mumbai 400 021 Attn.: Mr. Vasanth Paulraj	37,99,900	4749.875
<b>Kotak Mahindra Capital Co. Ltd.</b> 3rd Floor, Bakhtawar, 229, Nariman Point Mumbai 400 021 Attn.: Mr. Ashish Kapur	37,99,900	4749.875
<b>Karvy Stock Broking Limited</b> 529, Road No.4, Banjara Hills, Hyderabad 500 034. Attn: Mr. Vishal Trehan	100	0.125
<b>Enam Securities Private Limited</b> 801/802, Dalamal Towers, Nariman Point, Mumbai 400 021. Attn: Mr. Natarajan, Chief Compliance Officer	100	0.125
<b>Kotak Securities Limited</b> 1st floor, Bakhtawar, 229, Nariman Point, Mumbai - 400 021. Attn : Ms. Kiran Devnani	100	0.125

*The above-mentioned amount is indicative underwriting and this would be finalized after actual allocation. The above underwriting agreement dated July 11, 2005.*

In the opinion of the Committee of Directors of the Company (based on a certificate given to them by the BRLMs and the Syndicate Members), the resources of all the above mentioned Underwriters are sufficient to enable them to discharge their respective underwriting obligations in full. All the above-mentioned Underwriters are registered with SEBI under Section 12(1) of the SEBI Act or registered as broker with the stock exchange (s). The above Underwriting Agreement has been accepted by the Board of Directors of the Company on behalf of the Company and the Selling Shareholder, at their meeting held on July 9, 2005 and the Company has issued letters of acceptance to the Underwriters.

Allocation among Underwriters may not necessarily be in proportion to their underwriting commitments. Notwithstanding the above table, the BRLMs and the Syndicate members shall be severally responsible for ensuring payment with respect to Equity Shares allocated to investors procured by them. In the event of any default, the respective underwriter in addition to other obligations to be defined in the Underwriting Agreement, will also be required to procure / subscribe to the extent of the defaulted amount. Allocation to QIBs is discretionary as per the terms of the Prospectus and may not be proportionate in any way and the patterns of allocation to the QIBs could be different for the various Underwriters.

## CAPITAL STRUCTURE

Financial data presented in this section is derived from the Company's unconsolidated financial statements prepared in accordance with Indian GAAP. Unless otherwise indicated, the data in the tables presented below assume financial data presented in this section is derived from the Company's unconsolidated financial statements prepared in accordance with Indian GAAP.

SHARE CAPITAL	Face Value	(Rs. Lakhs) Total Value Including Premium
<b>A. Authorised Capital</b>		
5,00,00,000 Equity Shares of Rs. 10 each	5000.00	
<b>B. Issued Subscribed And Paid-Up Capital</b>		
3,49,99,716 Equity Shares of Rs. 10 each fully paid-up	3499.97	3889.80
<b>C. Present Offer in terms of this Prospectus comprising</b>	<b>1140.00</b>	14250.00
<b>Fresh Issue</b>		
88,00,000 Equity Shares of Rs. 10 each fully paid up	880.00	11000.00
<b>Offer for Sale by IL&amp;FS</b>		
26,00,000 Equity Shares of Rs. 10 each fully paid up	260.00	3250.00
<b>D. Reservation for employees in terms of this Prospectus</b>		
11,40,000 Equity Shares of Rs. 10 each fully paid up	114.00	1425.00
<b>E. Net Offer to the Public in terms of this Prospectus</b>		
<b>1,02,60,000</b> Equity Shares of Rs. 10 each fully paid up	1026.00	12825.00
<b>F. Equity Capital after the Issue</b>		
4,37,99,716 Equity Shares of Rs. 10 each	4379.97	14889.80
<b>G. Share Premium Account</b>		
Before the Issue		389.83
After the Issue		10509.83

The authorised share capital of the Company was increased from Rs. 4000 lakhs divided into 400 lakhs Equity Shares of Rs. 10 each to Rs. 5000 lakhs divided into 500 lakhs Equity Shares of Rs. 10 each through a special resolution passed at the Extra Ordinary General Meeting of the Company held on March 28, 2005.

## IL&FS INVESTSMART LIMITED

### Notes to the Capital Structure:

#### 1) Share Capital History:

Date of Allotment	Number of Equity Shares	Cumulative Paid up Capital (Rs.)	Face Value (Rs.)	Issue Price Rs.)	Consideration (cash, bonus, consideration other than cash)	Reasons for allotment (bonus, swap etc.)	Cumulative Share Premium (Rs.)
September 25, 1997	7	70	10	10	Cash	Allotment to subscribers to the memorandum	-
April 02, 1998	33,00,000	3,30,00,070	10	10	Cash	Allotment to Promoter	-
June 11, 1998	22,00,000	5,50,00,070	10	10	Cash	Preferential Allotment to Promoter	-
March 22, 1999	20,00,000	7,50,00,070	10	10	Cash	Preferential Allotment to Promoter	-
September 30, 1999	50,00,000	12,50,00,070	10	10	Cash	Preferential Allotment to AIG Indian Sectoral Equity Fund	-
September 30, 1999	24,99,993	15,00,00,000	10	10	Cash	Preferential Allotment to Promoter	-
January 17, 2000	30,00,000	18,00,00,000	10	10	Cash	Preferential Allotment to Investsmart India Employee Welfare Trust	-
March 30, 2000	30,00,000	21,00,00,000	10	25	Cash	Preferential Allotment to K. Raheja Private Limited	4,50,00,000
March 30, 2000	80,00,000	29,00,00,000	10	25	Cash	Preferential Allotment to ORIX	16,50,00,000
June 01, 2000	10,00,000	30,00,00,000	10	25	Cash	Preferential Allotment to Promoter	18,00,00,000
October 16, 2002	49,99,716	34,99,97,160	10	Exch- ange ratio of 34:100 & 3:7 respec- tively	Consideration other than cash *	Allotment to Promoter pursuant to merger of IMBSL and DIL with the Company	3,89,83,083*
<b>Total</b>	<b>3,49,99,716</b>						

\* Pursuant to the amalgamation of IMBSL and DIL with IIL, in terms of the scheme of Amalgamation approved by the High Court of Bombay, an amount of Rs. 14.10 crores [being miscellaneous expenditure not written off- Rs. 10.69 crore., Diminution in the value of Fixed Assets – Rs. 0.16 crore. and investments – Rs. 3.25 crore] was charged against the share premium account of the Company. The existing shareholders of IMBSL viz., IL&FS, holding 1,00,00,000 shares in IMBSL were issued 42,85,714 fully paid shares of Rs. 10 each in IIL. Similarly, the existing shareholders of DIL viz., IL&FS, holding 21,00,008 shares in IMBSL were issued 7,14,002 fully paid shares of Rs. 10 each in Investsmart India Limited. Thus a total of 49,99,716 share of Rs. 10 each in IIL were issued to IL&FS.

## 2) Promoter Contribution and Lock-in

The details of the Promoter's contribution and lock-in are as under :

Date on which Equity Shares were allotted/acquired	Nature of transaction	Nature of payment of consideration	Number of Equity Shares	Par Value	Issue Price/ Purchase Price Rs.	% of post issue paid up capital Rs.	Lock-in-period
November 21, 2000	Purchased from IL&FS Trust Company Limited	Cash	45,00,153	10.00	10.00	10.27	1 year
October 16, 2002	Issued pursuant to merger of IMBSL and DIL with IIL. The cost of these shares reflects the aggregate cost incurred by IL&FS for acquiring shares in IMBSL and DIL	Merger of IMBSL and DIL with IIL	49,99,716	10.00	24.62	11.41	1 year
October 22, 2002	Purchased from K.Raheja Pvt. Ltd.	Cash	22,42,108	10.00	35.00	5.12	1 year
			7,57,892	10.00	35.00	1.73	3 years
April 05, 2004 to April 15, 2004	Purchased from existing shareholders of IIL	Cash	28,67,150	10.00	57.00	6.55	3 years
July 12, 2005	Purchased from ORIX Corpn., Japan	Cash	51,34,903	10.00	125.00	11.72	3 years

### Share Transfer agreement between IL&FS and ORIX

ORIX and IL&FS have entered into an agreement dated April 20, 2005, pursuant to which ORIX has agreed to transfer 51,34,903 Equity Shares at the Offer Price, subject to applicable laws, including FEMA. ORIX, however, has no obligation to sell its shares under the agreement if the Offer Price is less than Rs. 80. Where the price determined in accordance with RBI circular *RBI/2004-05/207A.P. (DIR Series) Circular No. 16* dated October 4, 2004 which requires the price to be at a value, which is less than the lower of two independent valuations of the shares, one by the statutory auditors of the company and the other by a Chartered Accountant or by a Merchant Banker in Category 1 registered with SEBI (the "FEMA Price") is less than the Offer Price, ORIX has the option (to be exercised within 4 days from the Offer Closing Date), but not the obligation to sell the shares to IL&FS at the FEMA Price. The transfer of shares pursuant to this agreement is to be made prior to the date of Allotment of Equity Shares to Bidders under the Offer. The transfer of shares pursuant to Share Transfer Agreement has taken place from ORIX to IL&FS on July 12, 2005.

Shares acquired by IL&FS pursuant to the above agreement shall be subject to lock-in.

Post the above transfer taking place, IL&FS holding will be as under:

Particulars	No. of Shares	% holding pre issue	% holding post issue
Current holding	1,79,67,019		
Add: Purchase from ORIX	51,34,903		
Holding Pre Issue	2,31,01,922	66.00%	
Less : Offer for Sale	26,00,000		
Holding Post Issue	2,05,01,922		46.81%

The promoters' contribution has been brought in to the extent of not less than the specified minimum lot and from persons defined as promoters under the SEBI Guidelines.

In accordance with the SEBI Guidelines, 87,59,945 shares of Rs. 10 each of the Promoter representing 20% of the post issue capital of the Company, would be locked in for a period of 3 years commencing from the date of allotment of Equity Shares issued through this Offer. The remaining 66,07,074 equity shares (i.e. 1,79,67,019 representing current holding – 26,00,000 representing offer for sale – 87,59,945 representing 3 year lock by promoter) of the Promoter will be locked in for a period of one year.

## IL&FS INVESTSMART LIMITED

Pursuant to a Share Transfer Agreement between IL&FS and ORIX dated April 20, 2005, ORIX has agreed to transfer 51,34,903 Equity Shares at the Offer Price to the Promoter. Subsequent to the transfer of shares from ORIX to IL&FS, 1,17,41,977 equity shares (i.e. 1,79,67,019 representing current holding – 26,00,000 representing offer for sale – 87,59,945 representing 3 year lock by promoter + 51,34,903 equity shares purchased from ORIX) of the Promoter will be locked in for a period of one year. For details of Share transfer Agreement, refer page 13 of this Prospectus

Since the shares held by the Promoter are in dematerialised form, it is not possible to identify securities issued last to be locked in first as stipulated under clause 4.13.1 of the SEBI Guidelines.

IL&FS has given its approval for lock-in of their shareholding as specified above; vide its letter dated July 12, 2005.

The entire pre-issue share capital other than that locked-in, as minimum Promoter's contribution shall be locked in for the period of 1 year from the date of allotment in this offering.

Locked-in securities held by Promoter may be pledged only with banks or financial institutions as collateral security for loans granted by such banks or financial institutions, provided the pledge of shares is one of the terms of sanction of loan.

Shares held by the person other than Promoters prior to this Offer, which are locked in as per the requirements of SEBI guidelines, may be transferred to any other person holding shares which are locked in as per SEBI guidelines, subject to continuation of lock-in in the hands of transferees for the remaining period and compliance of SEBI guidelines as applicable.

Shares held by the Promoter, which are locked in as per the requirements of SEBI guidelines, may be transferred to and amongst promoter, promoter group, or to a new promoter or persons in control of Company, subject to continuation of lock-in in the hands of transferees for the remaining period and compliance of SEBI guidelines as applicable.

There are no natural persons, who hold more than 10% of the equity capital of IL&FS.

The Promoter, and their directors have not purchased or sold any Equity Shares from the market during a period of six months preceding the date on which the Red Herring Prospectus is filed with SEBI save as disclosed in Note No. 11 below.

### 3) Shareholding Pattern

Shareholding pattern of the Company before and after the Offer:

Category	Pre-Issue		Pre - Issue (post transfer from ORIX to IL&FS) *		Post-Issue	
	Number of Equity Shares	Percentage (%)	Number of Equity Shares	Percentage (%)	Number of Equity Shares	Percentage (%)
<b>Promoter</b>						
IL&FS	1,79,67,019	51.33	2,31,01,922	66.00	2,05,01,922	46.81
<b>Other Shareholders :</b>						
ORIX Corporation, Japan	51,34,903	14.67	-	-	-	-
SAIF Investment Company Limited, Mauritius	69,99,944	20.00	69,99,944	20.00	69,99,944	15.98
E*TRADE Mauritius Limited, Mauritius	48,80,000	13.94	48,80,000	13.94	48,80,000	11.14
<b>Other Shareholders Total</b>	<b>1,70,14,847</b>	<b>48.61</b>	<b>1,18,79,944</b>	<b>33.94</b>	<b>1,18,79,944</b>	<b>27.12</b>
<b>Others</b>						
Public	17,850	0.06	17,850	0.06	1,14,17,850	26.07
<b>Total</b>	<b>3,49,99,716</b>	<b>100.00</b>	<b>3,49,99,716</b>	<b>100.00</b>	<b>4,37,99,716</b>	<b>100.00</b>

\* Kindly refer Share Transfer Agreement dated April 20, 2005 entered between IL&FS and ORIX Corporation, Japan.

### 4) Buyback and Standby Arrangements

Except as disclosed in note 2 above, the Company, its Directors, its Promoter and the BRLMs have not entered into any buy-back and/or standby arrangements for purchase of Equity Shares of the Company from any person.

- 5) The Company has not raised any bridge loan against the proceeds of this offering.
- 6) In case of undersubscription in the reserved category, the same shall be added back to the net offer to the public. In case of oversubscription in the reserved category, excess allotment shall be made from shortfall if any, in the Retail and Non- institutional category (i.e. shortfall in the retail or non-institutional category shall be first adjusted against excess demand in the non-institutional or retail category respectively and the balance shortfall if any, shall be available to the reserved category). Undersubscription in the reserved category will be allocated first to Retail category and balance undersubscription if any, after allocating to retail category will be allocated to Non-institutional category.
- 7) In case of over-subscription in all categories (including reservation), at least 60% of net offer to public shall be allocated on a discretionary basis to Qualified Institutional Buyers, further, not less than 10% of the net offer to public shall be available for allocation on a proportionate basis to Non-Institutional Bidders and not less than 30% of the net offer to public shall be available for allocation on a proportionate basis to Retail Bidders, subject to valid bids being received at or above the Issue Price. Under-subscription, if any, in any of the category other than in the QIB category would be, allowed to be met with spill over from any other category at the sole discretion of the Company and the BRLMs. In case of undersubscription in QIB category, leading to allotment of less than 60% of the net offer to the public to such category, the entire subscription money shall be refunded.
- 8) Equity Shares held by the top ten shareholders

The list of top 10 shareholders of the Company and the number of Equity Shares held by them is as follows:

**a) Top ten shareholders on the date i.e. July 12, 2005 is as follows:**

Sr. No.	Name of Shareholders	No. of equity shares	% of holding
1.	Infrastructure Leasing & Financial Services Limited	2,31,01,922	66.00
2.	SAIF Investment Company Limited, Mauritius	69,99,944	20.00
3.	E*TRADE Mauritius Limited, Mauritius	48,80,000	13.94
4.	Mr. Muneesh Chawla	2,500	00.00
5.	Mr. Deepak Kithany	2,000	00.00
6.	Mr. V. Gowtham Raj	1,500	00.00
7.	Mr. Pranav Tandon	1,000	00.00
8.	Mr. Bharat Verma	1,000	00.00
9.	Mr. Noble John	1,000	00.00
10.	Ms. Preeti More	500	00.00

**b) Top ten shareholders on ten days prior i.e. as on July 2, 2005 is as follows:**

Sr. No.	Name of Shareholders	No. of equity shares	% of holding
1.	Infrastructure Leasing & Financial Services Limited	1,79,67,019	51.33
2.	SAIF Investment Company Limited, Mauritius	69,99,944	20.00
3.	ORIX Corporation, Japan	51,34,903	14.67
4.	E*TRADE Mauritius Limited, Mauritius	48,80,000	13.94
5.	Mr. Muneesh Chawla	2,500	00.00
6.	Mr. Deepak Kithany	2,000	00.00
7.	Mr. V. Gowtham Raj	1,500	00.00
8.	Mr. Pranav Tandon	1,000	00.00
9.	Mr. Bharat Verma	1,000	00.00
10.	Mr. Noble John	1,000	00.00

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c) Top ten shareholders two years prior i.e. July 12, 2003 is as follows:

Sr. No.	Name of Shareholders	No. of equity shares	% of holding
1.	IL&FS	2,39,99,716	68.57
2.	ORIX Corporation, Japan	80,00,000	22.86
3.	Investsmart India Employees' Welfare Trust (through its Trustees)	22,59,300	6.46
4.	Mr. Hemang Raja	70,000	00.20
5.	Mr. Ravi Parthasarathy	50,000	00.14
6.	Mr. S. Rengarajan	50,000	00.14
7.	Mr. Sachin Joshi	32,000	00.09
8.	Mr. Sandeep Presswala	32,000	00.09
9.	Mr. K.R.Kini	24,000	00.07
10.	Mr. Arun Saha	20,000	00.06
11.	Mr. Vibhav Kapoor	20,000	00.06

9) As of the date of the Prospectus, there are no outstanding financial instruments or any other right, which would entitle the existing Promoter or shareholders, or any other person any option to receive equity shares after the offering other than shares offered to the employees under the ESOP 2005 (For details, please refer to page 17).

10) Details of the aggregate Shareholding of the Promoter Group and the directors of the Promoters are as under:

Sr. No.	Particulars	No. Of Shares Held (at Red Herring Prospectus filing)	No. of Shares Held (after transfer from ORIX to IL&FS)*	No. Of Shares Held (after offer of sale of 26,00,000 equity shares in issue)
1.	<b>Promoter</b> IL&FS	1,79,67,019	2,31,01,922	2,05,01,922
2.	<b>Promoter Group</b> ORIX Corporation	51,34,903	-	-
	<b>TOTAL</b>	<b>2,31,01,922</b>	<b>2,31,01,922</b>	<b>2,05,01,922</b>

\* Kindly refer Share Transfer Agreement dated April 20, 2005 entered between IL&FS and ORIX Corporation, Japan.

No company in the Promoter Group other than the Promoter and ORIX hold any Equity Shares in the Company.

Neither the directors of Promoter nor Directors and key managerial persons of Company hold any Equity Shares in the Company. Also, Promoters/ Directors, their relatives and their associates have not either directly or indirectly financed any transactions in the securities of the Company during the preceeding six months

The aggregate number of securities purchased or sold by the Promoter Group and the directors of the Promoter during a period of six months preceding the date on which this Red Herring Prospectus is filed with SEBI, are as stated below :

Sr. No.	Transferor	Transferee	Date*	No. Of Equity Shares	Price per Equity Share (Rs.)
1.	IL&FS	SAIF	January 14, 2005	52,08,265	54.00
2.	IL&FS	ETM	February 14, 2005	36,91,582	54.00
3.	ORIX	SAIF	February 03, 2005	16,76,679	54.00
4.	ORIX	ETM	February 03, 2005	11,88,418	54.00
5.	Mr. Ravi Parthasarathy	SAIF	January 14, 2005	50,000	54.00
6.	Mr. Arun Saha	SAIF	January 14, 2005	20,000	54.00
7.	Mr. Hari Sankaran	SAIF	January 14, 2005	15,000	54.00
	<b>Total</b>			<b>1,17,64,944</b>	<b>54.00</b>

\* the date of electronic transfer of shares between parties has been considered as date of sale.



Further, ORIX and IL&FS have entered into an agreement dated April 20, 2005, pursuant to which ORIX has agreed to transfer 51,34,903 Equity Shares at the Offer Price, subject to applicable laws, including FEMA. ORIX, however, has no obligation to sell its shares under the agreement if the Offer Price is less than Rs. 80. Where the price determined in accordance with FEMA (the "FEMA Price") is less than the Offer Price, ORIX has the option (to be exercised within 4 days from the Offer Closing Date), but not the obligation to sell the shares to IL&FS at the FEMA Price. The transfer of shares pursuant to this agreement is to be made prior to the date of Allotment of Equity Shares to Bidders under the Offer. The transfer of shares pursuant to Share Transfer Agreement has taken place from ORIX to IL&FS on July 12, 2005.

Transferor	Transferee	Date	No. Of Equity Shares	Price per Equity Share (Rs.)
ORIX	IL&FS	July 12, 2005	51,34,903	125.00

- 11) A Bidder cannot make a Bid for more than the number of Equity Shares offered through this Offer, i.e., 1,14,00,000 Equity Shares, subject to the maximum limit of investment prescribed under relevant laws applicable to each category of investor.

#### ESOP Scheme – 2005

##### Employee Stock Option Scheme

The Company has introduced an ESOP scheme, in compliance with SEBI (ESOP) Guidelines, by the name Employee Stock Option Scheme, 2005 (ESOP-2005) pursuant to the resolution passed by the shareholders at the EGM held on January 20, 2005. Options under the ESOP scheme have been granted on January 31, 2005 to 590 eligible employees including wholetime directors, other directors and key management personnel. The vesting of Options under the ESOP – 2005 is spread out from one year through four years. The period for exercising options is three months from the date of vesting. There is no lock-in on the equity shares allotted on exercise of the Options.

The ESOPs are administered by the Compensation Committee of Directors, which determine the terms and conditions of the options granted/ vested. Under the said ESOP scheme no equity shares have been issued till date

Each Option shall entitle the Employee concerned (i.e. Option Holder) to apply for and, subject to and in accordance with the terms of the Plan, be allotted one equity share of Rs. 10/- each of the Company on payment of the exercise price

No Employee has received options entitling him/her to subscribe to more than 1% of the Equity Share capital of the Company during the last/current financial year.

Particulars		ESOP – 2005
		At face value of Rs. 10
a.	Options Granted (net of options cancelled)	33,82,000
b.	Exercise Price per Equity Share	Rs. 54.00
c.	Options Vested	- NIL
d.	Options Exercised	- NIL
	Total number of shares arising as a result of exercise of options	- NA
e.	Options Lapsed or Cancelled	- NA
f.	Variation of terms of options	- NONE
g.	Money realized by exercise of options	- NA
h.	Total number of options in force (vested)	- NONE
i.	<b>Person-wise details of options granted to:</b>	
	<b>Directors and key managerial employees</b>	<b>Please see Table (1) below</b>
	Any other employee who received a grant in any one year of options amounting to 5% or more of option granted during that year	- NONE
	Identified employees who are granted	- NONE
	Options, during any one year equal to or Exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant	
j.	Diluted Earning Per Share (EPS) pursuant to issue of shares on exercise of options	N.A. ( <b>Note 1</b> )
l.	Vesting Schedule	First Vesting on March 1, 2006
m.	Lock-in	NONE

**Note 1** - The Company values the above Options at its intrinsic value based on fair value of equity shares determined in an arm's length transaction between willing parties. Please refer "Restated Financial Information" on page 95.

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Table (1) details regarding options granted to Directors and key managerial personnel are set forth below:

S. No.	Name of Director or key managerial personnel	Number of options granted	Number of Equity Shares of Rs.10/- each issuable upon exercise of options
<b>Directors</b>			
1)	Mr. Ravi Parthasarathy	1,00,000	1,00,000
2)	Mr. A R Barwe	10,000	10,000
3)	Mr. Ravi Adusumalli	1,00,000	1,00,000
4)	Mr. Yoshitaka Matsuno	10,000	10,000
5)	Mr. Chosei Azuma	10,000	10,000
6)	Mr. Robert Jarrett Lilien	1,00,000	1,00,000
7)	Mr. Todd Mackay	40,000	40,000
8)	Mr. Girish Dave	10,000	10,000
9)	Mr. Arun Saha	60,000	60,000
10)	Mr. Neel Raheja	10,000	10,000
11)	Mr. Vibhav Kapoor	60,000	60,000
12)	Mr. Hemang Raja	2,00,000	2,00,000
13)	Mr. Ramesh Bawa	1,25,000	1,25,000
<b>Key Managerial personnel</b>			
14)	Mr. Sandeep Presswala	65,000	65,000
15)	Mr. Sachin Joshi	65,000	65,000
16)	Mr. Girish Nadkarni	55,200	55,200
17)	Mr. Deepak Chhabria	50,000	50,000
18)	Mr. Dharmen Shah	25,000	25,000
19)	Mr. Kersi Tavadia	24,800	24,800
20)	Mr. R Sreesankar	23,200	23,200

None of the options granted have vested. The earliest date of vesting is March 1, 2006

- 12) Except on the exercise of options granted under ESOP 2005, there would be no further issue of capital whether by way of issue of bonus shares, preferential allotment, rights issue, Public Issue or in any other manner during the period commencing from submission of the Prospectus with SEBI until the Equity Shares offered through this Prospectus have been listed or application monies refunded on account of non-listing/undersubscription.
- 13) Except on the exercise of options granted under ESOP 2005, the Company presently does not have any intention or proposal to alter its capital structure for a period of six months from the date of opening of the Offer, by way of split/ consolidation of the denomination of Equity Shares or further issue of Equity Shares (including issue of securities convertible into exchangeable, whether directly or indirectly, of the Company's Equity Shares) whether preferential or otherwise.
- 14) The Company has not issued any Equity Shares out of revaluation reserves or for consideration other than cash. For details please refer to note no.1 given under this section.
- 15) At any given point of time, there shall be only one denomination for the Equity Shares of the Company and the Company shall comply with such disclosure and accounting norms as may be specified by SEBI from time to time.
- 16) The Company had 51 members as of the date of filing of the Prospectus with RoC.

## OBJECTS OF THE OFFER

The gross proceeds from the Fresh Issue are estimated at Rs. 11,000 lakhs and are intended to be deployed for expansion of operations and branch network (both in India and overseas), technology investments relating to the Company's existing business and scaling of online trading business, investment in subsidiaries, augmenting of working capital and meeting issue expenses. Net proceeds after deduction of their share of issue expenses from the sale of existing shares will be paid to Selling Shareholder. As a result of this Offer, the Company also expects to provide liquidity to its existing shareholders.

The main objects clause and objects incidental or ancillary to the main objects clause of the Memorandum of Association of the Company enables the Company to undertake the existing activities and the activities for which the funds are being raised by the Company, through the Offer.

<b>Funds requirement</b>	<b>Rs in lakhs</b>
Expansion of operations and branch network	1600.00
Technology and Business Continuity Planning	2500.00
Investment in Subsidiaries	1750.00
Augmenting Long Term Working Capital	2500.00
Issue Expenses	843.23
<b>Total</b>	<b>9193.23</b>

### Expansion of operations and branch network:

Retail sector has been the major driver of the business in the last couple of years. Retail broking and other retail services contributed around 70.96% of the total income of the Company for the FY ended March 31, 2005 compared to more than 68% for the FY ended March 31, 2004. In order to further strengthen this stream of income and also supplement its other activities, the Company intends to expand its branch network from 30 branches, as of March 31, 2005, to 47 branches excluding 5 overseas branches.

The Board of Directors, at their meeting held on March 9, 2004, have approved the branch expansion plans, which involve setting up branches in major cities and towns in India. The names of the locations where the Company is proposing to set up branches in India are Surat, Nasik, Raipur, Pondicherry, Guwahati, Nagpur, Bhopal, Navi Mumbai, Mumbai – Opera House, Mumbai – Kandivli, Mumbai – Ghatkopar, Pune - Kalyaninagar, Hubli, Belgaum, Jamnagar, Durgapur and Agartala.

The Company intends to set up five overseas branches at Singapore, Hong Kong, Dubai, London and New York.

The Company has estimated a total cost of Rs 1600 lakhs for setting up domestic and overseas branches (including overall contingency cost of Rs 150 lacs). The average area of the premises to be acquired on lease is estimated to be around 1500 Sq. feet. The estimated expenses include lease rentals/ deposits, costs towards communication, information technology infrastructure and other office equipments. The break up of average cost of setting up each domestic and foreign branch is as follows:

(Rs. in Lacs)

	<b>Domestic Branch</b>	<b>Foreign Branch</b>
Deposits/ Lease rentals	8,00,000	37,50,000
Furniture and Fixtures	18,00,000	2,00,000
Other Office equipments	12,00,000	10,00,000
Incidental and Miscellaneous Cost	6,00,000	5,00,000
Legal fees	-	15,50,000
<b>Total</b>	<b>44,00,000</b>	<b>70,00,000</b>

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In addition to the above, in case of Foreign Branches, the break up of average annual running cost and working capital for a branch for the first year is as follows:

	Rs. In Lacs
Annual Rent	37,50,000
Salary (5 Employees)	80,00,000
Other Cost	22,50,000
Annual Running Cost	1,40,00,000
Less: Working Capital (@50% of annual running cost)	70,00,000
<b>Total</b>	<b>70,00,000</b>

The Company proposes to set up the above branches over a period of 3 years, as follows:

	2005-2006	2006-2007	2007-2008
Domestic Branches	6	8	3
Foreign Branches	2	2	1
Proposed Expenditure (Rs. In Lacs)	580	660	360

### Technology and Business Continuity Planning

The Company intends to upgrade its exiting technology infrastructure and build an additional internet and phone trading solutions for offering additional service channels to its customers.

The upgradation would include replacing the existing trading and database servers with high-end servers considering the increased volumes. The Company also proposes to upgrade the existing hardware including computer and other data processing equipment. The Company is planning to implement a high-end customer relationship management (CRM) for effectively monitoring and servicing client relationship and a human resources management system (HRM) to meet the growing challenges arising out of increased man-power requirements. The Company is currently evaluating a few vendors to meet its CRM and HRM solution requirements.

The break up of the requirement of funds for technology upgradation is as follows:

Particulars	Rs. in Lacs
High end cluster of servers	
Trading	150.00
Internet Trading	150.00
Phone Trading	75.00
Back Office	150.00
Messaging	50.00
CRM	30.00
Other hardware	475.00
Software's	580.00
Implementation	90.00
<b>Total</b>	<b>1750.00</b>

Business continuity plan will involve active replication of application and data set at the disaster recovery site proposed at an alternate location away from the registered office. In case of any unforeseen circumstances occurring at the registered office, the disaster recovery site will enable the Company to carry out most of its business activities.

The break up of the requirement of funds for Disaster recovery management is as follows:

	Rs. In Lacs
Servers for all applications	500.00
Software Licence	100.00
Storage	150.00
<b>Total</b>	<b>750.00</b>

The Company estimates the total outlay on technology at Rs 2500 lakhs to be spent over the next 24 months.

The Company is in talk with one of its shareholders, E\*TRADE Financial to implement appropriate technology and enterprise business continuity solutions for the current business and the proposed online trading platform. This includes a comprehensive disaster recovery strategy for all critical infrastructure including applications, system hardware and circuits.

### Investments in Subsidiaries

The Company proposes to make investments of Rs 1500 lakhs in IL&FS Investsmart Commodity Broking Limited (IICBL) and Rs 250 lakhs in IL&FS Investsmart Insurance and Risk Management Services Limited (IIRMSL). This capital infusion in IICBL and IIRMSL will be in the form of subscription to their equity shares, unsecured loan or any combination thereof. Such capital infusion will enable them to do more business in the commodities market and insurance broking business. It will also help them strengthen their respective balance sheets. However, no dividend is assured to the Company as a consequence of such capital infusion in the subsidiaries.

### Working Capital

During the year 2004-2005, based on the volumes traded on the stock exchanges, the Company needed to place margin capital with the stock exchanges. The average total capital during the year 2004-2005 placed with the exchanges was Rs 4736 lakhs. This was met through internal cash accruals and bank limits. The margin capital requirements with the exchanges are determined on the basis of the volumes traded and the market volatility. The bank limits utilized during the year fluctuated from a minimum level of Rs 1477 lakh to a peak of Rs 4885 lakhs.

With the proposed expansion in the branch network and commencement of online trading, the Company trading volumes are expected to increase leading to additional margin capital requirements. It is proposed to replace the core working capital currently met out of bank limits with equity capital from the fresh issue. Further the enhanced capital requirements are also proposed to be met out of the fresh issue of capital. The long-term total capital requirements on account of the above are expected to be Rs 2500 lakhs. This capital infusion out of the fresh issue will enable the Company to strengthen its balance sheet and undertake more business in equities, derivatives and wholesale debt markets.

### Offer Expenses:

The expenses to be incurred for the Offer are proposed to be shared between the Company and the Selling Shareholder in the ratio of their offering in the IPO. These expenses shall include underwriting and Management fees, brokerage, fees payable to registrar, advertising & marketing expenses, printing & stationery expenses, fees/charges payable to regulatory agencies and stock exchanges etc. The estimated issue expenses are as follows

Particulars	Rs. in Lacs
Lead Management	330.73
Underwriting & Selling Commission	142.50
Fees payable to Registrar, Legal Advisors & Auditors	70.00
Printing, Stationery & Postage	160.00
Advertisement and Marketing	120.00
Other expenses	20.00
<b>TOTAL</b>	<b>843.23</b>

Out of the above, the Company share in the expenses will be 650.91 Lacs.

### Schedule of Deployment of Funds

The Company proposes to deploy the funds over a period as follows:

	2005-2006	2006-2007	Rs. in lacs 2007-2008
Expansion of operations and branch network	580	660	360
Technology and Business Continuity Planning	1500	1000	-
Investment in Subsidiaries	1750	-	-
Working Capital requirements	2500	*	*

\* Working capital is toward margin money required to be deposited with the stock exchanges or F&O clearing members either in the form of cash, bank deposit, bank guarantee, approved securities etc. and is an ongoing requirement depending on the volumes.

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### **Means of Financing**

The entire requirement of the funds is proposed to be funded through the proceeds of the fresh issue. In case of shortfall, if any, the same shall be met out of internal accruals. Excess money, if any, will be utilized for general corporate purpose including acquisition. The objects for which the funds are being raised have not been appraised by external agencies and as such all the fund requirements are based on management estimate.

### **Interim Use of Funds**

Pending utilization of funds as stated above, the Company intends to invest the proceeds of the Fresh Issue in high quality, interest / dividend bearing short term / long term liquid instruments including deposits with banks for the necessary duration. These investments will be authorised by the Company's Board or a duly authorised committee thereof.

## BASIC TERMS OF THE ISSUE

The present offer consists of a Fresh Issue of 88,00,000 Equity Shares, of Rs. 10 each, for cash at a price of Rs. 125 per Equity Share aggregating Rs. 11,000 lakhs and Offer for Sale of 26,00,000 Equity Shares of Rs. 10 each at a price of Rs. 125 for cash aggregating Rs. 3,250 Lakhs (Collectively referred to as the “Offer”) is being made through a 100% book building process

	<b>Employees</b>	<b>QIBs</b>	<b>Non-Institutional Bidders</b>	<b>Retail Individual Bidders</b>
Number of equity shares	Upto 11,40,000 equity shares	Mandatory minimum 61,56,000 Equity Shares or offer size less allocation to Non-Institutional Bidders and Retail Individual bidders	Minimum of 10,26,000 Equity Shares or Offer size less allocation to QIBs and Retail Individual Bidders	Minimum of 30,78,000 Equity Shares or Offer Size less allocation to QIBs and Non-Institutional Bidders
Percentage of Offer Size available for allocation	Upto 10% of the Offer Size	60% of the Net Offer to the Public	Minimum 10% of the Net Offer to the Public or Net Offer size less allocation to QIBs and Retail Individual Bidders	Minimum 30% of the Net Offer to the Public or Net Offer Size less allocation to QIBs and Non-Institutional Bidders
Basis of Allocation or Allotment	Proportionate	Discretionary	Proportionate	Proportionate
Minimum Bid	50 Equity Shares and thereafter in multiples of 50 Equity Shares	Minimum Bid Amount of Rs. 1,00,001 and thereafter in multiples of 50 Equity Shares	Minimum Bid Amount of Rs. 1,00,001 and thereafter in multiples of 50 Equity Shares	50 Equity Shares and thereafter in multiples of 50 Equity Shares
Maximum Bid	Not exceeding 11,40,000 equity shares	Not exceeding the Offer Size	Not exceeding the Offer Size	Not exceeding Rs. 1,00,000
Mode of Allotment	Compulsory in Dematerialised form	Compulsory in Dematerialised form	Compulsory in Dematerialised form	Compulsory in Dematerialised form
Trading Lot	One equity share	One equity share	One equity share	One equity share
Size of allocation	50 Equity Shares and thereafter in multiples of one Equity Shares	50 Equity Shares and thereafter in multiples of one Equity Shares	50 Equity Shares and thereafter in multiples of one Equity Shares	50 Equity Shares and thereafter in multiples of one Equity Shares
Who can Apply	Employee	Public financial institutions, as specified in section 4A of the Companies Act, 1956, scheduled commercial banks, mutual funds, foreign institutional investors registered with SEBI, venture capital funds registered with SEBI, Foreign Venture Capital Investors registered with SEBI, State Industrial Development	Resident Indian individuals, HUF (in the name of Karta), companies, corporate bodies, NRIs, societies and trusts	Individuals including NRIs and HUFs (in the name of Karta) applying for a total value of up to Rs. 1,00,000/-

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	Employees	QIBs	Non-Institutional Bidders	Retail Individual Bidders
		Corporations, insurance companies registered with the Insurance Regulatory and Development Authority, Multilateral and Bilateral development financial institutions, provident funds with minimum corpus of Rs. 25 crores and pension funds with minimum corpus of Rs. 25 crores.		
Terms of Payment	Margin Amount applicable to Non-Institutional Bidders at the time of submission of Bid cum Application Form to the members of the Syndicate	Margin Amount applicable to QIB Bidders at the time of submission of Bid cum Application Form to the members of the Syndicate	Margin Amount applicable to Non-Institutional Bidders at the time of submission of Bid cum Application Form to the members of the Syndicate	Margin Amount applicable to Retail Individual Bidders at the time of submission of Bid cum Application Form to the members of the Syndicate
Margin Money	100%	Nil	100%	100%

- The unsubscribed portion if any in the reserved category shall be added back to the Net Offer to the Public.
- Subject to valid bids being received at or above the Offer Price, undersubscription, if any, in Retail and Non Institutional category, would be allowed to be met with spill-over from any other categories at the discretion of the Company and the BRLMs.
- 60% of the Net offer to the Public shall be allotted to QIB failing which the entire subscription money shall be refunded. The allocation to Qualified Institutional Buyers shall be determined by the Company, in consultation with the BRLMs, based on prior commitment, investor quality, price aggression, earliness of bids etc.



## BASIS FOR OFFER PRICE

The Offer Price will be determined by the Company and Selling Shareholder in consultation with the BRLMs on the basis of assessment of market demand for the Equity Shares Offered by way of Book Building.

Investors should read the following summary with the Risk Factors included from page number xi to xxvii and the details about the Company and its financial statements included in this Prospectus. The trading price of the equity shares of the Company could decline due to these risks and the investor may lose all or part of his/her/its investments.

### Qualitative Factors

The Company is a premier financial services organisation providing individuals and corporates with customised financial services such as retail & institutional broking of equity, debt and derivative products, wealth management & portfolio management services, distribution of mutual funds and IPOs, loan syndication & merchant banking.

The Promoter viz. IL&FS is India's leading financial institution known for its innovative and pioneering initiatives in the areas of Infrastructure and Corporate Finance.

The Company has a strong management team with the Directors having representatives from the Promoter, ORIX, ETM and SAIF. The team of key managerial personnel has adequate experience required for the business.

The Company has a networth of Rs 8663.35 lacs as on March 31, 2005 & net profit after tax of Rs 3311.43 lacs, as adjusted, EPS of Rs 9.45 per share, Book Value of Rs 24.75 per share for the year ended March 2005.

The Company has inducted nominees of SAIF Investment Company Limited and E\*TRADE Mauritius Limited, Mauritius which are the strategic investors of the Company, on its Board.

Strong retail distribution set up enabling the to have a wide market reach within India. The Company has network of 153 outlets through 30 branches and 123 business associates spread over 62 cities. It has customer base of over 54,790 registered customers for the broking services.

The Company has a diversified revenue stream on account of its varied product offerings covering the retail and wholesale capital market segments.

### Quantitative Factors

#### 1. Earning Per Share (EPS) (as adjusted for changes in capital)

Year	EPS (Rs.)	Weight
2002-2003	0.11	1
2003-2004	6.27	2
2004-2005	9.45	3
<b>Weighted Average</b>	<b>6.83</b>	

#### Note:

- The Earnings per Share has been computed on the basis of the adjusted profits and losses of the respective years drawn after considering the impact of accounting policy changes and material adjustments/prior period items pertaining to the earlier years.
- The shareholders of the Company have approved 3,550,000 stock options under ESOP 2005 during 2004-05, whereby 3,382,000 options were granted. The Company values the above options at its intrinsic value based on fair value of equity shares determined in an arm's length transaction between willing parties.

#### 2. Price/Earning Ratio (P/E) in relation to Offer Price of Rs. 125 is 13.23

Based on FY 2005 adjusted EPS of Rs. 9.45 on equity share of face value of Rs. 10 each

## IL&FS INVESTSMART LIMITED

### 3. Average Return on Net Worth

Year	RONW %	Weight
2002-2003	0.8	1
2003-2004	35.2	2
2004-2005	38.2	3
<b>Weighted Average</b>	<b>30.97%</b>	

**Note:**

a. The average return on net worth has been computed on the basis of the adjusted profits and losses of the respective years drawn after considering the impact of accounting policy changes and material adjustments/regroupings pertaining to earlier years.

4. Minimum Return on Increased Net Worth to maintain pre-Offer EPS - 21.77%

5. Net Asset Value (NAV) per share as per the Balance Sheet for the year ended March 31, 2005 Rs.24.75

**Note:**

a. Net Asset Value Per Share represents Shareholder's Equity as per restated financial information less miscellaneous expenditure as divided by number of shares outstanding at the end of the period.

### 6. Net Asset Value (NAV) per equity share post-Offer and comparison with the Offer price

The net asset value per equity share after the Offer is Rs. 43.41

Offer price per equity share: Rs. 125

The face value of equity shares is Rs. 10 and the offer price of Rs. 125 is 12.5 times of the face value.\*

\*Offer price will be determined after conclusion of book building process.

The Offer Price of Rs. 125 has been determined by the Company and Selling Shareholder in consultation with the BRLMs, on the basis of assessment of market demand for the Equity Shares by way of Book Building and is justified on the basis of the above factors.

### Comparison with Peer Group

	Return on Networth (%)	EPS (Rs.)	Book value per share (Rs.)	P/E
<b>IIL*</b>	<b>38.2</b>	<b>9.45</b>	<b>24.75</b>	-
<b>Industry Average</b>	-	-	-	<b>12.80</b>
<b>Peer Group</b>				
Indiabulls Financial Services Limited #	10.13	4.87	66.13	29.59***
Geojit Financial Services Limited**	73.60	5.50	10.80	14.60
DSP Merrill Lynch**	31.30	58.80	181.30	13.10
India Infoline Ltd.##	23.72	4.77	15.11	18.51***
<b>Peer Group Average</b>	<b>34.68</b>	<b>18.48</b>	<b>68.33</b>	<b>18.95</b>

**Source : Capital Market Vol.XX/04, Apr 25 – May 08, 2005 (Finance and Investments)**

# www.indiabulls.com - Based on audited consolidated financial results of Indiabulls Financial Services Limited

## Based on Red Herring Prospectus filed with SEBI – Figures are based on December 2004. EPS figure is annualized.

\* Return on Networth, EPS, Book value per share are based on audited financial results for the period ending March 31, 2005.

\*\* Data based on trailing twelve months

\*\*\* P/E calculated on the basis of closing price of Rs.144.15 and Rs.88.30 for India Bulls Financial Services Limited and India Infoline Limited as on 20/6/05

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## TAX BENEFITS

April 4, 2005

IL&FS Investsmart Ltd.  
The IL&FS Financial Centre  
Plot C-22, G-Block  
Bandra Kurla Complex  
Bandra (E)  
Mumbai – 400051.

Dear Sir,

**Sub : Statement of possible Tax Benefits available to the company and its shareholders**

We hereby report that the enclosed Annexure states the possible tax benefits available to IL&FS Investsmart Ltd. (the “company”) and its shareholders under the current tax laws presently in force in India for inclusion in the Offer Document for the proposed issue of shares. Several of these benefits are dependent on the Company or its shareholders fulfilling the conditions prescribed under the relevant tax laws. Hence the ability of the company or its shareholders to derive the tax benefits is dependant upon fulfilling such conditions which based on business imperatives the company faces in the future, the company may or may not choose to fulfill.

The benefits discussed below are not exhaustive. This statement is only intended to provide general information to the investors and is neither designed nor intended to be a substitute for professional tax advice. In view of the individual nature of the tax consequences, the changing tax laws and the fact that the Company will not distinguish between the shares offered for subscription and the shares offered for sale by the selling shareholders, each investor is advised to consult his or her own tax consultant with respect to the specific tax implications arising out of their participation in the issue.

We do not express any opinion or provide any assurance as to whether :

- the company or its shareholders will continue to obtain these benefits in future, or
- the conditions prescribed for availing the benefits have been / would be met with.

The contents of this Annexure are based on information, explanations and representations obtained from the company and on the basis of our understanding of the business activities and operations of the company. While all reasonable care has been taken in the preparation of this opinion, Lakhani & Co. accepts no responsibility for any errors or omissions therein or for any loss sustained by any person who relies on it.

**For Lakhani & Co.**  
Chartered Accountants

**Dilip V. Lakhani**  
Partner  
Membership No.12402

Place : Mumbai.

## **IL&FS INVESTSMART LIMITED**

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### **ANNEXURE**

#### **STATEMENT OF POSSIBLE TAX BENEFIT AVAILABLE TO IL&FS INVESTSMART LTD. AND TO ITS SHAREHOLDERS**

As per the existing provisions of Income Tax Act, 1961 and other laws applicable for time being in force the following tax benefits are and will, inter-alia be available to IL&FS Investsmart Ltd. (the company) and its shareholders.

##### **A. Under Income Tax Act, 1961 (the Act)**

###### **I. Benefits available to the company**

1. Company's taxable income would not include dividend Income in accordance with and subject to the provisions of Section 10(34) read with Section 115-O of the Act.
2. Under Section 10(38) of the Act, Long Term Capital Gains arising to the company from the sale of securities transacted through a recognized stock exchange in India, on or after October 1, 2004, the date on which such transaction is chargeable to Securities Transaction Tax, are exempted from tax.
3. Under Section 111A of the Act, Short Term Capital Gains arising to the Company from the sale of securities transacted through a recognized stock exchange in India, on or after October 1, 2004, will be taxable at the rate of 10% (plus surcharge and education cess).
4. In accordance with and subject to the conditions and to the extent specified in Section 54EC of the Act, the Company would be entitled to exemption from tax on gains (in cases not covered under section 10(38) of the Act) arising from transfer of the long term capital asset if such capital gain is invested in any of the long term specified assets in the manner prescribed in the said section. Where the long term specified asset is transferred or converted into money at any time within a period of three years from the date of its acquisition, the amount of capital gains exempted earlier would become chargeable to tax as long term capital gains in the year in which the long term specified asset is transferred or converted into money.
5. As per the provisions of Section 54ED of the Act and subject to the conditions specified therein, capital gains (in cases not covered under section 10(38) of the Act), arising from transfer of long term assets, being listed securities or units shall not be chargeable to tax to the extent such gains are invested in acquiring equity shares forming part of an eligible issue of share capital in the manner prescribed in the said section.  
  
Eligible issue of share capital has been defined as an issue of equity shares which satisfies the following conditions, namely-
  - a) the issue is made by a public company formed and registered in India ;
  - b) the shares forming part of the issue are offered for subscription to the public
6. Under the provisions of Section 112 of the Act, taxable long-term capital gains, if any, on sale of listed securities or units (in cases not covered under section 10(38) of the Act) would be charged to tax at the concessional rate of 20% (plus applicable surcharge and education cess) after considering indexation benefits or at 10% (plus applicable surcharge and education cess) without indexation benefits in accordance with and subject to the provision of Section 48 of the Act, at the option of the shareholder. Under Section 48 of the Act, the long term capital gains arising out of sale of capital assets excluding bonds and debentures (except Capital Indexed Bonds issued by the Government) will be computed after indexing the cost of acquisition/improvement.

###### **II. Benefits available to Resident Shareholders**

1. Dividend income of shareholders is exempt from income tax under Section 10(34) read with Section 115 O of the Act. The dividend received on the shares of the company will be exempt from tax.
2. Section 94(7) of the Act provides that losses arising from the sale/transfer of shares purchased up to three months prior to the record date and sold within three months after such date, will be disallowed to the extent dividend on such shares are claimed as tax exempt by the shareholder u/s 10(34) of the Act.
3. Under Section 10(38) of the Act, Long Term Capital Gains arising from the sale of equity shares of the company transacted through a recognized stock exchange in India, on or after October 1, 2004, the date on which such transaction is chargeable to Securities Transaction Tax, are exempted from tax.
4. Under Section 111A of the Act, Short Term Capital Gains arising from the sale of equity shares of the company transacted through a recognized stock exchange in India, on or after October 1, 2004, the date on which such transaction is chargeable to Security Transaction Tax, will be taxable at the rate of 10% (plus applicable surcharge and education cess).

5. In accordance with and subject to the conditions and to the extent specified in Section 54EC of the Act, the long term capital gains (in cases not covered u/s 10(38) of the Act), arising on transfer of shares of the company will be exempt from capital gains, if such capital gain is invested in any of the long term specified assets in the manner prescribed in the said section. Where the long term specified asset is transferred or converted into money at any time within a period of three years from the date of its acquisition, the amount of capital gains exempted earlier would become chargeable to tax as long term capital gains in the year in which the long term specified asset is transferred or converted into money.
6. As per the provisions of Section 54ED of the Act and subject to the conditions specified therein, long term capital gains (in cases not covered u/s 10(38) of the Act), on the transfer of shares of the company as and when it is listed, will be exempt from capital gains if such gains are invested in acquiring equity shares of any Indian company forming part of an eligible issue of share capital in the manner prescribed in the said section.

Eligible issue of share capital has been defined as an issue of equity shares which satisfies the following conditions, namely -

- a) the issue is made by a public company formed and registered in India ;
  - b) the shares forming part of the issue are offered for subscription to the public
7. As per the provisions of Section 54F of the Act, subject to the conditions specified therein, long-term capital gains arising to an individual or a Hindu undivided family on transfer of shares of the company will be exempt from tax, provided that the net consideration is utilised in the purchase of a residential house within a period of one year before or two years after the date of transfer, or in the construction of a residential house within a period of three years after the date of transfer. If only a portion of the net consideration is so invested, then the exemption is available proportionately.
  8. Long term capital gains would accrue to resident shareholders where the Equity Shares of the company are held for a period of more than 12 months prior to the date of transfer of the shares. In accordance with and subject to the provisions of Section 48 of the Act, in order to arrive at the quantum of capital gains, the following amounts would be deductible from the full value of consideration :

Cost of acquisition / improvement of the shares as adjusted by the Cost Inflation Index notified by the Central Government and

Expenditure Incurred wholly and exclusively in connection with the transfer of the shares.

9. In accordance with and subject to the conditions and to the extent specified in Section 112 of the Act, tax on long term capital gains arising on sale of the shares of the company (in cases not covered u/s 10(38) of the Act), will be taxed at the option of the concerned shareholder at 10% of long term capital gains (computed without indexation benefits) or 20% of capital gains (computed with indexation benefits) as increased by applicable surcharge and education cess.
10. Short Term capital gains earned by resident shareholders on the transfer of shares of the company where the shares are held for a period of not more than 12 months (in cases not covered u/s 111A of the Act) would be taxed at the normal rates of tax (plus applicable surcharge and education cess). Cost indexation benefits would not be available in computing short terms capital gains.
11. In terms of Section 88E of the Act, the securities transaction tax paid by the shareholder in respect of taxable securities transactions entered into in the course of the business would be eligible for rebate from the amount of Income tax on the income chargeable under the head "Profits & Gains of business or profession" arising from taxable securities transaction. As such, no deduction will be allowed in computing the income chargeable to tax as capital gains, such amount paid on account of securities transaction tax.

### **III. Benefits available to Non-Resident Indians/Non-Resident Shareholders (Other than FIIs and Foreign venture capital investors)**

1. Dividend income of shareholders is exempt from income tax under Section 10(34) read with Section 115 O of the Act. The dividend received on the shares of the company will be exempt from tax.
2. Section 94(7) of the Income-tax Act provides that losses arising from the sale/transfer of shares purchased up to three months prior to the record date and sold within three months after such date, will be disallowed to the extent dividend on such shares are claimed as tax exempt by the shareholder.
3. Under Section 10(38) of the Act, Long Term Capital Gains arising from the sale of equity shares of the company transacted through a recognized stock exchange in India, on or after October 1, 2004, the date on which such transaction is chargeable to Securities Transaction Tax, are exempted from tax.

## IL&FS INVESTSMART LIMITED

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4. Under Section 111A of the Act, Short Term Capital Gains arising from the sale of equity shares of the company transacted through a recognized stock exchange in India, on or after October 1, 2004, the date on which such transaction is chargeable to Security Transaction Tax, will be taxable at the rate of 10% (plus surcharge and education cess).
5. In the case of a shareholder being a non-resident Indian, and subscribing to the shares of the company in convertible foreign exchange, in accordance with and subject to the conditions and to the extent specified in Section 115D read with Section 115E of the Act, long term capital gains arising on transfer of the shares of the company (in cases not covered u/s 10(38) of the Act) will be subject to tax at the rate of 10% as increased by applicable surcharge and education cess, without any indexation benefit.
6. In case of a shareholder being a non-resident Indian, and subscribing to the shares of the company in convertible foreign exchange in accordance with and subject to the conditions and to the extent specified in Section 115F of the Act, the non resident Indian shareholder would be entitled to exemption from long term capital gains on the transfer of shares in the Company upon investment of net consideration in modes as specified in sub section (1) of Section 115F.
7. In accordance with the provisions of Section 115G of the Act, Non Resident Indians are not obliged to file a return of income under Section 139(1) of the Act, if their only source of income is income from investments or long term capital gains earned on transfer of such investments on both, provided tax has been deducted at source from such income as per the provisions of Chapter XVII B of the Act.
8. In accordance with and subject to the conditions and to the extent specified in Section 112 of the Act, tax on long term capital gains arising on sale of the shares of the company (in cases not covered u/s 10(38) of the Act), will be taxed at the option of the concerned shareholder at 10% of long term capital gains (computed without indexation benefits) or 20% of capital gains (computed with indexation benefits) as increased by applicable surcharge and education cess.
9. In accordance with and subject to the conditions and to the extent specified in Section 54EC of the Act, the long term capital gains (in cases not covered u/s 10(38) of the Act), arising on transfer of shares of the company will be exempt from capital gains, if such capital gain is invested in any of the long term specified assets in the manner prescribed in the said section. Where the long term specified asset is transferred or converted into money at any time within a period of three years from the date of its acquisition, the amount of capital gains exempted earlier would become chargeable to tax as long term capital gains in the year in which the long term specified asset is transferred or converted into money.
10. As per the provisions of Section 54ED of the Act and subject to the conditions specified therein, long term capital gains (in cases not covered u/s 10(38) of the Act), on the transfer of shares of the company as and when it is listed, will be exempt from capital gains if such gains are invested in acquiring equity shares of any Indian company forming part of an eligible issue of share capital in the manner prescribed in the said section.

Eligible issue of share capital has been defined as an issue of equity shares which satisfies the following conditions, namely -

  - a) the issue is made by a public company formed and registered in India ;
  - b) the shares forming part of the issue are offered for subscription to the public
11. As per the provisions of Section 54F of the Act, subject to the conditions specified therein, long-term capital gains arising to an individual or a Hindu undivided family on transfer of shares of the company will be exempt from tax, provided that the net consideration is utilised in the purchase of a residential house within a period of one year before or two years after the date of transfer, or in the construction of a residential house within a period of three years after the date of transfer. If only a portion of the net consideration is so invested, then the exemption is available proportionately.
12. In terms of Section 88E of the Act, the securities transaction tax paid by the shareholder in respect of taxable securities transactions entered into in the course of the business would be eligible for rebate from the amount of Income tax on the income chargeable under the head "Profits & Gains of business or profession" arising from taxable securities transaction. As such, no deduction will be allowed in computing the income chargeable to tax as capital gains, such amount paid on account of securities transaction tax.
13. Under the first proviso to Section 48 of the Act, in case of a non resident shareholder, in computing capital gains arising from transfer of shares of the company acquired in convertible foreign exchange (as per Exchange Control Regulations) protection is provided from fluctuations in the value of rupee in terms of foreign currency in which original investment was made. Cost Indexation benefits will not be available in such a case. The capital gains / loss in such a case is computed by converting the cost of acquisition, sales consideration and expenditure incurred wholly & exclusively in connection with such transfer into the same foreign foreign currency which was utilized in the purchase of shares.

#### IV. Provisions of the Act vis-à-vis provisions of the tax treaty

In respect of non residents, the tax rates and consequent taxation mentioned above shall be further subject to any benefits available under the Double Taxation Avoidance Agreements, if any, between India and the country in which the non resident has fiscal domicile. As per the provisions of Section 90(2) of the Act, the provisions of the Act would prevail over the provisions of the Tax Treaty to the extent they are more beneficial to the non resident.

#### V. Benefits available to Foreign Institutional Investors ('FILs')

1. Dividend income of shareholders is exempt from income tax under Section 10(34) read with Section 115 O of the Act. The dividend received on the shares of the company will be exempt from tax.
2. Section 94(7) of the Income-tax Act provides that losses arising from the sale/transfer of shares purchased up to three months prior to the record date and sold within three months after such date, will be disallowed to the extent dividend on such shares are claimed as tax exempt by the shareholder.
3. Under Section 10(38) of the Act, Long Term Capital Gains arising from the sale of equity shares of the company transacted through a recognized stock exchange in India, on or after October 1, 2004, the date on which such transaction is chargeable to Securities Transaction Tax, are exempted from tax.
4. The income by way of short term capital gains or longterm capital gains (in cases not covered u/s 10(38) of the Act) realized by FILs on sale of shares of the company would be taxed at 10% (plus applicable surcharge and education cess) as per Section 115AD of the Act. However in case of such long term capital gains, (in cases not covered u/s 10(38) of the Act), the tax is levied on the capital gains computed without considering the cost indexation and protection against foreign exchange fluctuation.
5. In respect of FILs, the tax rates and consequent taxation mentioned above shall be further subject to any benefits available under the Double Taxation Avoidance Agreements, if any, between India and the country in which the non resident has fiscal domicile. As per the provisions of Section 90(2) of the Act, the provisions of the Act would prevail over the provisions of the Tax Treaty to the extent they are more beneficial to the non resident.
6. In accordance with and subject to the conditions and to the extent specified in Section 54EC of the Act, the long term capital gains (in cases not covered u/s 10(38) of the Act), arising on transfer of shares of the company will be exempt from capital gains, if such capital gain is invested in any of the long term specified assets in the manner prescribed in the said section. Where the long term specified asset is transferred or converted into money at any time within a period of three years from the date of its acquisition, the amount of capital gains exempted earlier would become chargeable to tax as long term capital gains in the year in which the long term specified asset is transferred or converted into money.
7. as per the provisions of Section 54ED of the Act and subject to the conditions specified therein, long term capital gains (in cases not covered u/s 10(38) of the Act), on the transfer of shares of the company as and when it is listed, will be exempt from capital gains if such gains are invested in acquiring equity shares of any Indian company forming part of an eligible issue of share capital in the manner prescribed in the said section.

Eligible issue of share capital has been defined as an issue of equity shares which satisfies the following conditions, namely -

- a. the issue is made by a public company formed and registered in India ;
  - b. the shares forming part of the issue are offered for subscription to the public
8. In terms of Section 88E of the Act, the securities transaction tax paid by the shareholder in respect of taxable securities transactions entered into in the course of the business would be eligible for rebate from the amount of Income tax on the income chargeable under the head "Profits & Gains of business or profession" arising from taxable securities transaction. As such, no deduction will be allowed in computing the income chargeable to tax as capital gains, such amount paid on account of securities transaction tax.

#### VI. Benefits available to Mutual Funds

In terms of Section 10(23D) of the Act, all Mutual Funds set up by Public Sector Banks or Public Financial Institutions or Mutual Funds registered under the Securities and Exchange Board of India or authorized by the Reserve Bank of India, subject to the conditions specified therein are eligible for exemption from income tax on all their income, including income from investments in the shares of the company.

## **IL&FS INVESTSMART LIMITED**

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### **VII. Benefit available to Venture Capital Companies / Funds**

In terms of section 10(23FB) of the Act, all Venture Companies / Funds registered with Securities and Exchange Board of India, subject to the conditions specified, are eligible for exemption from income tax on all their income, including dividend from and income from sale of shares of the company.

### **B. Benefits available under the Wealth Tax Act, 1957**

As per the prevailing provisions of the above Act, no Wealth Tax shall be levied on value of shares of the Company.

### **C. Benefits available under the Gift Tax Act.**

Gift tax is not leviable in respect of any gifts made on or after October 1, 1998. Therefore, any gift of shares of the Company will not attract gift tax.

Notes:

- (i) All the above benefits are as per the current tax laws as amended by the Finance (No. 2) Act, 2004.
- (ii) All the above benefits are as per the current tax law and will be available only to the sole/first named holder in case the shares are held by joint holders.
- (iii) In view of the individual nature of tax consequences, each investor is advised to consult his/her own tax advisor with respect to specific tax consequences of his/her investments in the shares of the company.



## THE COMPANY'S PROFILE

### INDUSTRY

Capital formation is an important ingredient for economic development of any country. An efficient securities market provides the necessary channel for flow of resources from the providers of capital to the users of capital for economic development. Domestic savings and capital inflows (domestic and foreign) are channelised in the securities markets. The flow of resources in the securities market depends on the depth and efficiency of the markets, robust risk management system, attractiveness of securities and the ability of the users of capital to attract resources. In a post reform period in India, capital formation through securities market has become an important tool for achieving economic growth. The overall growth of the economy and economic activity are also important factors, which determine availability of resources. The following table outlines the growth of the economy and growth in savings. The increasing savings ratio presents an opportunity to divert the savings from traditional instruments to capital markets.

	FY02	FY03	FY04
Growth in GDP(%)	5.8%	4.0%	8.5%
Gross Domestic Savings as % of GDP	23.4%	26.1%	28.1%

(Source: Central Statistical Organisation)

The following table shows India's economic growth in comparison to some of the developing countries

Percent Change (annually)

Growth in Real GDP	1996-2004 (Avg)	2000	2001	2002	2003	2004P
World	3.8	4.7	2.4	3.0	3.9	5.0
Advanced economies	2.8	3.9	1.2	1.6	2.1	3.6
Emerging Market and developing Countries	5.0	5.9	4.0	4.8	6.1	6.6
<b>Of which:</b>						
Argentina	1.5	-0.8	-4.4	-10.9	8.8	7.0
Brazil	5.2	4.4	1.3	1.9	-0.2	4.0
China	8.4	8.0	7.5	8.3	9.1	9.0
<b>India</b>	<b>5.9</b>	<b>5.4</b>	<b>3.9</b>	<b>5.0</b>	<b>7.2</b>	<b>6.4</b>
Indonesia	2.4	4.9	3.5	3.7	4.1	4.8
Malaysia	4.6	8.9	0.3	4.1	5.3	6.5
Mexico	3.7	6.6	-0.2	0.8	1.3	4.0
Pakistan	3.9	3.4	2.7	4.4	6.2	6.3
Philippines	3.8	4.4	1.8	4.3	4.7	5.2
Thailand	2.6	4.8	2.1	5.4	6.8	6.2

Source: World Economic Outlook, September 2004, IMF

India has been the 2<sup>nd</sup> fastest growing economy in the world over the last 8 years (1995-2003). The average growth during the period has been about 6% whereas China grew at 8% during the same period.

The growth in the Indian economy until now (FY04) remains one of the fastest in the world. India would require massive capital investment in various sectors to sustain its growth. Securities market provide route for raising capital by bringing providers and utilisers of capital.

## IL&FS INVESTSMART LIMITED

### Key participants in the Securities Market

The securities market essentially has four types of participants viz.

- Issuer of Securities
- Investors
- Financial Intermediaries; and
- Regulators

The Issuers and Investors are the consumers of services rendered by the intermediaries and the investors are consumers (they subscribe for / and trade in securities) of securities issued by the Issuer as well. Those who deal in securities need an assurance that it is safe to do so and this reassurance is provided by the laws framed in relation to the securities markets, which in turn are enforced by the regulator. The regulator exercises control over the market and market practices through rules, regulations and guidelines for market participants and intermediaries. Intermediaries play an important role in the securities market by providing a critical link between the various market participants. The efficiency of the market is often determined by the level of intermediation and efficacy of the regulatory framework.

### Segments of Securities Market

The securities market comprises of two broad segments

Primary markets

Secondary markets

**Primary markets** create a flow of new securities to the securities market. This is achieved through public offerings of debt or equity or a composite structure of debt and equity to the investors. Here the issuer of securities raises the funds to meet its fund requirements. Primary market offerings could either be in the form of public offerings or private placements. The issuers here could include corporates, Government, municipal corporations and in some cases existing shareholders and institutional investors offering their securities for sale.

The product offerings by intermediaries in the primary markets include management of IPOs of issuers, mobilization of resources from retail and institutional investors, private placement of issues, debt syndications etc.

Intermediaries in the primary market include merchant bankers, registrars and brokers. The following table indicates growth of primary markets over past five years

(Rs. in mn.)

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
<b>Corporate Sec.</b>	<b>601920</b>	<b>724500</b>	<b>783956</b>	<b>744032</b>	<b>752411</b>	<b>695030</b>
Domestic Issues	590440	689630	741986	720612	718147	664050
Non-Govt						
Public cos.	50130	51530	48900	56920	18777	62100
PSU Bonds	-	-	-	-	-	-
Govt. cos	-	-	-	3500	-	1,000
Banks & FIs	43520	25510	14720	10700	29890	38800
Pvt. Placement	496,790	612590	678360	649500	669480	592150
Euro Issues	11,480	34870	41970	23420	34264	30980
<b>Govt. securities</b>	<b>10,60,670</b>	<b>1133360</b>	<b>1284830</b>	<b>1525080</b>	<b>1819790</b>	<b>1981570</b>
Central govt.	939,530	996300	1151830	1338010	1511260	1476360
State govt.	121,140	137060	133000	187070	308530	505210
<b>Total</b>	<b>798350</b>	<b>1857860</b>	<b>2068786</b>	<b>2269112</b>	<b>2572201</b>	<b>2676600</b>

Source: ISMR 2003-04

**Secondary markets** provide a medium of exchange and enable investors to trade in the securities. An efficient securities market distinguishes financial investments from various forms of other illiquid investments. Stock Exchanges provide the platform and the mechanism for effecting transactions between different market participants. Secondary market comprises of trading in equities, bonds and derivatives. The depth of the market is determined by number of factors such as liquidity of the instruments traded, number of market participants, types of instruments traded, settlement practices etc.

There are 23 exchanges in the country, which offer screen based trading system. The trading system is connected using the VSAT technology from over 357 cities. There were 9,368 trading members registered with SEBI as at end March 2004

The trading volumes on exchanges have been witnessing phenomenal growth over the past decade. The trading volume, which peaked at Rs. 28,809,900 million in 2000-01, fell substantially to Rs. 9,689,093 million in 2002-03. However, the year 2003-04 saw a turnaround in the total trading volumes on the exchanges. It registered a volume of Rs. 16,204,977 million. The turnover ratio, which reflects the volume of trading in relation to the size of the market, has been increased after the advent of screen based trading system by the National Stock Exchange (NSE). NSE accounted for 85% of total turnover (volumes of all segments) in 2003-04

As can be seen from the following table, National Stock Exchange has seen consistent growth in volumes in India

**Growth of volume traded in Secondary Market (National Stock Exchange)**

	Unit	1999-00	2000-01	2001-02	2002-03	2003-04	2004-Jan 05
<b>Capital Market Segment</b>							
No of Trades	No in Lakhs	984	1676	1753	2398	3780	3626
Traded Qty	No in Lakhs	242704	329536	278408	364065	713301	624314
Turnover	Rs Cr.	839052	1339510	513167	617989	1099535	927027
No. of listed companies		720	785	793	818	909	958 (as on Jan'05)
<b>Wholesale Debt Market Segment</b>							
No of Trades	No.	46987	64470	144851	167778	189518	107666
Net Traded Value	Rs Cr.	304216.24	428581.51	947191.22	1068701.54	1316096.24	759892.90
<b>Futures &amp; Options Segment</b>							
No of Contracts	No.		90580	4196873	16768909	56886776	69322301
Turnover	Rs Cr.		2365	101925	439863	2130612	2248135

Source: [www.nseindia.com](http://www.nseindia.com)

**Market Participants**

The Indian securities market is characterised by different players in the various product segments.

The IPO market in India consists of merchant bankers, which help issuers in bringing companies to the market. In India this product is offered by domestic as well as foreign players. Foreign players have typically helped corporates access foreign capital

The issues are distributed to the retail investors through a vast network of brokers across the length and breadth of the country. These brokers act as a distribution link between the ultimate investor and the issuers.

Another set of participants in the primary markets are the registrar and transfer agents who manage the entire process of applications, refunds, allotments etc in an issue and the maintenance of records of transfer of shares.

The secondary market is also characterised by brokers who are members of the stock exchanges. This space is also represented by domestic as well as foreign brokers. The last few years have seen a consolidation in the industry since capital requirements and technology are becoming key differentiators. The following table outlines the market share of top brokers over the years. As can be seen, the larger brokers have increased their market share. For e.g. market share of top 100 brokers has progressively increased from 47% in FY99 to 65% in March 2004.

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### Percentage of market Share of Top brokers (NSE)

Brokers	5	10	25	50	100
2003-2004	12	17	30	44	61
2002-2003	10	16	29	42	59
2001-2002	7	12	24	36	53
2000-2001	8	13	23	34	49
1999-2000	8	13	23	34	50
1998-1999	8	12	21	32	47

Source: [www.nseindia.com](http://www.nseindia.com)

### Mutual Fund Industry:

(Source: AMFI)

The mutual fund industry has shown a considerable growth over last few years with the total assets under management growing from Rs 79,464 crores in as on March 31, 2003 to Rs 139,616 crores as on March 31, 2004 and to Rs.152,280 crores as on January 31, 2005. The year also saw a consolidation of business in favour of the private sector mutual funds with their assets under management growing from Rs 104,992 crores as on March 31, 2004 to Rs. 120,028 crore as on January 31, 2005. Most of the funds that dominate the sector are open ended funds.

The mutual fund sector can broadly be divided based on the nature of the schemes launched by the mutual funds. The fixed income segment, which comprises of income, liquid, gilt and money market schemes have major share in the total corpus of the industry. The other two categories of funds comprising of equity and balanced schemes have shown a good growth in FY04 on account of buoyant stock market.

### Assets under Management

(Rs in Crores)

	FY02	FY03	FY04	As on 31/01/05
Income	55788	47564	62524	48490
Growth	13852	9887	23613	31834
Balanced	16954	3141	4080	5454
Liquid/ Money Market	8069	13734	41704	60028
Gilt & Others	5931	5138	7695	6474
<b>Total</b>	<b>100594</b>	<b>79464</b>	<b>139616</b>	<b>152280</b>

(source : AMFI monthly)

In the recent past, there have been steps taken to ensure good governance practices in the industry which has helped in the healthy growth of the industry consequently distribution of mutual fund products has seen healthy growth in the recent past.

### Foreign Institutional Investors (FII) inflows:

(source : SEBI website)

FIIs play crucial role in determination of market sentiments and price trends. FII activity has shown considerable interest in Indian investment story and is viewed favourably by them. The FII registration with SEBI has increased from 502 in 2002-03 to 657 as on February, 2005. FII investments have gone up considerably in recent years. The table depicts investment by FIIs over past few years.

### FII investment in India

(Rs. in crores)

Year	Investments
2004-05	45038.80
2003-04	39745.10
2002-03	2526.90
2001-02	8072.50
2000-01	10120.20

## INTERNATIONAL SCENARIO:

Stock markets worldwide have grown in size as well as depth over the last one-decade. At the end of 2003, Standard and Poor (S&P) ranked India 17th in terms of market capitalization (19th in 2002), 16th in terms of total value traded in stock exchanges (17th in 2002) and 6th in terms of turnover ratio (7th in 2002) India has the number one ranking in terms of listed securities on the Exchanges followed by the USA.

The turnover on all markets taken together has grown from US\$5.5 trillion in 1990 to US\$29.6 trillion in 2003 (US\$38 trillion in 2002). It is significant to note that US alone accounted for about 52.4% of worldwide turnover in 2003. Despite having a large number of companies listed on Stock Exchange, India accounted for a meager 0.96% in total turnover in 2003. It can also be noticed that Developed markets accounted for 90.23% of turnover in 2003 (93.52% in 2002) while emerging markets comprising developing nations accounted for roughly 9.77% of turnover in 2003 (6.47% in 2002).

### Market Capitalisation ratio and Turnover ratio: end December 2003:

Particulars	USA	UK	Japan	Germany	Singapore	Hong Kong	China	India
No. of Listed Companies	5,295	2311	3,116	684	475	1,029	1,296	5,644
Market Capitalisation (\$Bn.)	14,266	2,412	3,041	1,079	145	715	681	279
Market Capitalisation Ratio (%)	139.8	159.7	70.3	57.5	168.4	426.4	55.2	56.4
Turnover (\$ Mn.)	15,547	2,151	2,273	1,147	88	332	477	285
Turnover ratio (%)	122.8	100.6	88.0	130.0	71.1	56.3	83.3	138.5

**(Source: S&P Emerging Stock Market Fact book, 2004, Reproduced from: NSE Indian Securities Market Review 2004)**

The market capitalisation of all listed companies taken together on all markets stood at US\$31 trillion in 2003 (US\$23 trillion in 2002). The share of US in worldwide market capitalisation decreased from 47.24% as at end – 2002 to 44.66% in end – 2003 while Indian listed companies accounted for 0.87% of total market capitalization in 2003.

### Performance of Indices on Indian and Foreign Markets

Index	31.03.2002	31.03.2003	31.03.2004	31.12.2004	05.04.2005
S&P CNX Nifty	1129.55	978.2	1771.9	2080.5	2063.4
BSE Sensex	3469.35	3048.72	5590.6	6602.69	6604.42
Hang Seng	11032.92	8634.45	12681.67	1854.06	1789.75
Dow Jones	10403.94	7992.13	10381.7	10783.01	10421.14
Nasdaq	1845.35	1341.17	2000.63	2175.44	1991.07
Nikkei	11024.94	7972.71	11715.39	11488.76*	11667.54
FTSE	5271.8	3613.3	4417.5	4814.3	4896.7

\* Figures as on 30.12.2004

**(source : Bloomberg)**

### MAJOR DEVELOPMENTS IN SECURITIES MARKET POST 1990's

The reforms in the capital markets during the 1990s in terms of market microstructure and transactions have ensured that the Indian capital market in particular is now comparable to the capital markets in most developed markets. The early 1990s saw a greater willingness of the saver to place funds in capital market instruments, on the supply side as well as an enthusiasm of corporate entities to take recourse to capital market instruments on the demand side. The size of the capital market is now comparable to other developing countries but there is still a long way to go. It is important to note that developed economies with bank-based systems, such as Germany and Japan, also have capital markets with substantial market capitalisation in relation to GDP

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### Capitalisation of Stock Markets

Economy	(Percentage of GDP)	
	1990	1999
Japan	98	105
Germany	22	68
UK	86	203
USA	53	182
Indonesia	7	45
Malaysia	110	184
Thailand	28	47
India	12	41

*Source: World Development Indicators, 2001.*

Some of the major reforms/changes in securities market since 1990 include

**1) SEBI Act, 1992 replacing Capital Issues (Control) Act, 1947:**

As a part of liberalisation process, Capital Issues (Control) Act, 1947 was repealed in 1992 paving a way for (SEBI Act, 1992) market-determined allocation of resources. Under the new Act, issuers complying with eligibility criteria were allowed freedom to issue securities at market-determined rates. SEBI exercises control over the market through issuance of guidelines and rules for various capital market activities and through regulations for intermediaries and stock exchanges.

**2) Screen Based Trading:**

The trading on stock exchanges in India used to take place through open outcry without use of information technology for immediate matching or recording of trades. In order to provide efficiency, liquidity and transparency, NSE introduced a nation-wide on-line fully automated screen based trading system (NEAT). The Stock Exchange, Mumbai has also introduced nation-wide screen based trading system (BOLT). Introduction of these trading systems is one of the key developments, which has transformed Indian capital markets in different league.

**3) Trading Cycle:**

The trades were accumulated over a trading cycle and at the end of the cycle, these were clubbed together, and positions were netted out and payment of cash and delivery of securities settled the balance. This trading cycle varied from 14 days for specified securities to 30 days for others and settlement took another fortnight. Often this cycle was not adhered to. There were several occasions of defaults and risks in settlement. In order to reduce large open positions, the trading cycle was reduced over a period of time to a week. The exchanges, however, continued to have different weekly trading cycles, which enabled shifting of positions from one exchange to another. Rolling settlement on T+5 basis was introduced in respect of specified scrips reducing the trading cycle to one day. It was made mandatory for all exchanges to follow a uniform weekly trading cycle in respect of scrips not under rolling settlement. All scrips moved to rolling settlement from December 2001. The settlement period has been reduced progressively from T+5 to T+3 days. Currently T+2 day settlement cycle is being followed.

**5) Derivatives Trading:**

To assist market participants to manage risks better through hedging, speculation and arbitrage, SCRA was amended in 1995 to lift the three decade old ban on options in securities. The SCRA was amended further in December 1999 to expand the definition of securities to include derivatives so that the whole regulatory framework governing trading of securities could apply to trading of derivatives also. In the meanwhile exchanges developed adequate infrastructure and the information systems required to implement trading discipline in derivative instruments. Derivative trading took off in June 2000 on NSE and BSE only. The market presently offers index futures and index options on three indices and stock options and stock futures on individual stocks (presently 51 stocks on NSE) and futures in interest rate products like notional 91-day T-bills and notional 10-year bonds.

**6) Demutualisation (Segregation of ownership from management):**

Historically, brokers owned, controlled and managed stock exchanges. Government proposed in March 2001 to corporatise the stock exchanges by which ownership, management and trading membership would be segregated from one another. Few exchanges have already initiated demutualisation process. Government has offered a variety of tax incentives to facilitate corporatisation and demutualisation of stock exchanges. NSE adopted a demutualised governance structure where ownership, management and

trading are with three different sets of people. This completely eliminates any conflict of interest and helped it to aggressively pursue policies.

#### **7) Investors Protection:**

The SEBI Act established SEBI with the primary objective of protecting the interests of investors in securities and empowers it to achieve this objective. SEBI specifies that the critical data should be disclosed in the specified formats regarding all the concerned market participants. The Central Government has established a fund called Investor Education and Protection Fund (IEPF) in October 2001 for the promotion of awareness amongst investors and protection of the interest of investors. Department of Economic Affairs (DEA), Department of Company Affairs (DCA), the SEBI and the stock exchanges have set up investor grievance cells for redressal of investor grievance. The exchanges maintain investor protection funds to take care of investor claims. In January 2003, SEBI launched a nation-wide Securities Market Awareness Campaign that aims at educating investors about the risks associated with the market as well as the rights and obligations of investors.

#### **8) Depositories Act:**

Settlement system on Indian stock exchanges gave rise to settlement risk due to the time that elapsed before trades were settled. Trades were settled by physical movement of paper. The process of physically moving the securities among different parties involved, took time with the risk of delay somewhere along the chain. Significant proportion of transactions ended up as bad delivery due to faulty compliance of paperwork. This added to costs, and delays in settlement, restricted liquidity and made investor grievance redressal time consuming and at times intractable. To obviate these problems, the Depositories Act, 1996 was passed.

At the end of March 2004, number of companies connected to NSDL and CDSL were 5,212 and 4,720 respectively. The number of demat securities increased to 97.7 billion at the end of March 2004 from 76.9 billion as of end March 2003. As on the same date, the value of dematerialised securities was Rs. 10,701 billion and the number of investor accounts was 5,832,552. All actively traded scrips are held, traded and settled in demat form. Demat settlement accounts accounted for over 99% of turnover settled by delivery. This has almost eliminated the bad deliveries and associated problems.

To prevent physical certificates from coming into circulation, it has been made mandatory for all new IPOs to be compulsorily traded in dematerialised form. The admission to a depository for dematerialisation of securities has been made a pre-requisite for making a public or rights issue or an offer for sale.

#### **9) Globalization:**

Indian securities market is getting increasingly integrated with the rest of the world. Indian companies have been permitted to raise resources from abroad through issue of ADRs, GDRs, FCCBs and ECBs. ADRs/GDRs have two-way fungibility. The two-way fungibility for ADRs/GDRs has been permitted by RBI, which meant that the investors (foreign institutional or domestic) in any company that has issued ADRs/ GDRs can freely convert the ADRs/GDRs into underlying domestic shares. They could also reconvert the domestic shares into ADRs/GDRs, depending on the direction of price change in the stock. This is expected to bring about an improvement in the liquidity in ADR/GDR market and elimination of arbitrage opportunity. This will better align ADR/GDR prices and domestic share prices of companies that have floated ADRs/GDRs.

**(Source: Information provided in this section is based on various industry reports such as Indian Securities Market Review 2003, AMFI Monthly reports, Statistical data taken from the websites of BSE, NSE, RBI and CSO. Such information while relied upon by the Company as true, has not been independently verified. Data/ information may have been reclassified for the purpose of presentation)**

**KEY INDUSTRY REGULATION**

The Company's key activities are broking, merchant banking, underwriting and portfolio management services. The Company's primary business is in relation to the securities markets.

**The Securities and Exchange Board of India Act, 1992**

The main legislation governing the activities in relation to the securities markets is the Securities and Exchange Board of India Act, 1992 (the "SEBI Act") and the rules, regulations and notifications framed thereunder. The SEBI Act was enacted to provide for the establishment of SEBI whose function is to protect the interests of investors and to promote the development of, and to regulate the securities market, and for matters connected therewith and incidental thereto. The SEBI Act regulates functioning of SEBI and enumerates its powers. The SEBI Act also provides for the registration and regulation of the function of various market intermediaries like the stock-brokers, merchant bankers, portfolio managers, etc. Pursuant to the SEBI Act, SEBI has formulated various rules and regulations to govern the functions and working of these intermediaries. SEBI also issues various circulars, notifications and guidelines from time to time in accordance with the powers vested with it under the SEBI Act.

In addition to the SEBI Act, the key activities of the Company are also governed by the following rules, regulations, notifications and circulars:

**Broking**

The stock broking activities of the Company are regulated by the SEBI (Stock-Brokers and Sub-Brokers) Rules, 1992 and the SEBI (Stock-Brokers and Sub-Brokers) Regulations, 1992. These rules and regulations govern the registration and functioning of stock-brokers, sub-brokers and the trading members of derivatives exchanges or the derivatives segment of a stock exchange. The regulations prescribe the criteria, standards and the procedure for registration of stock-brokers, sub-brokers and persons seeking to be trading members of a derivatives exchange or the derivatives segment of a stock exchange. The intermediaries are required to abide by a code of conduct prescribed by these regulations. The penalties for failure to comply with the regulations are also laid down. SEBI has the authority to inspect the books of accounts of the intermediaries and take such appropriate action as it deems fit after giving an opportunity for hearing.

The Company also provides margin trading facilities to its clients. The Company also is a trading member on the derivatives segments of the NSE and the BSE. Margin Trading and derivatives trading are regulated by SEBI by various circulars which have been issued from time to time.

**Merchant Banking**

The Company is registered as a Category I Merchant banker with SEBI. The merchant banking activities of the Company are regulated by the (Merchant Bankers) Rules, 1992 and the SEBI (Merchant Bankers) Regulations, 1992. For carrying on the activities as a merchant banker, a person has to be registered in any one of the categories prescribed under the regulations. The registration in any one particular category determines the actions and functions that the merchant banker can carry on. One of the criteria for eligibility as a merchant banker is a capital adequacy requirement based on the category of registration. There are also restrictions on the appointment of lead managers and responsibilities prescribed in the regulations. The merchant bankers are also required to abide by a code of conduct prescribed by these regulations. The penalties for failure to comply with the regulations are laid down in the regulations. SEBI has the authority to inspect the books of accounts and take such action as it deems fit after giving an opportunity for hearing.

**Underwriting**

Being registered as an underwriter, the underwriting activities of the Company are regulated by the SEBI (Underwriters) Rules, 1993 and the SEBI (Underwriters) Regulations, 1993 (the "Underwriters Regulations"). The Underwriting Regulations regulate the registration and functioning of underwriters. It prescribes the criteria, standards and the procedure for registration as underwriters, including a capital adequacy requirement. Further, the duties and responsibilities of the underwriters are prescribed in the Underwriting Regulations. The underwriter is required to enter into an agreement with the client providing details including *inter alia* the duration, the amount underwritten, commission or brokerage payable etc. A code of conduct to be followed by the underwriters is also prescribed. It also lays down liabilities and the penalties for failure to comply with the regulations. The SEBI has the authority to inspect the books of accounts of the intermediaries and take such action as it deems fit after giving an opportunity for hearing.

**Portfolio Management**

The portfolio management activities of the Company are regulated by the SEBI (Portfolio Managers) Rules, 1992 and SEBI (Portfolio Managers) Regulations, 1993 (the "Portfolio Manager Regulations"). The Portfolio Manager Regulations regulates the registration and functioning of portfolio managers. It prescribes the criteria, standards and the procedure for registration as portfolio managers. In



addition to qualifications, experience of personnel etc the portfolio manager regulations also mandates a stipulated capital adequacy requirement of Rs. 50 lakhs. Further, the duties and responsibilities of the portfolio manager are prescribed, along with the code of conduct and the measures to be adopted during inter-se dealings with clients. It also lays down liabilities and the penalties for failure to comply with the regulations. The SEBI has the authority to inspect the books of accounts of the intermediaries and take appropriate action if it deems fit after giving an opportunity for hearing.

#### **Other Regulations**

The Company is governed by the provisions of the SEBI (Prohibition of Insider Trading) Regulations, 1992. The regulations prohibit the dealing by any person or company in securities of any other company when in possession of unpublished price sensitive information of such company. SEBI is empowered to inspect, investigate the books of accounts or other documents of an insider and pass appropriate directions, where it deems fit. The regulations also prescribe a model code of conduct to be followed by all companies and organisations associated with the securities markets. Further, the regulations mandate a disclosure, of the number of shares or voting rights held by any person who holds in excess of 5% of the shares or voting rights of a listed company. Any change in the aforementioned shareholding / voting rights must be intimated to the SEBI.

In addition to the aforementioned regulations, the criteria for determination of whether an entity can be registered under any of the above regulations are governed by the SEBI (Criteria for Fit and Proper Person) Regulations, 2004. The Company is also required, as an intermediary, to be registered under the SEBI (Central Database of Market Participants) Regulations, 2003. In addition, the Company is also regulated by the rules and regulations framed by the Association of Mutual Funds in India (AMFI).

#### **Stock Exchange Rules, Regulations and Bye-laws**

Further, the Company is also regulated by the rules, regulation and by-laws of the stock exchanges where it is registered as a trading member. Hence it is also governed by the rules, regulations and by-laws of the NSE, the BSE and the Delhi Stock Exchange (DSE), the stock exchanges on which it is a trading member.

### BUSINESS

#### BUSINESS OVERVIEW

The Company is one of the leading financial services companies in India primarily engaged in intermediation of financial products and financial advisory services for retail, institutional investors and corporates. The Company was set up by IL&FS, one of India's premier non-banking financial services company on September 01, 1997. IMBSL prior to its merger with the Company, was engaged in merchant banking activities. DIL was jointly promoted by IL&FS and the National Stock Exchange of India Limited to set up an electronic platform for placement of debt securities. IMBSL and DIL merged with the Company with effect from January 01, 2002.

#### BACKGROUND

The financial markets in India had been largely unregulated in the past and accordingly the distribution of financial products was also unregulated. The range of financial products was limited and largely related to fixed income products. Awareness among people was limited and a large majority of the population let their money lie idle in savings bank accounts or invested in bank deposits. Equity investments were driven by sentiment and speculation rather than by fundamentals.

#### THE OPPORTUNITY

Post 1990, with the advent of liberalization and opening up of the financial sector, the changing economic scenario gave rise to a number of instruments, investors and tightening of regulations. Deregulation of the interest rate regime, entry of private sector mutual funds, opening up of the insurance sector, reforms in capital markets, advent of derivatives represented a sea change in the investment arena. On the other hand, the growth in the service sector gave rise to a growing class of working professionals with reasonable disposable incomes. Indian professionals amassed reasonable wealth in the form of high salary levels and stock options. Changing work and lifestyles helped in accelerating the growth of the burgeoning upper middle class (commonly referred to as the mass affluent).

#### CONCEPTION

These investors were looking for trusted advisors who possessed a thorough knowledge of the capital market and the various instruments and were easily accessible, reliable, trustworthy and financially sound, who maintained high standards of service and offered a complete range of services – advice, execution and monitoring based on their risk profile. Given the above scenario and an absence of a reliable distribution house backed by institutional shareholders a need was created for having a pan India entity that offered quality advice and full range of financial products through effective use of technology, research and service. This presented an opportunity to set up a financial services distribution entity and gave birth to the idea of setting up the Company.

#### Business approach

The Company embarked upon setting up the distribution house on a model to address the problems faced and to meet requirements of investors. The Company being promoted by institutional shareholders had the inherent advantage of credibility, a factor lacking in many other intermediaries. Credibility in advisory services is very critical to be successful in the long run.

It was considered that apart from high quality of service, the business approach should address two key requirements

- knowledge of products or services being offered. The environment has been dynamic and it was essential to understand the implications of each of the products and to whom it is suited; and
- reaching the customer and giving him what he needs rather than what the Company has to offer. Thus, the emphasis was on providing a full bouquet of products and services without any bias and to maintain vendor neutrality

The focus was to target retail and institutional customers by providing quality services backed by strong knowledge and research capabilities.

#### Target market

The products/services covered provide a wide range of financial products catering to different segments. In the retail segment, the focus is to cater to middle and upper segments of clients (commonly referred to as the “mass affluent”) by advising them and offering a complete range of products to cover life cycle requirements.

In the institutional segment, the aim is to cover banks, corporates and institutions that are active in the business segments that the Company targets leveraging existing relationships of the IL&FS Group.

## Product offerings

The product offerings of IIL can be briefly described as:

- (i) Retail offerings covering a variety of brokerage services and advisory products for retail clients across asset classes encompassing debt, equities (primary & secondary), insurance , commodities and liability products
- (ii) Project syndication - assisting projects in accessing long term debt funding
- (iii) Equity broking for Institutional segment of customers covering financial institutions, mutual funds, Foreign Institutional Investors etc
- (iv) Primary debt placement of corporate paper and secondary market transactions - institutional debt broking
- (v) Merchant banking covering all SEBI regulated merchant banking activities such as public offers, private equity, buyback of shares, rights issuances, open offers etc



## Retail Business

### Why retail

Indians by and large are debt-averse and have a tendency to save. Gross Domestic Savings in India are at a respectable level and stands at 24% of GDP. There is thus a large corpus in personal retail savings, which is a potential target for retail offerings.

The retail segment is set to grow for a number of reasons:

- **Increased returns:** Significant portion of these savings comprising financial assets is parked in bank fixed deposits, postal schemes, etc. which would now require an asset reallocation as these instruments no longer yield attractive returns
- **Regulatory reforms in financial markets:** Reforms in the financial sector have opened up new avenues for investments. Over the years, regulations have become more investor friendly which have boosted confidence of the retail investors to take active participation

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- **Diversified asset instruments:** Investors generally lack a perspective on planning for the future and the need to allocate their savings and earnings in the right proportion to address their current and future needs. With a host of investment options and instruments, the role of investment advisors will gain crucial importance
- **Changing demographic profile:** Changing demographic profile of investors and their perception and attitude towards investments has resulted in a shift in investment patterns from traditional investment instruments (gold, land, fixed deposits) towards capital market products (IPOs, Mutual Funds, Equities)
- **Likely shift to equity:** Currently less than 2% of the population has ever invested in the equity markets. With a robust capital market, remaining investors in the population class will look for a shift to equity related instruments
- **Reducing real interest rates:** Over the years, investors parked their surplus investments in high yielding debt instruments. With the steep reduction in interest rates leading to a reduction in the yields on fixed deposits and bank deposits, investors would have to look at alternate options which provide greater returns

In a country like India, considering the population and demographic profile, the retail segment is sizeable and offers a great potential for offering intermediation services. Retail normally provides higher intermediation margins as compared to other segments and once critical mass is achieved, offers a stable stream of revenues.

### What the Company offer

Retail is the core activity of the Company and the offerings seek to cover all financial planning requirements at the retail level which include providing personalised investment management services including planning, advisory, execution and monitoring of the full range of investment services. Retail division essentially services customers of the Company by offering:

#### (a) *Investment advisory services :*

- *Portfolio advisory and management services* These services comprise of :
  - a) Execution and management of investment portfolios of customers who prefer to delegate their investment to specialists
  - b) Advisory support on investment portfolios of customers

#### (b) *Brokerage services*

- *Equities & Derivatives*

Broking services are provided in primary and secondary equity capital market. These services are offered to customers who are largely self directed, independent and actively participate in the capital market and are looking for access to trading tools, stock research and trade support;
- *Distribution of financial products*

These services are offered to customers who want limited research inputs and advice, but an array of investment choices to evaluate backed by quality service to help them manage their own portfolios.

The Company services its customer base through its network of 153 outlets through 30 branches and 123 business associates in 62 cities and its informative website [www.investsmartindia.com](http://www.investsmartindia.com). The customer base is serviced through a team of relationship managers, customer service executives, advisory managers and research analysts. In addition to the existing network, the Company has also set up corporate work sites (advisory desks) to cater to the employees of these corporates for their investment needs.

#### (1) *Investment advisory services :*

Managing investments is a time consuming exercise. While executing a transaction takes 10% of the overall time dedicated to investments, the other 90% is taken up in planning, sourcing and monitoring. It is therefore necessary to assist investors in the overall process rather than peddle investments to them. The Company offers a suite of advisory products aimed at developing a partnership approach with customers who prefer enhanced relationships that require understanding the unique financial requirements of the customers and offer investment solutions through value added services. Advisory services are broadly classified as discretionary advisory services or non-discretionary advisory services.

- (a) **Discretionary Services:** Investors who prefer to delegate their investments to specialists avail of discretionary services. The Company is registered with SEBI to provide Portfolio Management Services (PMS). The primary focus of IIL-PMS is to provide individualised portfolio management services for clients in a variety of asset classes to fit the investor's specific investment parameters. At present, the Company is serving 525 clients under PMS.

- i. **Equities:** These services are offered through IIL-PMS, a discretionary portfolio management service. The IIL-PMS is targeted essentially towards the mass affluent having an investible surplus of Rs 1 million and above and invests the monies on behalf of clients in equities and derivatives
  - ii. **Mutual funds:** These services are offered through i-Preserve, a discretionary portfolio management service designed to manage client portfolios by investing in a mix of various mutual fund schemes (encompassing both Debt as well as Equity) debt instruments and bank deposits with an objective to meet the clients pre-defined financial objectives and goals
- (b) **Non-discretionary services:** Investors who value advise but prefer to take their own investment decisions avail of these services. Under these services, the Company offers Advisory services to clients to address complete portfolio requirements of customers who are desirous of using their discretion in making investment decisions but with active assistance of the Company. These services are offered to varied customers depending on the age group and status of their career.

Over the years, the Company has offered investment advisory services to over 1394 customers with portfolio values aggregating to Rs 2160 crores. The basic approach followed by the Company in providing these services includes profiling of the customer, current income levels, current and future financial requirements, return expectations and the risk appetite. Based on this study, a suitable investment plan is worked out for the investor, which includes a review of the existing portfolio and suggesting suitable changes to the same.

**(2) Brokerage services:**

**(a) Equity and Derivative Trading :**

The Company is a member of BSE and NSE and offers secondary market broking services to its retail customers. The Company has over 54,790 registered customers for the broking services. The Company offers equity and derivative broking services through dedicated dealers and relationship managers who provide personalized phone assisted trade and execution services through the network of branches and business associates. Brokerage services are provided on an advisory model where active traders, retail investors and high networth investors are given advisory inputs by the team of dealers and relationship managers located across the country based on technical, fundamental and market research being carried out by the central research team

The retail customer acquisition has seen accelerated growth owing to widespread branch and business associate network of the Company.

**(b) Distribution of financial products:**

Utilising the strength of its network and customer base, the Company also distributes financial products including fixed income products such as bonds, corporate debentures, corporate fixed deposits, mutual funds, Initial Public Offers (IPOs), home loans and insurance.

The Company is one of the established mutual fund distributors in the country enjoying a preferred distributor status with most Mutual Funds. The aggregate mobilization of funds by the Company in mutual funds was over Rs 14,164 crores for the period April 1, 2004 to March 31, 2005. The Company maintains a fund neutral status and provides research-based advice to its customers as part of its distribution services.

The Company is one of the leading distributors of IPOs and ranks as number 3 for the period April 2004 - February 2005 for procurements in equity offerings as well as all the public offerings. During the year The Company acted as broker to all the major IPOs and GOI divestments and generated significant distribution revenues.

(Rs. In crores)

	Equity Offerings		All public offerings	
	Procurement	Prime Ranking	Procurement	Prime Ranking
2001-02	79.3	19	248.0	29
2002-03	2498.6	4	2618.3	7
2003- 04	3764.07	3	3764.07	3
2004-05	7509.45	3	7509.45	3

**Source: Prime Database**

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### Investment / Merchant Banking (MB)

The Company's Merchant Banking division caters to providing equity capital market and other advisory solutions to their corporate clients. This division of the Company, which was earlier, a separate company called IL&FS Merchant Banking Services Ltd. was taken over by the Company and merged with the Company. The Company is registered with SEBI as a Category I Merchant Bank and Underwriter. The Company product portfolio comprises entire gamut of Investment banking services which includes corporate advisory services and resources raising through either the capital markets or private placement / syndication of equity, mergers and acquisition transactions. This includes management of IPOs, rights issues, buyback of equity, open offers, and private placements of equity

The business is primarily driven by the strength of the corporate relationships of the Company and its parent, which are effectively leveraged for origination of new assignments. The division is supported by the retail and institutional sales & distribution network of the Company. The retail distribution network is used in distribution of new issues at the retail level and the institutional equities group helps in the private placement and placement of new issues with the institutions. The division has existing relationships with private equity investors across the globe for execution of such transactions

The team advises clients on structuring the transaction and adopting the appropriate route to resource raising based on the growth needs of the client and the state of the markets

Given below is the summary of all the transactions that this division has done over the last few years :

Client	Year	Size (Rs Cr.)	The Company's Role
<b>(a) Management of IPOs / Rights Issues</b>			
Noida Toll Bridge Company Limited	2000		Advisor
Balaji Telefilms Limited	2000	71	Co-BRLM
Mid-Day Multimedia Limited	2001	50	BRLM
Divi's Laboratories Limited	2003	45	BRLM
Chettinad Cement Corporation Limited (Rights Issue)	2001	41	Lead Manager
Zenith Infotech		40	Lead Manager
Dishman Pharmaceuticals and Chemicals Ltd.	2004	60	BRLM
Datamatics Technologies Ltd.	2004	113	Co-BRLM
SAL Steel Ltd.	2004	59	BRLM
Indoco Remedies Ltd.	2004	74	Co-BRLM
Varun Shipping Company Ltd. (Rights issue)	2004	65	Lead Manager
UTV Software Communications Ltd.	2005	100	Co-BRLM
Gateway Distriparks Ltd.	2005	151	BRLM
Sirpur Paper Mills	2005	60	Lead Manager
Gokaldas Exports Ltd.	2005	133	Co-BRLM
Allsec Technologies Ltd.	2005	42-50	BRLM
<b>(b) Management of Buy Back/ Open Offers</b>			
Britannia Industries Limited 1	2002	55	Manager
Britannia Industries Limited 2	2003	92	Manager
John Fowler (India) Limited	2000	8	Manager
Venky's India Limited	2003	7	Manager
India Cements	2001	24	Manager
Britannia Industries Limited 3	2004	78	Manager
Godrej Consumer Products Ltd.	2004	8	Manager
<b>(c) Private equity deals</b>			
Mars Restaurants	2001	20	Advisor
Tidel Park	1999	28	Advisor
<b>Current deals</b>			
Shoppers Stop Ltd.	2005	Yet to be decided	Co-BRLM
A.P. Paper	2005	Yet to be decided	Lead Manager
Gati Couriers Ltd	2005	Yet to be decided	Lead Manager

Source: Prime Database and management

Based on the Prime Database ranking, the Company is ranked 3<sup>rd</sup> during 2004-05 on the basis of number of book build issues managed by it. The Company has been targeting the mid-sized corporates across diverse industries where business growth is higher and fee structures less competitive. This strategy also enables the Company to offer investment banking solutions at every step along the growth curve of the corporate clients and results in lasting relationships resulting into repeat business. Further, the Company has made initial forays to tap the large sized but competitive deals such as Government divestments/large bank issues in order to enable it to gain a foothold in this market

### **Project Syndication Business (PSB)**

PSB leverages on the Corporate, Institutional and Banking relationships across the IL&FS group enabling the group to provide a comprehensive suite of advisory services packaged with resource raising abilities. The Infrastructure Sector has been identified as a key element for the overall growth of the economy. The Government has come up with large-scale sector reforms to facilitate private participation in various infrastructure sectors. With the entry of private players or project sponsors, there has been a need to establish a financing framework for infrastructure projects, which facilitate raising of debt for such projects. The banking sector is keen to lend to such initiatives and therefore require a bankable framework for lending to infrastructure projects. The Division is uniquely positioned to provide a bridge between project sponsors and lenders through its understanding and expertise in the area

The Division has successfully established itself in providing this link in the area of raising Debt Resources and has till date completed Project Finance transactions for Greenfield projects exceeding Rs. 38 billion and Corporate Finance transactions for deals in excess of Rs. 7.8 billion. The division has acquired from IL&FS, a significant expertise in raising resources for Greenfield Projects. In a continually evolving marketplace, this division has gained expertise in other areas of Debt Funding including Receivable Financing, Acquisition Financing and Refinancing, with each activity being a specific focus area. The Project Syndication Division forms the focal point for all debt raising activities, within the IL&FS Group, forming a single external face for this activity

IL&FS is involved in financing of number of infrastructure and other capital-intensive projects. Owing to large size of these projects, participation by number of banks and financial institutions is essential in achieving financial closure for such projects. The pre-eminent position of IL&FS in financing infrastructure projects as well as providing structured financial solution is utilized for providing syndication services for IL&FS clients. IL&FS relationships with banks and financial institutions are also effectively leveraged for placement of debt. In addition to servicing IL&FS clients, the group also originates the loan syndication business for its own clients and services them. The services under Project Syndication include project loan syndication, structured debt syndication and debt restructuring. The syndication business thrives on its extensive contact base and strong relationships developed over the years with Banks and Financial Institutions.

### **Services Offered**

The service offerings of this division cover all activities in assisting a project developer in raising the required funds. This division works closely with the other Project Development and Sectoral Companies in the Group, which provide the necessary domain expertise

### **Mandates completed**

The mandates completed by the Project Syndication Business in various areas over the last 4 years is provided below :

S.No.	Area	Amount (Rs cr)
1	Project Finance	3583
2	Corporate and Structured Finance	788
3	Private Equity Fund	270

### **Institutional Equity Business (IEB)**

The Institutional Equity Business of the Company thrives on strong relationships it has built among corporates, mutual funds, banks, financial institutions, insurance companies, public sector banks and select FIIs. The Company believes that quality research, high degree of compliance with stock exchange regulations, ethical business standards and efficient execution capabilities are key drivers for developing institutional equities business. The product offerings under IEB include broking relationships with institutional investors for executing equity and derivative trades, placement of shares for listed companies and placement of shares offered under IPOs with institutional investors. The Company has established business relationship with over 76 institutional investors.

To effectively service institutional investors, the Company provides research inputs in the form of preparation and distribution of company reports, sector reports, corporate result updates, daily market wraps and customized mutual fund reports. In addition, the Company organizes conference calls, structured management meets and road shows to disseminate investment ideas to institutional investors.

- (1) **Primary Market** : The services in the Primary market primarily cover complementing and supporting Merchant Banking deals. The team provides necessary support in terms of pricing the issue, carrying out necessary research on the corporate, pre marketing

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the issuance and building the book / selling the issuance. The established relationships with institutional investors are used for IPO and private equity placements.

- (2) Secondary Market : This covers all activities related to institutional segment dealing in scrips which are already listed
- (i) Equity broking is the principal service offering of this division. The division is a member of The National Stock Exchange of India Limited and the Stock Exchange, Mumbai. It has connectivity to both the exchanges and is able to execute transactions on-line
  - (ii) To provide equity broking services to this segment, it has to be backed by research and advice. Therefore the division carries out research related to corporates, industry and economy and provides the same as advice to clients. It is also constantly serving it's client segment with other information and news which would have an impact on investments

The team was strengthened during 2002-03 with a focus on developing institutional business with domestic banks and institutions as well as FII clients. The Company is currently focusing on developing FII relationships for institutions based in Asia Pacific and European region.

The following table shows the growth in relationships and business volumes over last four-year period :

(Rs. in Crores)

	2002-03	2003-04	2004-05
<b>No of relationships</b>	50	71	76
<b>Volume of secondary market business transacted</b>	859	3073	5343

### Institutional Debt Broking (IDB)

The IDB deals in Secondary market and Primary market debt origination and placements and broadly offers the following services :

#### (1) Secondary Market

- Secondary Debt broking is the principal service provided by this division. The clients are mainly the institutional debt players such as banks, primary dealers, mutual funds and in some cases corporate treasuries and large provident funds. The secondary market has gained importance over the past three years and the volumes have surged with more and more players becoming active.
- The division has more than 140 empanelments and deals with almost all the clients in the fixed income market. All types of debt papers are covered, including Government Securities, Treasury Bills, Public Sector bonds, Corporate bonds, etc. The government securities and treasury bills are the most active securities with more than 95% volumes coming from these securities. This desk also provides transaction and advisory support to various provident funds and HNI Clients
- Hotlines are offered by institutions to active intermediaries of the market. The hotline offers two-way communication on tap and can prove vital to close deals in a volatile market. The key to success lies in the ability to quote the best bid/ offer that the institution wants to invest/ sell in. The sales people and dealers are constantly interacting with their constituents to find out their requirements and trying to match the same.

(Rs. in Crores)

Financial Year	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
<b>Volume</b>	4573	9226	25724	39352	25492	39678

#### (2) Primary Market

- The primary market services cover placement of debt paper issued by public sector units and corporates, with the institutional segment covering banks, mutual funds etc.

The debt instruments covered by this division cover both short term as well as longer term instruments. Commercial Paper and MIBOR Linked Bonds are popular among the short-term instruments. The division also uses a proprietary online platform called "DebtonNet" for online book building of debt issuances, and offering of various portfolio valuation services directed towards the banking segment

- DebtonNet India Limited (DIL) was promoted by IL&FS and NSE in FY 2000 to develop transparent electronic marketplace for primary debt market products, through its website, [www.debtonnetindia.com](http://www.debtonnetindia.com) The website addresses all issuers, investors and intermediaries with the attendant advantages of speed, transparency and lower costs. It also offers one of its kind investment



valuation tools, in addition to value research and information on the debt and money markets in India. After the merger of DIL with IIL w. e .f. January 2002, DIL forms an integral part of the institutional debt division of the Company providing research inputs, valuation tools. Services offered by DIL include providing electronic platform for primary issuance of debt paper through book building route and offering analytical tools for valuation of debt securities.

- Primary issuance of debt paper : DIL pioneered the concept of issuance of debt securities using book-building route with the internet backbone. It offers electronic platform for price discovery through participation by registered institutional investors and corporates intending to raise funds. Number of registered users presently stands at 200 which include banks, mutual funds and financial institutions. DIL has hosted issues aggregating in excess of Rs.10,000 crores including the issues of Konkan Railway Corporation, Larsen & Toubro, Rural Electrification Corporation, IDBI, NABARD, HDFC, National Housing Bank, Bharat Petroleum Corporation Ltd. (BPCL), Philips, Mahindra & Mahindra, Cholamandalam Group and Indian Oil Corporation on a private placement basis on the web
- DIL provides portfolio valuation and analytics services to fixed income market participants based on FIMDA guidelines. This module helps users to ensure regulatory compliance with respect to mark to market as also improve the quality, ease and timeliness of their management reporting.
- Debt Reporting : DIL launched this product in 2002 and has 5 nationalized banks and 5 co-operative banks as its customers

## Business Model & Strategy

### Background:

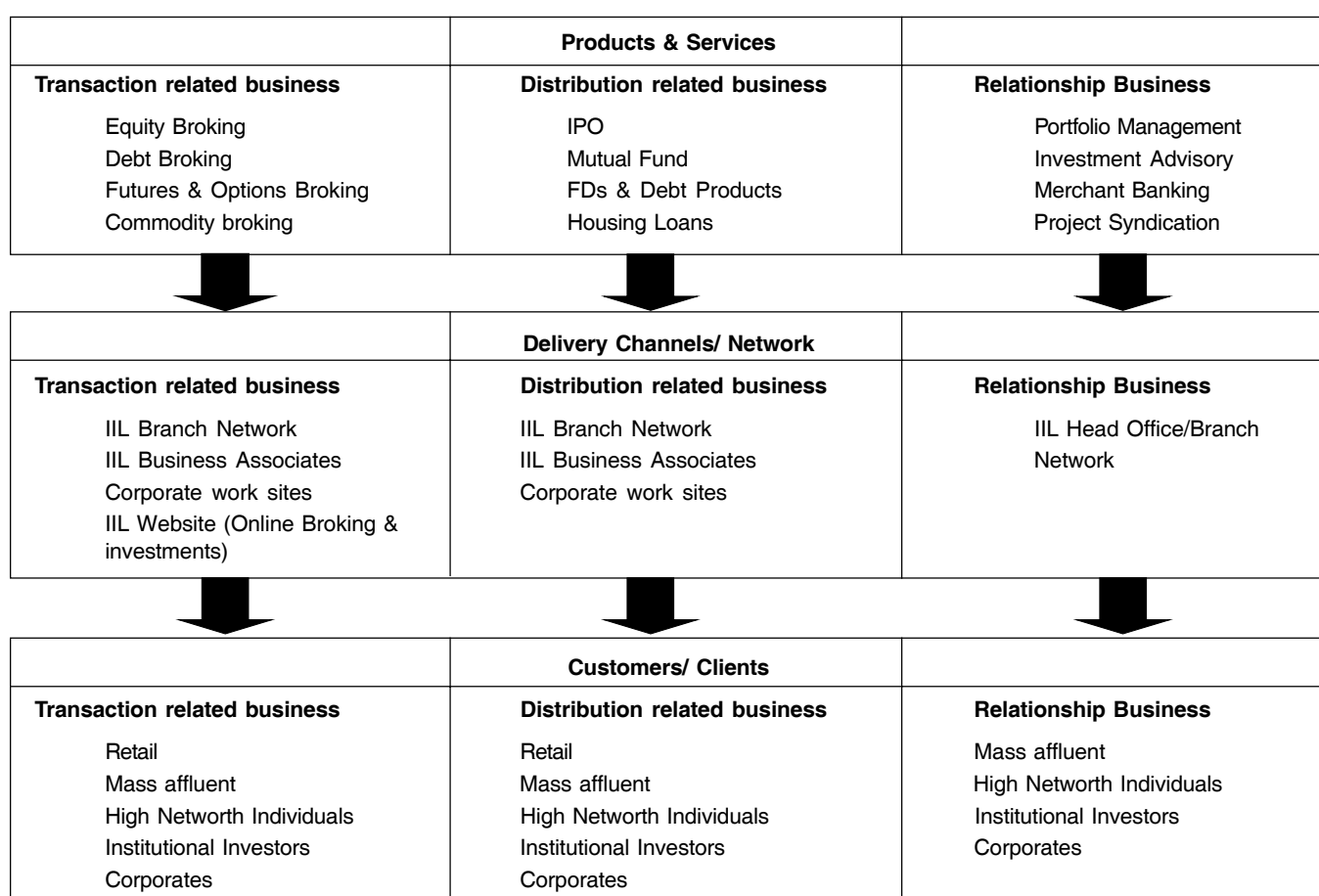
The Company started its operations in 1997 with an objective of focusing on servicing the mass affluent (investors with investible surplus of Rs 1 million and above) with a suite of financial products and services. As a strategy, the Company decided to expand the reach to achieve its objective of servicing retail customers. The table below outlines the growth of network & clients

	2000-01	2001-02	2002-03	2003- 04	2004-05
<b>No. of Branches/</b>	25	24	18	23	30
<b>No. of Registered Customers</b>	9313	12618	16109	31101	54,790
<b>No. of Business Associates</b>	0	2	10	46	123
<b>No. of Cities Covered</b>	12	12	12	37	62

After creating the necessary backbone of retail distribution infrastructure and building a critical mass of customers, the Company decided to leverage its deep understanding of financial products and reach to broaden its relationships with high network investors (HNIs) through more value added services leading to long-term relationships.

The Company has developed a business model on the lines of a universal broker, which utilizes its knowledge of financial products, ability to offer wide range of products across asset classes & customer segments through multiple channels of delivery backed by its network, network and technology to service the clients.

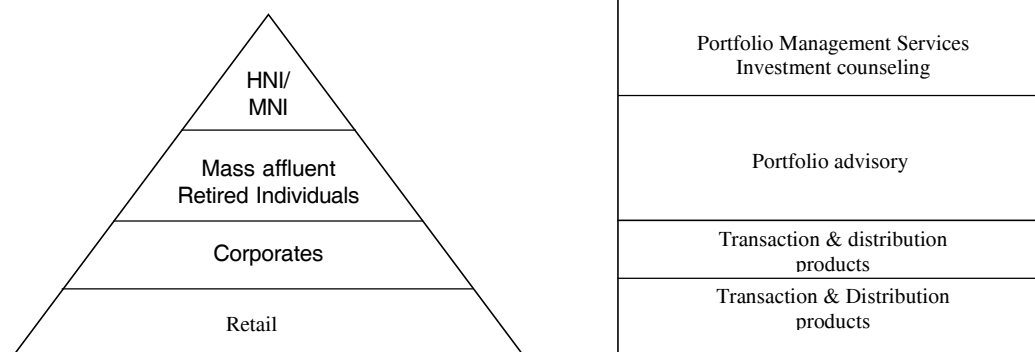
## IL&FS INVESTSMART LIMITED



### BUSINESS MODEL:

#### Retail Customers:

The Company believes in servicing customers through a comprehensive product range & superior service quality. As can be seen from the model above, typically a new customer acquisition could happen through a client using any of the transaction or distribution product or service. The customer is serviced by Relationship Managers either at branch or business associate outlet. Transaction and distribution businesses are highly competitive in nature with relatively low margins. Further such businesses also to some extent are dependent on the performance of capital markets. The Company therefore believes that encouraging these customers to use advisory oriented businesses would improve margins, build sustainable revenue streams and ensure strong customer loyalty



Servicing of clients and value add is key for progression of transaction & distribution customers to higher ladders, which typically generate more margins and are more stable. Given the widespread distribution of branches for servicing, effective control and risk management systems are important while adding new customers and executing business. The Company uses its business associates to effectively service the retail customers and is progressively using the branch network to acquire and service the mass affluent/HNI investors

#### **Institutional Customers:**

Institutional customers include banks, financial institutions, mutual funds, provident funds and FIs etc. Product knowledge and ability to service is key. Brokerage business from institutions is driven by established broking relationships and value of brokerage business derived from them. Institutional customers carefully evaluate brokerage houses on number of parameters such as research capability, service quality, proactiveness, quality client calls, institutional back up, networth etc before choosing to establish relationships. Such relationships are often called as 'empanelment' with an institution. After such relationship is established, the trading desk of the institution and execution office of the Company use dedicated lines of communication to execute broking business, adequately supported by back office of the brokerage house for after deal servicing. However, equally important aspect is using these relationships to get larger share of business from them, which is driven by the depth of research and order execution capability of the brokerage house.

Other forms of relationships with institutional customers would include acting as distributors for the products of such institutions. For e.g. IIL acts as a distributor for mutual fund schemes for all leading mutual funds in India.. The Company is an active player in loan syndication market in which banks and financial institutions are key participants.

#### **Corporate Customers:**

The Company offers merchant banking and loan syndication services to corporates. Merchant banking deals such as managing IPOs, and rights offerings also require skills in marketing & distribution of IPOs to institutional investors & HNIs and retail investors. The Company uses its relationships with institutions and HNIs, for marketing IPOs lead managed by the Company and others where it acts as a broker or a syndicate member, and also utilizes its retail distribution network for mobilising retail subscriptions.

The Company also effectively utilizes skills and domain knowledge developed by IL&FS in project finance and developing innovative financial solutions. The Company has also developed relationships with all the leading participants in the loan syndication market i.e. banks & FIs.

#### **BUSINESS STRATEGY**

Retail business is at the core of the business strategy and has strong linkages with all the other businesses. The Company believes in leveraging its retail presence to move up the value chain and grow into a full service one stop financial solutions provider. The business model developed by the Company addresses the focus areas identified by the Company.

- Multi product offering across asset class driven by research
- Three tier service approach : planning & advisory, execution and monitoring
- Customer centric approach and have customers to move up the value chain
- Derisking the Business Model having annuity income products and debt business
- Reach out to diverse investor segments through a combination of own branches and franchise partners
- Effectively use technology to segment customers
- Extend presence in international markets
- Leverage relationships, expertise and products of strategic investor

#### **INDUCTION OF STRATEGIC INVESTORS**

The Board of Directors of the Company in its meeting held on November 11, 2003 subject to approval the major shareholders & other regulatory requirements, approved steps to be taken to facilitate introduction of a strategic investor. The Company has inducted Softbank Asia Infrastructure Fund (SAIF) and E\*TRADE Mauritius Ltd (ETM) as strategic Investors in November, 2004. The Company believes that the induction of the investors will significantly enhance its competitive positioning

#### **Association with E\*TRADE Financial (E\*TRADE)**

ETM is the wholly owned subsidiary of E\*TRADE. With the induction of ETM into the Company as a shareholder, the Company expects to gain significant benefits from the global expertise of E\*TRADE

## IL&FS INVESTSMART LIMITED

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The Company has had a comprehensive dialogue and discussions with E\*TRADE to identify areas of business where E\*TRADE would work closely with the Company and provide strategic inputs, guidance and active assistance

E\*TRADE has a global presence in over 12 countries and has expertise in building high technology driven, scalable and customer centric products and services. The Company is in discussions with E\*TRADE to seek managerial inputs and knowhow on building skills in its existing business lines

The broad areas where the Company is likely to work very closely with E\*TRADE are summarised below :

- Internet broking : E\*TRADE is a global leader catering to around 3.5 million customers and pioneer in the field of internet broking and has extensive expertise in the area. E\*TRADE would provide strategic inputs and assistance to the Company to successfully roll out and attain market leadership in the area of internet broking
- Investments into India : Capital markets in India have seen a significant interest from Foreign Institutional Investors (FIIs) and Non-Resident Indians (NRIs) settled overseas. The Company plans to design products and an enabling framework jointly with E\*TRADE to facilitate these investments into the country
- Overseas presence : The Company has plans to increase its presence across the national boundary. With the assistance of E\*TRADE, the Company has firmed up plans to establish overseas presence to tap the international investors
- Access global markets : E\*TRADE has a global presence in over 12 countries. This would provide opportunities for the Company to access the global markets through the E\*TRADE trading platform and facilitate retail and institutional investors in the country to access these markets, products and services
- Brand strategy : E\*TRADE has been able to establish itself as a dominant financial services brand in a relatively short span of time. In India, there is a need to develop a credible financial services brand that represents the customer interests across financial products. The Company would rely heavily on the expertise developed by E\*TRADE in developing a brand architecture, marketing strategies and tools to position the Company as a dominant player in the domestic market
- Service design : Customer services has been rapidly emerging as a key differentiator in the competitive environment. E\*TRADE with its sophisticated, high end technology solutions have been able to achieve high degree of customer satisfaction. The Company proposes to work closely with E\*TRADE in developing, designing and rolling out a service design that cuts across products, services and channels
- Technology architecture : E\*TRADE has been known for its superior technology platform and the ability to integrate all products and services over the technology platform through high end applications, scalable infrastructure, strong security applications and integrated design. The Company plans to seek active assistance from the expertise of E\*TRADE to review its technology architecture, infrastructure and capabilities and design an IT road map that provides superior services for its customers across products and channels which is scalable and secure

### **Softbank Asian Infrastructure Fund (SAIF):**

Simultaneously with the induction of E\*TRADE, Company is expected to benefit from the expertise of SAIF which is also another important shareholder of the Company. SAIF has been managing a private equity fund investing in technology and related areas in markets across Asia. The Company would seek to use SAIF's relationships to enhance the investment banking activity by being able to provide structured equity solutions to Indian corporates in this space

### **KEY DRIVERS**

With a view to achieving objectives as set out by the business model adopted, the key drivers in achieving the stated objectives are:

#### **a) NETWORK:**

Initially, the Company established retail branch operations at Bangalore, Chennai and Kolkatta in 1998-99. Over the years, the branch expansion process continued and the Company was able to establish a presence across 12 cities.

The Company also realised that in order to have a sizable presence at metro locations, it is necessary to be closer to customers and it decided to open more number of branches at some of the important locations.

The Company then decided to adopt a model whereby it decided to expand its reach through appointment of franchise partners who typically are investment advisors with established clientele at key but relatively under-served locations, not covered by the Company branch network.

Franchise partners work under the overall supervision of a local branch as per policies set out by the Company, on a revenue sharing basis. The Company commenced its franchise partners relationships by appointing the first partner in FY 2001-02. It added 8 franchise partners in FY 2002-03 and 36 in FY 2003-04 with the current network covering 37 cities.

#### b) Capital:

Capital resources are important not only to meet the regulatory requirements of maintaining capital adequacy, but also to provide flexibility in pursuing business activities which require capital support. The Company has been able to leverage its network to raise debt funds to meet its corporate objectives. Following table outlines the resource base of the Company over the past few years

(Rs. in Lakhs)

	2000-01	2001-02	2002-03	2003- 04	2004-05
<b>Networth</b>					
● Equity Capital	3000.00	3000.00	3499.97	3499.97	3499.97
● Share Capital Suspense A/c	-	499.97	-	-	-
● Reserves & Surplus	2061.86	1121.92	1365.09	2769.99	5185.03
<b>Loan Funds</b>					
● Secured Loan	-	3123.41	3110.24	570.52	280.52
● Unsecured Loan	662.86	2910.38	2360.36	1055.26	2000.00
<b>Total Funds</b>	<b>5724.72</b>	<b>10655.68</b>	<b>10335.66</b>	<b>7895.74</b>	<b>10965.52</b>

#### c) Technology

The Company recognized technology as its key business enabler from inception. The Company has implemented a high-end private network with the capability to provide for a well controlled, centralized and expandable business operations. The key components of its technology platform include:

- The central Data Centers located at the Corporate Office in Mumbai. The Company has chosen CISCO, IBM & HP as its technology partners for networking & server/desktops. The Company has about 60 servers & about 450 Desktops running largely on Microsoft platform
- All POS get connected to the central hub via this network, which has multiple connectivity to exchanges. HCL Comnet is the service provider for the VSAT network with uptime guarantee of 99.97%.
- For running back office and other business applications – the Company has built up a hybrid network of Leased Line Circuits and VPN connecting all its branches. This enables the Company to continue with its business in case of the remote possibility of VSAT network failure
- The Company has multiple high-end connectivity to Internet using multiple ISPs, facilitating all employees to remain connected on the Net. Firewalls guard servers deployed in its data center from external threats. For business information, the Company has subscribed for services from world leaders like Reuters and Bloomberg.

#### d) Applications

- All orders received across the branch network of the Company are executed on the National Stock Exchange of India Limited (NSEIL) or the Bombay Stock Exchange (BSE) network. ODIN platform provided by market leader Financial Technologies Limited is used to enable seamless order routing with high level of risk management at the central office. Each order placed by the dealers at any of the location gets validated against the rules set at the central office for clients, branches, scrips etc before being forwarded to the exchange for execution.
- For its derivatives trading the Company uses NeatXS solution provided by NSE.IT – a company promoted by National Stock Exchange. This solution supports real time, centralized risk management as specified by regulators.
- Commodities futures trading is also offered on National Commodities and Derivative Exchange(NCDEX) and Multi Commodity Exchange (MCX) through centralised order routing and risk management system through ODIN application provided by Financial Technologies Ltd. The back office application is Pradnya provided by Internet ExchangeNext.com Limited.
- Match is the back-office application used for clearing and settlement operations. It also supports accounting, contract/bill generation and client servicing and all branches. For client servicing and risk management there are sizable number of applications used by the Company, which result in better client servicing and tighter controls. The Company is in the process of changing over their back office application to “Pradnya” developed by Internet ExchangeNext.com Limited

## IL&FS INVESTSMART LIMITED

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### Human Resources

The Company as on March 31, 2005 employed 647 employees including 116 contract employees. The Company believes that its ability to maintain its growth depends to a large extent on its strength in attracting, training, motivating and retaining employees. The key elements of the human resource management strategy include:

- Sourcing, nurturing and retaining the best talent from the industry
- Work culture designed and evolved around the principles of ownership, accountability
- Objective based performance management system
- Performance based reward and recognition mechanism
- Career growth linked to Company's growth in operations
- Encouraging employee communication, flexible and dynamic redressal system
- Creating a second line support for all key positions through employee career planning process

The following table outlines employee strength over past three years.

Year	Avg Number of Employees	Avg Number of Senior Employees
As at March 31, 2003	241	19
As at March 31, 2004	342	24
As at March 31, 2005	647*	30

\* including 116 contract employees

### Risk Management

#### Background

Risk is an integral part of financial services business. During the last decade the Exchanges and SEBI have introduced sweeping measures to enhance integrity levels in the capital markets. Recognizing the fact that there is no substitute for internal discipline and control, the Company, in addition to adapting to the changes driven by regulator and exchanges, has built-in additional safety measures to mitigate risks

#### Policy

The Company has well laid down policies and guidelines for compliance and risk management. The Company has constituted a Risk Management Committee comprising of senior level personnel who constantly review the risk management mechanism of the Company vis-à-vis changing dynamics of risk in the business. The Committee focuses extensively on mitigation of trade risk, settlement risk, compliance risk, financial risk, technology risk etc., Risk policies are regularly updated to keep in line with changing market dynamics.

#### Implementation

The Company, having recognized technology as its key business enabler, has implemented state of the art technology to meet its operational and business needs. It has also created a high-end private network with the capability to provide for well controlled, centralized, and scalable business operations. The Company was amongst the first to introduce and deploy centralised order management and risk surveillance system for all business that emanates from its network of terminals spread throughout the country.

#### Client registration

The Client Registration is the first step in the operational cycle, and this process commences with the formal registration of each client. The Central Processing Cell (CPC) at HO handles client registration. On receipt of completed applications along with necessary documents, client code is generated from the system. A system-generated notification of account opening is automatically sent to the client on generation of a client code, and concerned branches have the facility to view the status of client registration with respect to all the forms sent by them.

#### Client exposures

Post generation of a Client Code, the Risk Management cell ensures that judicious exposure limits are set-up in line with the deposits and margins collected from the client in various acceptable forms. The Company has in place an effective real time On-line Risk Management System (RMS), which facilitates decisions, like additional margin calls, square off, close out etc. These are constantly reviewed to keep abreast of the changing needs of the market scenario.

Every order of a client goes through an automatic validation process against the available limits and order gets routed to exchange only if the order is within the predefined limits. On reaching the limit prescribed client account gets frozen and only orders that would bring down the position would be permitted by the system.

#### **Risk monitoring and mitigation**

The Company extensively uses technology for supporting monitoring of the positions of traders, impact of volatility, concentration of positions in few scrips. Mark to Market positions of the clients are monitored on a real-time basis, and appropriate decisions such as margin calls, square offs are taken. The branches have also been provided access to all the necessary data to allow for timely decisions in this regard.

Calls for fresh or additional margins are made when client Mark to Market (MTM) losses reach the stipulated level. This ensures that client's exposure is completely covered, and any potential loss to the Company is mitigated at the earliest. For ease of operations, and tighter real time risk management, the Company has been allocated with a separate DP-ID by IL&FS, as a Depository Participant to be used exclusively for its registered clients

#### **Settlement Process**

At the end of the trading day, the trades downloaded from the exchanges are reconciled with in-house data. Thereafter, these trades are processed for generating contract notes and bills. Funds Obligations and Securities Obligations are calculated after which the branches can access the relevant information for the purpose of interacting with customers for issuing contract notes, collection of pay-in obligations, securities obligation, pay-out of funds and securities and also statement of accounts.

#### **Receivables management**

Receivables of the clients are closely monitored to ensure timely collection. Branches ensure that client cheques are deposited into the designated account after making an entry in the system. The deposit details are accessible to Accounts Department, and the RM Cell at HO. The accounts are reconciled at periodic intervals and cases of any late payments, bounced cheques are tracked closely, and viewed very seriously, and appropriate action is taken, including suspension of client code. In order to facilitate easy flow of funds, and also gear itself for a T+1 environment, Centralized Collection Management system is being implemented. In order to improve timeliness and operational efficiency of payments, the Company has opted for remote issuance of cheques and pay orders. Pay-in, payout of funds and securities are carried out in a time bound manner.

#### **Audit and inspection**

The Company pro-actively reviews its existing procedures to enhance their effectiveness, usefulness, and timeliness. Further, all operational activities are subject to audits at frequent intervals. The Audit Committee, having independent directors reviews all these reports, and appropriate corrective and preventive steps are initiated.

#### **Awards and Recognition**

<b>Year</b>	<b>Nature Of Award</b>
2001	Certificate of Excellence from Prudential ICICI Mutual Fund for outstanding sales performance
2001	Best Services site from Webwiz
2002	Certificate of Appreciation Award from HDFC for mobilization of deposits
2002	Certificate of Excellence from Franklin Templeton Investments
2004	Certificate in recognition of outstanding contribution during the IPO for Principal Global Opportunities Fund - Principal Mutual Fund
2004	Certificate of appreciation awarded for the overwhelming response & support during the Tata MIP Fund IPO - Tata Mutual Fund
2004-05	Certificate of appreciation for the outstanding contribution during the Sahara Mid Cap Fund - Sahara MF
2004	Certificate in recognition of excellent Sales Performance - Cholamandalam MF
2004	Rotary International District Appreciation award for the outstanding concern shown for the cause of senior citizens
2004	Certificate of Appreciation from IL&FS Mutual Fund for Excellent Performance
2004	Certificate of Appreciation from J. M. Mutual Fund for Excellent Performance in mobilizing of JM MIP IPO

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2005	Certificate of Appreciation for the contribution towards IPO - Datamatics Technologies Limited
2005	Certificate of appreciation for the contribution towards IPO - SAL Steel Limited
2005	Certificate of appreciation for the contribution towards IPO – Indoco Remedies Limited
2005	Certificate of appreciation for the contribution towards IPO – Gateway Distriparks Limited

### **New Initiatives :**

#### **a) Internet business:**

##### *Background*

Internet trading takes place through order routing systems, which route client orders to the exchange trading systems for execution. Using this, clients located in any part of the country are able to trade using internet as a medium through the brokers trading systems/software. NSE is the first exchange to grant approval to its members for providing Internet based trading services. Although, it has been more than five years since the advent of Internet Trading in the Indian markets, it has assumed popularity only over the last 12-18 months. As of March 2005, the number of clients registered for online trading (across all brokers registered with NSE for providing Internet Trading Services) are around 8.5 lacs.

The key reasons for its growing popularity can be attributed to the following :

- Increasing PC penetration
- Improved quality of internet infrastructure and advent of broadband.
- Lowering of access costs by internet service providers
- Technology readiness of banks to enable payment gateways through internet
- Growing acceptance of internet as a safe, secure and reliable channel
- Option of logging on and trading from anywhere using the internet.

##### *Initial strategy*

The Company was one of the first to launch internet trading soon after SEBI had announced its guidelines. However, it quickly realised that the infrastructure, quality of bandwidth, costs and security were serious concerns for the investors before they could adopt this medium. Technology vendors providing broking products were not having internet enabled products. Most of the banks were not in a position to offer payment gateways. This would have required substantial investments in technology and marketing to have viability in the internet business. Few firms have invested more than Rs 30-40 crores in technology, infrastructure and marketing. Considering these factors, the Company decided to reallocate resources and concentrate on building its offline network through physical branches and business associates

With the buoyancy in the capital markets, increasing number of IPOs and increased retail participation, lot of investors have now begun to accept internet as an alternate channel for their investments. This has resulted in increase in business volumes being done through the internet in the last 5-6 quarters

##### ***Renewed focus***

The Company has now finalised plans to enter the internet business in a big way. With the establishment of a pan-India network, induction of E\*TRADE as its partner and capability to make significant investments, the Company believes it is strongly positioned to be amongst the leading players in the internet business and attain market leadership

The Company would extend its full service model through the internet channel and would offer a range of investment and broking products to address the diverse needs of customers

##### ***Plans***

The core business team for the internet business is in place and the Company is in the process of finalising the roll out plan for offering its internet products. Customers will be offered the following services in a phased manner :

- real-time trading on multiple exchanges (NSE and BSE) in the equities and derivatives segment
- commodities trading on the MCX and NCDEX , and
- online investments



The Company will target customers across segments and offer customized products and services through various channels.

**b) Bank alliances**

Company has identified banking alliances as a strategic area to pursue. It proposes to tie up with select banks and establish product based alliances so as to enhance its reach and provide investment advisory services to the banking clients. The non conflicting nature of the businesses between the two alliance partners ensures strong synergies for both, the Company and the bank.

The alliances are seen by the Company as a quick and effective way of reaching out to a larger network of clients in the mid-market space. The banking network along with the Company's network also enables it to achieve a faster geographical diversification and spread

**c) Wealth management**

The Company has been focusing on the mass affluent customer base across the country. It has been successfully offering a comprehensive range of products and services across the value chain. As the customer base has reached a critical mass, it now visualises an opportunity to move up to the next set of customers in the higher networth bracket. A growing economy and urbanisation has led to high growth in this segment. The Company believes that it is uniquely positioned to offer quality wealth management solutions to the HNIs as it is equipped to leverage its advisory & research expertise in all asset classes to provide composite solutions to customers

**d) Commodity broking :**

IL&FS Investsmart Commodity Brokers Limited (IICBL) is the wholly owned subsidiary of the Company engaged in commodity derivatives market through its membership on National Commodity and Derivatives Exchange (NCDEX) and Multi Commodity Exchange (MCX).

IICBL will cater to the commodity related needs of clientele that will include Individuals, HNIs, firms (corporations) that play a key role across the value chain from production, transformation and commercialization of commodities. Currently IICBL is offering commodity broking services to Individuals and corporates through its network of branches and business associates.

It plans to position itself as full service Global Commodity brokerage house offering the following services:

- **Commodity broking services**

Currently, IICBL is offering commodity broking services to retail investors and corporates through its network of branches and franchises network. IICBL has plans to offer commodity broking services in more than 250 centers across India over the next 24 months. IICBL will be taking advantage of the existing set up and network of the Company branches to tap potential commodity clients. In addition IICBL plans to open commodity specific branches at more than 50 centers in important commodity specific locations.

IICBL is in preliminary stages of discussion with some of the biggest overseas commodity brokerage houses in order to offer execution and hedging across the commodity segments including bullion, base metals, energy and agricultural commodities on the global commodity exchanges to its prestigious corporate and trading clients.

- **Commodity financing**

IICBL plans to take advantage of booming commodity financing business, which has been hugely untapped till date. According to market sources, the total demand for Commodity funding is more than 25,000 crores. Currently only around 10-15 % of the commodity financing is done through the formal banking channel. Commodity financing requires understanding of physical commodity business and market risks involved in the business. IICBL will take advantage of its domain knowledge of the broking business and will leverage on its pedigree to be one of the dominant players in the markets and also plans to tie up with other financial institutions for this activity.

- **Commodity Portfolio Management Services**

Currently sizeable capital is being directed toward commodity indexes in US markets. Many investment banks globally are advocating that investors direct certain percentage towards commodities which can add up to a significant amount considering the amount of capital that is tied up in stocks bonds or money market. IICBL will offer commodity portfolio management schemes its HNI clients as and when regulations are in place.

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**e) Insurance distribution :**

The Company was offering insurance distribution through its wholly owned subsidiaries IL&FS Investsmart Insurance and Risk Management Services Ltd and Investsmart Insurance Agency Private Ltd in the life and non-life segments. These companies were corporate agents for Life Insurance Corporation of India (LIC) and HDFC Standard Life for the life segment and Iffco Tokio and Prudential ICICI Insurance for the non-life segment respectively

These companies have surrendered the corporate agencies for the life and non-life segments. IL&FS Investsmart Insurance and Risk Management Services Ltd (formerly Investsmart Insurance Distribution Private Ltd) has applied for a license to operate as an insurance broker. The application is currently pending with IRDA.

**f) Margin Trade Financing (MTF):**

SEBI has announced guidelines for margin trade financing. As per these guidelines, interalia, brokers with a minimum networth of Rs 3 crores would be permitted to offer margin-trade financing facility to its customers after seeking prior approval from the stock exchanges. The Company with a networth of more than Rs 60 crores as on March 31, 2004 is in a position to offer this facility to its customers. The Company has put in place the necessary systems and procedures required to commence margin-trading facility as per these guidelines.

## HISTORY AND CORPORATE STRUCTURE

### HISTORY

#### Incorporation

The Company was set up as Investsmart India Limited, a wholly owned subsidiary of Infrastructure Leasing & Financial Services Limited for carrying on capital market activities such as share and stock broking, underwriting, placement of securities etc. The Company was incorporated on September 01, 1997 and received the Certificate of Commencement of Business on October 07, 1997.

#### Change in the Registered office of the Company

IL&FS has set up a financial centre in Bandra Kurla Complex in Mumbai with a view to house all its subsidiaries, ventures etc. at the same place for administrative convenience and to pursue group synergy. Pursuant to this, on June 14, 2000 the registered office of the Company was changed from Mahindra Towers, 4th Floor, 'B' Wing, Dr. G. M. Bhosale Marg, Worli, Mumbai 400 018 to The IL&FS Financial Centre, Plot C-22, G Block, Bandra-Kurla Complex, Bandra (E), Mumbai 400 051.

#### Subscription by ORIX Corporation, Japan in 2000

ORIX subscribed to 80,00,000 equity shares in March 2000 representing 27.59% of the paid up capital at that point of time. ORIX is an integrated financial services group based in Tokyo, Japan, providing innovative value-added products and services to both corporate and retail customers. With operations in 24 countries worldwide, ORIX's activities include leasing, corporate finance, real estate-related finance and development, life insurance, and investment and retail banking. ORIX is made up of 202 consolidated subsidiaries and 74 affiliates. ORIX has 974 offices in Japan, with 234 locations throughout the United States, Asia, Oceania, Europe, the Middle East and Northern Africa.

#### Amalgamation of IL&FS Merchant Banking Services Limited (IMBSL) and DebitonNet India Limited (DIL) with IL&FS Investsmart Ltd (erstwhile Investsmart India Limited)

IL&FS, in addition to its core activity of infrastructure financing, was also registered with SEBI as a Category I merchant banker since the inception of the SEBI (Merchant Banking Regulations) 1992. Consequent to changes in SEBI regulations on segregating merchant banking from fund based activities, IL&FS set up IL&FS Merchant Banking Services Limited (IMBSL) as a wholly owned subsidiary. IMBSL was set-up to provide full-fledged merchant banking services and was registered as a Category I merchant banker with SEBI.

IL&FS also had a 50% stake in another company called DebitonNet India Limited (DIL), which was set up along with National Stock Exchange of India Limited. DIL was set up to provide an automated and transparent platform, using the Internet, for book built debt issuances. Over a period of time DIL had enhanced the scope of the platform to provide a wide range of information, news and analytics relevant to the debt market.

With a view to consolidate IL&FS's interests in the capital markets IMBSL and DIL were merged into the Investsmart India Limited. Prior to this, IL&FS had taken over the 50% stake of National Stock Exchange of India Limited in DIL. The scheme of amalgamation was approved by the High Court on August 01, 2002 and was effective from January 01, 2002.

#### Benefits of the Merger

The main benefits of the merger of IMBSL and DIL with IL&FS Investsmart Limited were as follows:

1. The merger resulted in making available to the parties the benefit of financial resources and the expertise of each other.
2. The activities undertaken by the three companies were supplementary and complementary to the activities of each other. It was felt that it would be advantageous to combine the activities of all the three companies in to a single company. The merger of IMBSL and DIL with IL&FS Investsmart Limited would provide synergy besides economies in costs by combining total business functions and the related activities and thus contribute to the profitability of the amalgamated company.
3. All the three companies had within themselves the wholesale and retail relationships and multiple resources capabilities that could be better leveraged under a common umbrella.
4. IL&FS Investsmart Limited was primarily focused on the retail segment through its broking and other distribution activities, IMBSL was focused on wholesale and institutional segments of the financial market and DIL was focused on the wholesale and institutional segments of the debt market. It was expected that the amalgamated company would have diversified income profile insulating itself from adverse market conditions and have better competitive positioning.
5. It was also expected that the amalgamated company would have the benefit of the combined resources, man-power and cash flows of all the three companies. It was envisaged that with the enhanced capabilities and resources at its disposal, the amalgamated

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company would have greater flexibility to market and meet customer needs and compete more effectively, thus strengthening the position of the merged entity.

6. IL&FS Investsmart Limited had a first level contact with retail customers, which included senior corporate employees and members of their management team. It was envisaged that a complete integration would provide immense relationship spin offs and provide a sound foothold for the Investment banking business. Concomitantly, IMBSL & DIL held corporate and institutional relationships. Personal investment planning and advisory services for their senior personnel were expected to deepen the relationship with the corporates and enable IL&FS Investsmart Limited to make an entry within the corporates for other retail business.

### **Valuation and Share Swap Ratio**

The valuation was approved by the High Court, Mumbai and the share swap ratio for the transaction was arrived at based on the value of Rs. 35, Rs. 15 and Rs. 12 per share respectively for IL&FS Investsmart Limited, IMBSL and DIL. A share swap ratio of 3 shares of IL&FS Investsmart Limited for every 7 shares of IMBSL and 34 shares of IL&FS Investsmart Limited for every 100 shares of DIL was arrived at, and the same was approved by the board of directors and shareholders of the respective companies.

### **Sale and Lease back of property from IL&FS**

The Company had purchased office premises for its registered office from IL&FS in September 2001 through two separate agreements for a total consideration of Rs 2382.66 lakhs. Out of these two agreements, one agreement covering an area of 7010 sq ft was entered into with IL&FS Merchant Banking Services Limited (which was subsequently merged with IL&FS Investsmart Limited) for a total consideration of Rs 736.05 lakhs. The other agreement covering an area of 15682 sq ft was entered into with Investsmart India Limited for a total consideration of Rs 1646.61 lakhs.

On January 30, 2004, the Company, through a Sale Deed sold the entire area aggregating 22692 sq ft for a total consideration of Rs 2541.50 lakhs to IL&FS. The Company has subsequently entered into business services agreements dated April 23, 2004 and December 31, 2004 with IL&FS pursuant to which it occupies the said premises.

### **Purchase of Property**

No property which the Company has purchased or acquired or propose to purchase or acquire which is to be paid for wholly or partly out of the proceeds of the present Offer or the purchase or acquisition of which has not been completed on the date of this Prospectus, other than property in respect of which :

- the contracts for the purchase or acquisition were entered into in the ordinary course of the business, and the contracts were not entered into in contemplation of the Offer nor is the Offer contemplated in consequence of the contracts; or
- the amount of the purchase money is not material; or

Except as stated on page 91 of this Prospectus, the Company has not purchased any property in which any of its promoters and/or Directors, have any direct or indirect interest in any payment made thereof.

### **Change in name of the Company from Investsmart India Limited to IL&FS Investsmart Limited**

Pursuant to the merger of IMBSL and DIL with Investsmart India Limited, the stake of IL&FS increased from 53.33% to 60% and consequently IL&FS became a major shareholder of the Company. Further to reap the benefits of IL&FS brand and parentage, it was proposed to change the name from Investsmart India Ltd to IL&FS Investsmart Limited. A fresh certificate of incorporation was issued by the Registrar of Companies consequent to change of name on March 25, 2003.

### **Induction of Strategic Investors**

#### **SAIF Investment Company Limited, Mauritius**

SAIF has acquired 20% equity stake in 2004-05 in the Company. SAIF is a wholly-owned subsidiary of Softbank Asia Infrastructure Fund (SBAIF). SBAIF is a leading Asian private equity firm headquartered in Hong Kong. SBAIF is a strategic joint venture between Softbank Corporation and Cisco Systems that was formed in early 2001 to make investments in information technology, media, and telecom related companies based (or with significant operations) in the Asia Pacific region. SBAIF focuses its efforts primarily on China, India and Korea. Cisco Systems, Inc. is the sole limited partner of the Fund and has committed \$404 million in the first of a series of funds. Over the years, Softbank has made investments in E\*TRADE FINANCIAL, Yahoo!, UTStarcom, Shanda, Sify Limited, & Intelligroup.

#### **E\*TRADE Mauritius Limited (ETM)**

ETM acquired 13.94% equity stake in the Company. E\*TRADE Mauritius Limited, is a wholly-owned Mauritius based subsidiary of Converging Arrows, Inc formed and existing under the laws of Nevada, which in turn is wholly-owned subsidiary of E\*TRADE FINANCIAL Corporation.

E\*TRADE FINANCIAL provides financial services including brokerage, banking and lending for retail, corporate and institutional customers. With 2.7 million households and 3.5 million customer accounts worldwide, U.S.-based E\*TRADE FINANCIAL Corporation operates branded web sites in 12 countries.

#### MAJOR EVENTS IN THE HISTORY OF THE COMPANY

Year	Event
1997-1998	<ul style="list-style-type: none"> <li>● February 1998: Commenced equity broking on NSE</li> </ul>
1998-99	<ul style="list-style-type: none"> <li>● Commenced branch operations for retail businesses at Bangalore, Chennai and Kolkata.</li> </ul>
1999-2000	<ul style="list-style-type: none"> <li>● August 1999: Commenced equity broking on BSE</li> <li>● March 30, 2000: ORIX subscribed to 80,00,000 Equity Shares</li> <li>● March 30, 2000: K. Raheja group subscribed to 30,00,000 Equity Shares</li> <li>● Launched a fully functional website: <a href="http://www.investsmartindia.com">www.investsmartindia.com</a></li> </ul>
2000-2001	<ul style="list-style-type: none"> <li>● April 14, 2000: Change in the registered office of the Company</li> <li>● June 2000: Commenced derivative broking on NSE</li> <li>● January 2001: Launched investment advisory products.</li> <li>● Set up a dedicated mutual fund desk and fixed income retail desk at branch locations.</li> <li>● Received SEBI registration as a Portfolio Manager</li> </ul>
2001-2002	<ul style="list-style-type: none"> <li>● January 01, 2002: Merger of IL&amp;FS Merchant Banking Services Limited (IMBSL) and DebitonNet India Limited (DIL) with the Company</li> <li>● Foray into insurance distribution through setting up of wholly owned subsidiaries i.e. Investsmart Insurance Agency Pvt. Ltd. and Investsmart Insurance Distribution Private Limited as Corporate Agents of HDFC Standard Life Insurance Company Limited and Life Insurance Corporation of India respectively</li> </ul>
2002-2003	<ul style="list-style-type: none"> <li>● March 25, 2003: Change in name of the Company from Investsmart India Limited to IL&amp;FS Investsmart Limited</li> </ul>
2003-2004	<ul style="list-style-type: none"> <li>● Registered as an Underwriter with SEBI</li> <li>● Acquired 4 branches of Tata TD Waterhouse Securities Pvt. Limited along with assets.</li> <li>● Incorporated a wholly owned subsidiary, IL&amp;FS Investsmart Commodity Brokers Limited</li> <li>● Acquired IL&amp;FS Academy for Insurance and Finance Limited (Formerly known as SAIFA Training Academy Limited)</li> </ul>
2004-2005	<ul style="list-style-type: none"> <li>● Induction of ETM and SAIF as strategic investors</li> <li>● Commenced derivative broking on BSE</li> <li>● IL&amp;FS Investsmart Insurance and Risk Management Services Limited (formerly Investsmart Insurance Distribution Private Limited) applied for insurance broking license which is currently pending with IRDA</li> <li>● Name of SAIFA Training Academy Limited was changed to IL&amp;FS Academy for Insurance and Finance Limited</li> <li>● Commenced commodities broking business through wholly owned subsidiary, IL&amp;FS Investsmart Commodity Brokers Limited</li> </ul>

#### MAIN OBJECTS OF IIL

- 1) To undertake and carry on the business of share and stock broking, underwriting, sub-underwriting, sub-broking and financial intermediation of financial products of all types whether listed on an stock exchange or not such as shares and stocks, fixed deposits, bonds, debentures, Inter-Corporate Deposits, Bills of Exchange, Government Securities, National Saving Certificates, saving schemes of National Saving Organisation, saving schemes floated by the Central or any State Government or any other government authority, provident fund schemes, units of Unit Trust of India and other mutual funds, derivative products of all types present as well as future, other money market or capital market instruments, obligations and securities issued or guaranteed by any government, state, dominion, sovereign body, commission, public body or authority, supreme, local or municipal or company or body, whether incorporated or not or by any person or association and generally all other securities as defined under Securities Contract (Regulation) Act, 1956 and any other applicable enactment / rule in force, from time to time.

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- 2) To undertake and carry on the business of placement and market making of all types of financial products whether by way of public issues or private placements whether the same be listed on any Stock Exchange or not.
- 3) To distribute, market and offer Portfolio Management Services and to provide a complete range of personal financial services like investment planning, tax planning, and such other services.
- 4) To distribute and market for commission or fees:
  - a) all kinds of consumer finance products
  - b) all types of card products including but not limited to Credit cards, Debit cards, Charge cards, Toll cards, Stored Value cards & Smart cards
  - c) all types of insurance products
  - d) all types of mutual fund products.
- 5) And generally to buy, acquire, hold, sell, subscribe or otherwise deal in for commission or otherwise on own behalf or on behalf of any person, body corporate, company, society, firm or association of persons whether incorporated or not, all types of financial products including shares, stocks, debentures, debenture-stocks, bonds, units, promissory notes, securities issued by the Central Government and any State Government or any other authority, bills of exchange, warrants, participation certificates or participation units and all other securities as defined under Securities Contract (Regulation) Act, 1956 and any other enactment/ rule in force from time to time.

The main objects clause and objects incidental or ancillary to the main objects clause of the Memorandum of Association of the Company enables the Company to undertake the existing activities and the activities for which the funds are being raised by the Company, through the Offer.

### Changes in the Memorandum of Association

Since incorporation, the following changes have been made to the Memorandum of Association of the Company:

Date of Amendment	Amendment
April 16, 1999	Increase in authorised share capital from Rs. 10 crore (i.e.1,00,00,000 equity shares of Rs. 10 each) to Rs. 25 crore (i.e. 2,50,00,000 equity shares of Rs. 10 each)
December 03, 1999	Increase in authorised share capital from Rs. 25 crore (i.e.2,50,00,000 equity shares of Rs. 10 each) to Rs. 35 crore (i.e. 3,50,00,000 equity shares of Rs. 10 each)
October 23, 2000*	Increase in authorised share capital from Rs. 35 crore (i.e.3,50,00,000 equity shares of Rs. 10 each) to Rs. 40 crore (i.e. 4,00,00,000 equity shares of Rs. 10 each)
April 02, 2002	Change in the other object clause of the Company
March 25, 2003	Change in the name of the Company from Investsmart India Limited to IL&FS Investsmart Limited
March 28, 2005	Increase in Authorised Share Capital from Rs. 40 crore (i.e.4,00,00,000 equity shares of Rs. 10 each) to Rs. 50 crore (i.e. 5,00,00,000 equity shares of Rs. 10 each)

\* On August 17,2000, the Company passed a resolution to increase its authorized share capital from Rs. 35 crore (i.e.3,50,00,000 equity shares of Rs. 10 each) to Rs. 50 crore (i.e. 5,00,00,000 equity shares of Rs. 10 each), however, vide a resolution passed on October 23, 2000, the above resolution was amended by substituting Rs. 50 crores with Rs. 40 crores (i.e. 4,00,00,000 equity shares of Rs. 10 each).

The details of the capital raised are given in the section "Capital Structure" on page 11 of this Prospectus.

## SUBSIDIARIES OF IIL

The Company ventured into the area of distribution of insurance products through its wholly owned subsidiaries Investsmart Insurance Agency Private Limited (IIAPL) and IL&FS Investsmart Insurance and Risk Management Services Limited (formerly Investsmart Insurance Distribution Private Limited). The Company has ventured into commodity broking through its subsidiary IL&FS Investsmart Commodity Brokers Limited (IICBL). The Company has also acquired IL&FS Academy for Insurance and Finance Limited (formerly SAIFA Training Academy Limited ) from IL&FS Education & Technology Services Limited (IETS) on March 31, 2004.

### i. IL&FS Investsmart Insurance and Risk Management Services Limited (IIRMSL)

IIRMSL is a wholly owned subsidiary of the Company. IIRMSL was incorporated on August 16, 2001 as "Investsmart Insurance Distribution Private Limited". Subsequently, IIRMSL obtained fresh certificate of incorporation consequent to change of name to "IL&FS Investsmart Insurance and Risk Management Services Limited" on November 10, 2004. IIRMSL altered its main object clause on September 22, 2004 to undertake insurance broking activity for all types and classes of insurance businesses in India. The Certificate of Registration for alteration of objects was obtained on November 03, 2004.

The main object of IIRMSL is to undertake and carry on the business and activities as insurance broker for all types and classes of insurance business in India.

Initially the company was engaged in the marketing and distribution of insurance products acting as a corporate agent of Life Insurance Corporation of India in the life insurance segment and IFFCO – TOKYO General Insurance Company Limited in the non-life insurance segment. The company has surrendered its corporate agency license in the financial year 2003-04 and has made an application to IRDA for registering itself as an Insurance Broker for distribution of various insurance products and received the broking license from IRDA on June 7, 2005. The company would pursue its vendor neutral business model and focus on an advisory driven approach.

#### Shareholding Pattern

IIRMSL is a wholly owned subsidiary of the Company with the Company holding 100% by itself and through its nominees.

#### Board of Directors of IIRMSL

The board of directors of IIRMSL comprises of Mr. Hemang Raja, Mr. Hetal Gandhi, Mr. Sachin Joshi, and Mr. Sandeep Presswala.

#### Financials of IIRMSL

(Rs. In Lacs)

Particulars	2001-2002	2002-2003	2003-04
Share Capital	1.00	1.00	1.00
Reserves and Surpluses	(1.55)	(2.03)	0.36
Net Worth	(0.67)	(1.12)	1.30
Total Income	0.96	1.69	17.02
Profit before Tax	(1.55)	(0.48)	4.30
Profit After Tax	(1.55)	(0.48)	2.39
Earning Per Share	(15.53)	(4.76)	23.89
Book Value Per Share of Rs. 10 Face Value	(6.71)	(11.17)	13.01

Figures, except for per share have been rounded off to nearest integer.

Networth = Paid up Equity Capital + Reserves (excluding revaluation reserves) - Accumulated Losses - Deferred Expenditure to the extent not written off

EPS = PAT/ No. of equity shares outstanding at the end of the year

NAV = Networth/ No. of equity shares outstanding at the end of the year

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### ii. Investsmart Insurance Agency Private Limited (IIAPL)

IIAPL, a wholly owned subsidiary of the Company, was incorporated on August 6, 2001. IIAPL primarily deals in marketing and distribution of insurance products acting as a corporate agent of HDFC Standard Life Insurance Company Limited in the Life Insurance segment and ICICI Lombard General Insurance Company Limited. in the Non-Life Insurance segment. The company has surrendered both its above mentioned corporate agency licenses in view of the insurance broking license being applied by an associate company viz. IL&FS Investsmart Insurance and Risk Management Services Limited.

#### Shareholding Pattern

IIAPL is a wholly owned subsidiary of the Company with the Company holding 100% through itself and through its nominees.

#### Board of Directors of IIAPL

The Board of Directors of IIAPL as on March 04, 2005 comprised Mr. Girish Nadkarni, Mr. M.R.Shashibhushan, and Mr. Shekhar Deshpande.

#### Financials of IIAPL

(Rs. In Lacs)

Particulars	2001-2002	2002-2003	2003-04
Share Capital	1.00	1.00	1.00
Reserves and Surplus	(0.67)	(0.90)	2.37
Net Worth	0.21	0.01	3.31
Total Income	2.25	4.10	9.96
Profit before Tax	(0.67)	(0.23)	4.74
Profit After Tax	(0.67)	(0.23)	3.27
Earning Per Share	(6.71)	(2.32)	32.70
Book Value Per Share of Rs. 10 Face Value	2.11	0.09	33.09

Figures, except for per share have been rounded off to nearest integer.

Networth = Paid up Equity Capital + Reserves (excluding revaluation reserves)-Accumulated Losses - Deferred Expenditure to the extent not written off

EPS = PAT/ No. of equity shares outstanding at the end of the year

NAV = Networth/ No. of equity shares outstanding at the end of the year

### iii. IL&FS Investsmart Commodity Brokers Limited (IICBL)

IICBL, a wholly owned subsidiary of the Company, was incorporated on on January 21, 2004 and received its Certificate for Commencement of Business on April 22, 2004

IICBL undertakes the business of trading / broking in Commodity derivatives. IICBL is a member of the National Commodities and Derivatives Exchange of India Limited (NCDEX) and the Multi Commodity Exchange of India Limited (MCX) participating in trading, settlement and other activities of commodity exchange(s) facilitating hfor itself or for its clients, trades and clearing/settlement of trades in futures and in derivatives of all commodities permitted under the laws of India.

#### Shareholding Pattern

IICBL is a wholly owned subsidiary of the Company with the Company holding 100% through itself and through its nominees.

#### Board of Directors of IICBL

The board of directors of IICBL as on March 04, 2005 comprised of Mr. Arun Saha, Chairman, Mr. Hemang Raja, Mr. Hetal Gandhi, Mr. Sachin Joshi and Mr. Sandeep Presswala.

#### Financials of IICBL

Not applicable as IICBL has not completed its first accounting year and no business activity had taken place so far. It has commenced operations from April, 2004.



#### iv. IL&FS Academy for Insurance and Finance Limited (IAIFL)

IAIFL was incorporated on October 09, 2003 as SAIFA Training Academy Limited (STAL) and received Certificate for Commencement of Business on November 28, 2003. The Company had proposed to acquire the insurance training related activities domiciled as a separate unit, known as 'The Schoolnet Academy of Insurance and Financial Advisors' ("SAIFA"), in IL&FS Education & Technology Services Limited (IETS), a group company of IL&FS. IETS promoted a separate entity viz. STAL, which acquired SAIFA in January, 2004. STAL was then acquired by the Company in March, 2004. The Company is in its first year of operation.

Subsequently, name of STAL was changed to "IL&FS Academy for Insurance and Finance Limited" and fresh Certificate of Incorporation consequent to change of name was obtained on August 18, 2004

IAIFL undertakes insurance training related activities and is one of the few Institutions which has nationwide reach and tie-ups with all the private sector insurance players to carry out the training programs as mandated by IRDA.

#### Shareholding Pattern

IAIFL is a wholly owned subsidiary of the Company with the Company holding 100% through itself and its nominees

#### Board of Directors of IAIFL

The board of directors of IAIFL as on March 4, 2005 comprised of Mr. Arun Saha, Chairman, Mr. Hemang Raja, Mr. Hetal Gandhi and Mr. Sachin Joshi.

#### Financials of IAIFL

(Rs. In Lacs)

Particulars	2003-04
Share Capital	200.00
Reserves and Surplus	1.99
Net Worth	200.34
Total Income	261.55
Profit before Tax	5.19
Profit After Tax	1.99
Earning Per Share	0.10
Book Value Per Share of Rs. 10 Face Value	10.02

Financial performance of 2001-02 and 2002-03 are not available as the Company has commenced its operations only in F.Y. 2003-04

#### AGREEMENTS WITH PARTNERS

##### Share Subscription Agreement with ORIX

ORIX was inducted as a shareholder of the Company on March 30, 2000, pursuant to a share subscription agreement dated February 24, 2000. Under this agreement, the Company requires the prior approval of ORIX for any change in the office of the Chairman of the Company or for the appointment, removal of the managing Director or alteration in the terms and conditions of his appointment or remuneration. Further, the Company had also undertaken to endeavor to have its shares listed on Indian Stock Exchanges not later than the end of the year 2004.

##### Share Purchase Agreement between IL&FS, ORIX, ETM, SAIF and the Company

On November 23, 2004, SAIF Investment Company Limited ("SAIF") and E\*TRADE Mauritius Limited ("ETM"), entered into a Share Purchase agreement with IL&FS, ORIX and the Company to purchase 11,764,944 Equity Shares of the Company from IL&FS and ORIX for a total consideration of Rs. 635,306,976 at a price of Rs. 54/- per Equity Share.

##### Shareholders Agreement between IL&FS, ORIX, ETM, SAIF and the Company

Along with the Share Purchase Agreement, a Shareholders Agreement dated November 23, 2004 was entered into between SAIF, ETM, IL&FS, ORIX and the Company effective from the date of closing under the Share Purchase Agreement. The Shareholders Agreement confers the following special rights on SAIF, ETM, IL&FS and ORIX (the "Shareholders"):

## IL&FS INVESTSMART LIMITED

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1. If the Company issues additional Equity Shares, the Equity Shares are to be first offered to the existing shareholders (IL&FS, ORIX, ETM and SAIF) in proportion to their shareholding in the Company. The rights of ETM and SAIF are combined and in the event that one of them decides not to subscribe to all or any additional Equity Shares, then the other can acquire such Equity Shares. The rights of IL&FS and ORIX are combined and in the event that one of them decides not to subscribe to all or any additional Equity Shares, then the other can acquire such Equity Shares. If the shares are not subscribed by any shareholder within 30 days, then the other shareholders may proportionately acquire these Equity Shares. This is a pre-IPO right and will cease upon the IPO of the Company.
2. The Company shall have a Board consisting of 11 Directors and the composition of the Board shall be as follows:
  - 3 Members recommended / nominated by IL&FS.
  - 1 Member recommended / nominated by SAIF
  - 1 Member recommended / nominated by ETM
  - 1 Member recommended / nominated by ORIX
  - 3 independent directors
  - A Managing Director & CEO
  - A Deputy Managing Director
3. IL&FS shall have the right to appoint the Chairperson of the Company so long as it holds Equity Shares in excess of 40% of the share capital of the Company, or any other percentage as is required to retain dominant holding of the Company.
4. A quorum for Board meetings shall be five (5) Directors, and for general meetings of the shareholders of the Company the quorum shall be five (5) members present. However, one nominee of each Shareholder must be present for the meeting to constitute a valid quorum.
5. Any action on the following matters can be taken by the Board only if the required quorum is present and at least one Director nominated by each of the Shareholders present at the meeting has voted affirmatively in favour of, or to approve or authorise, such action:
  - i. Appointment of a committee of Directors and the powers to be vested in such committee;
  - ii. Filling casual vacancies on the Board and appointment of additional Directors;
  - iii. Amendments to the Memorandum of Association or Articles of Association if the same is not required under any applicable law;
  - iv. Any material deviation from or material change in the objects or activities of the Company or the discontinuation of existing lines of business or commencement of a new business by the Company that is unrelated to any existing line of business of the Company;
  - v. Issue of further capital or securities of the Company or alteration or reduction of Share capital or any variation of any rights attached to the Shares or any securities of the Company;
  - vi. Making any loans out of the funds of the Company in excess of Rs. 500 million in aggregate in any financial year of the Company ;
  - vii. Any change in any significant accounting policies not mandatorily required under applicable law or the appointment, replacement, removal and remuneration of the financial auditor of the Company;
  - viii. The creation of any encumbrance upon or in respect of any property or assets of the Company in excess of Rs. 500 million in aggregate in any financial year of the Company;
  - ix. Any assignment, sale, licensing or otherwise transfer or other disposition of a substantial part of the Company's assets or business, or any intellectual property right that is either owned by the Company or that the Company has a license to (or is otherwise entitled to) use;
  - x. Borrowing fund or creating, incurring, or assuming any obligations or liabilities (whether accrued, absolute, contingent, or otherwise) in excess of Rs. 500 million in aggregate in any financial year of the Company;
  - xi. Approving contracts in which any Director is an interested party;

- xii. Any joint venture agreements, technology transfer, technical collaboration and/or assistance in India or abroad;
  - xiii. Any liquidation, dissolution or winding-up of the Company, and any arrangement entered into between the Company and its creditors in connection with such liquidation, dissolution or winding-up;
  - xiv. Transfer of Equity Shares or any determination that the transfer of any Equity Shares or change of the percentage interest of any shareholder has been made in accordance with the provisions of this Agreement;
  - xv. The approval of (and any amendments to) the business plan and the annual plans of the Company;
  - xvi. The formation or disposal of any subsidiary of the Company to the extent that it would engage in a new line of business for the Company, or to the extent that the cost of establishing it would exceed Rs. 200 million in aggregate in any financial year of the Company;
  - xvii. The listing of any securities of the Company on any stock exchange;
  - xviii. Any agreement with or commitment to any shareholder or any affiliate of such shareholder;
  - xix. Any guarantee or indemnity furnished by the Company in excess of Rs. 500 million in aggregate in any financial year of the Company; and
  - xx. The appointment and removal of each of the Managing Director and the CEO of the Company.
6. The declaration of dividend (including interim dividend) or any other distribution to the Shareholders by the board that would require distribution in a financial year of more than 25% of the profits of the Company in the preceding financial year requires, in addition to the quorum requirement, the affirmative votes of the directors nominated by at least three Shareholders in favour of, or approving or authorising such action.
7. The voting on the matters listed at points 5 and 6 in a general meeting of the Company shall be through a poll unless SAIF, ETM and ORIX agree otherwise in writing. The affirmative votes of at least 75% of the shareholders of the Company present and voting shall be required for any of the matters set forth above.
8. In the event of the shareholding of each of SAIF, ETM and ORIX falling below 7.5 % of the paid up capital of the Company, the veto and other related powers in relation to the management of the Company shall not be available to them. Each of SAIF, ETM and ORIX shall continue to be entitled to nominate a Director for so long as their individual shareholding is not less than 5% of the paid up capital of the Company.
9. The Shareholders Agreement also provides for customary "rights of first refusal", requiring any party to the shareholders agreement that proposes to transfer its Equity Shares to offer such shares, in the first instance, to the other parties. If there is more than one shareholder exercising such "right of first refusal", the shareholders shall exercise such "right of first refusal" in proportion to the shares held by them. Further, the other shareholders shall also be entitled to "tag along rights" in proportion to the shares held by them in the Company. The "tag along rights" shall, however, cease on the Company's IPO or if 2 years have elapsed from the date of the share purchase agreement. The right of first refusal would not apply to a sale of shares from ETM to SAIF and vice versa or from ORIX to IL&FS. Further, the said right does not apply in the event of sale of shares by SAIF and / or ETM, except in the case of sale of shares to a direct competitor of the Company. However, if the Company fails to complete an IPO by the second anniversary of the closing date under the Share Purchase Agreement, the restrictions on transfer of any Equity Shares by SAIF and/or ETM shall automatically terminate.
10. In the event of change in control or on imminent change in control of IL&FS, then in that event SAIF and ETM shall have the right to sell their shares and IL&FS shall be obliged to buy such shares or cause a third party to buy such shares. This right shall exist with respect to ETM up to four years from the date of the Share Purchase Agreement and with respect to SAIF up to the date of the IPO.

## IL&FS INVESTSMART LIMITED

### MANAGEMENT

#### BOARD OF DIRECTORS

The Company is currently managed by a Board of Directors comprising of 11 directors. Mr. Ravi Parthasarathy is currently the Chairman. The day-to-day affairs of the Company are managed by Mr. Hemang Raja, Managing Director & CEO, assisted by Mr. R. C. Bawa, Deputy Managing Director of the Company.

Pursuant to Shareholders Agreement between IL&FS, ORIX, ETM, SAIF and the Company dated November 23, 2004, Company shall have a Board consisting of 11 Directors and the composition of the Board shall be as follows:

3 Members recommended / nominated by IL&FS.

1 Member recommended / nominated by SAIF

1 Member recommended / nominated by ETM

1 Member recommended / nominated by ORIX

3 independent directors

A Managing Director & CEO

A Deputy Managing Director

In terms of an Share Transfer Agreement dated April 20, 2005 between IL&FS and ORIX, the latter proposes to sell its entire holding in the Company to IL&FS. After the transfer of the entire holding of ORIX in the Company to IL&FS, ORIX would lose the right to nominate a Director on the Board of Directors of the Company.

The present Board of Directors comprises the following members:

Sr. No.	Name, Designation, Father's Name, Address, Occupation and Term	Age (Years)	OTHEIR DIRECTORSHIPS
1.	<b>MR. RAVI PARTHASARATHY</b> <i>Chairman</i> S/o Mr. Ramaswamy Parthasarathy 1201/1202 Vinayak Aangan, Prabhadevi, Worli Mumbai – 400 025 (Nominated by IL&FS) Service <i>Director not liable to retire by rotation.</i>	54	<b>Director</b> Infrastructure Leasing & Financial Services Limited IL&FS Education & Technology Services Limited Tamil Nadu Road Development Company Limited IL&FS Infrastructure Development Corporation Limited IPFonline Limited Integrated Property & Management Services Limited National Stock Exchange of India Limited Tata Finance Limited IL&FS Investment Managers Limited Noida Toll Bridge Company Limited New Tirupur Area Development Corporation Limited ORIX Auto & Business Solutions Limited Consolidated Toll Network India Private Limited Kerala High Speed Corridor Company Limited Manipal Enterprises Private Limited
2.	<b>MR. HEMANG RAJA</b> <i>Managing Director &amp; CEO</i> S/o Mr. Hareesh Raja 4 <sup>th</sup> Floor, 'D' Wing, Rashmi Apartments, Carmichael Road, Mumbai 400 026 Service <i>Whole Time Director not liable to retire by rotation</i>	46	<b>Director</b> IL&FS Investsmart Commodity Brokers Limited IL&FS Academy for Insurance and Finance Limited (formerly known as "SAIFA Training Academy Limited") Integrated Property Management Services Limited Commence Concepts Private Limited IL&FS Investsmart Insurance and Risk Management Services Limited (formerly known as "Investsmart Insurance Distribution Private Limited")

Sr. No.	Name, Designation, Father's Name, Address, Occupation and Term	Age (Years)	OTHEIR DIRECTORSHIPS
3.	<b>MR. RAMESH BAWA</b> <i>Deputy Managing Director</i> S/o Mr. Shardha Nand Bawa W-78, Greater Kailash-I, New Delhi – 110 048 Service <i>Whole Time Director not liable to retire by rotation</i>	51	<b>Director</b> Dewas Water Supply Limited North Karnataka Expressway Limited Thiruvananthapuram Road Development Company Limited West Gujarat Expressway Private Limited
4.	<b>MR. ARUN K. SAHA</b> <i>Director &amp; Vice Chairman</i> S/o Late Mr. B. C. Saha Flat No.E, Raheja Terrace, Aga Ali Abbas Road, Ulsoor, Bangalore – 560 042 (Nominated by IL&FS) Service <i>Director liable to retire by rotation</i>	52	<b>Director</b> Infrastructure Leasing & Financial Services Limited IL&FS Education & Technology Services Limited Vadodara - Halol Toll Road Company Limited IL&FS Trust Company Limited Ahmedabad-Mehsana Toll Road Company Limited Gujarat Toll Road Investment Company Limited ORIX Auto and Business Solutions Limited Consolidated Toll Network India Private Limited North Karnataka Expressway Limited IL&FS Infrastructure Development Corporation Limited IL&FS Academy for Insurance and Finance Limited (formerly known as "SAIFA Training Academy Limited") IL&FS Investsmart Commodities Brokers Limited Noida Toll Bridge Company Limited Kampsax India Private Limited IL&FS Investment Managers Limited
5.	<b>MR. VIBHAV KAPOOR</b> <i>Director</i> S/o Mr. Ramprakash Kapoor 1A, Woodlands, Peddar Road, Mumbai – 400 026 (Nominated by IL&FS) Service <i>Director liable to retire by rotation</i>	49	<b>Director</b> Sara Fund Trustee Company Limited IL&FS Investment Managers Limited IL&FS Finvest Limited Consolidated Transportation Networks Limited
6.	<b>MR. A. R. BARWE</b> <i>Independent Director</i> S/o Mr. Ramkrishna Barwe B-1, Bageshree, Shankar Ghanekar Marg, Prabhadevi, Mumbai 400 025 Retired <i>Director liable to retire by rotation</i>	66	<b>Director</b> IFCI Financial Services Limited Jain Irrigation Systems Limited Sigma Laboratories Limited Kotak Mahindra Trustee Company
7.	<b>MR. NEEL RAHEJA</b> <i>Independent Director</i> S/o Mr. Chandru L. Raheja Raheja House, 53A Pali Hill Bandra(W), Mumbai 400 050 Businessmen <i>Director liable to retire by rotation</i>	30	<b>Director</b> Shopper's Stop Limited Peninsular Housing Finance Private Limited* Cape Trading Private Limited. K. Raheja Corp Private Limited Beach Haven Properties Private Limited Carlton Trading Private Limited K. Raheja Private Limited Fems Estate (India) Private Limited* Asiatic Properties Limited Oyster Shell Estate Development Private Limited* Sevaram Estates Private Limited*

## IL&FS INVESTSMART LIMITED

Sr. No.	Name, Designation, Father's Name, Address, Occupation and Term	Age (Years)	OTHEIR DIRECTORSHIPS
			K. R. Developers Private Limited Raghukool Estate Development Private Limited Touchstone Properties & Hotels Private Limited Ivory Properties & Hotels Private Limited K. Raheja Hotels & Estates Private Limited Palm Shelter Estate Development Private Limited K. Raheja Services Private Limited Dindoshila Estate Developers Private Limited* Inorbit Malls (India) Limited Anbee Constructions Private Limited Casa Maria Properties Private Limited Capstan Trading Private Limited Carin Hotels Limited Louisiana Investment & Finance Private Limited Rockfort Estate Developers Limited K. Raheja IT Park (Hyderabad) Private Limited BKC Properties Private Limited Crossword Bookstores Limited Mindspace IT Park Private Limited Neerav Properties and Hotels Private Limited Serene Properties Private Limited Hypercity Retail (India) Pvt. Ltd. Grandwell Properties and Leasing Pvt. Ltd. Uptown Properties and Leasing Pvt. Ltd. Newfound Properties and Leasing Pvt. Ltd. BKC Constructions Pvt. Ltd. Gesco South Realty Pvt. Ltd. Hornbil Trading Company Pvt. Ltd. G:Corp Neerav Developers Private Limited <b>Managing Director</b> Chalet Hotels Limited
8.	<b>MR. YOSHITAKA MATSUNO</b> <i>Director</i> S/o Late Mr. Tamotsu Matsuno Flat No. 1001, Hisamoto 2-4-16, Takatsu-ku, Kawasaki, Kanagawa, 213-0011, Japan (Nominated by ORIX Corporation, Japan) Service <i>Director liable to retire by rotation</i>	59	<b>Director of</b> China Orient Leasing Co. Ltd. ORIX Leasing Egypt SAE Infrastructure Leasing & Financial Services Limited IL&FS Education & Technology Services Limited ORIX Investment & Development Capital Limited ORIX Rentec (Malaysia) Sdn. Bhd. ORIX Leasing Malaysia Berhad ORIX Leasing Pakistan Limited ORIX Investment Bank Pakistan Limited ORIX Metro Leasing and Finance Corporation ORIX Car Rentals Pte. Ltd. ORIX Leasing Singapore Limited ORIX Investment And Management Private Limited ORIX Rentec (Singapore) Pte. Limited ORIX Auto Leasing Taiwan Corporation ORIX Taiwan Corporation Thai ORIX Leasing Co. Limited ORIX Auto Leasing (Thailand) Co. Limited ORIX Europe Limited ORIX Hotels International Private Limited ORIX Rentec Limited ORIX Australia Corporation Limited

Sr. No.	Name, Designation, Father's Name, Address, Occupation and Term	Age (Years)	OTHEIR DIRECTORSHIPS
			<p>Maorong Auto Leasing Corporation  ORIX Auto Service Corporation  ORIX Enterprise Corporation  ORIX Finance Services Hongkong Limited  Lanka ORIX Leasing Company Limited</p> <p><b>Director &amp; Chairman</b>  ORIX International Finance Limited  ORIX Ireland Limited  ORIX Asia Limited  ORIX Auto and Business Solutions Limited</p> <p><b>Deputy Chairman</b>  ORIX Polska S. A.</p> <p><b>Alternate Director</b>  Saudi ORIX Leasing Company</p>
9.	<p><b>MR. CHOSEI AZUMA</b>  <i>Alternate Director to</i>  <i>Mr. Yoshitaka Matsuno</i>  S/o Mr. Chomaru Azuma  7-D, ILL Plazzo, Malabar Hill,  Mumbai – 400 006  Service  <i>Director liable to retire by rotation</i></p>	46	<p><b>Director</b>  ORIX Auto &amp; Business Solutions Ltd.  IL&amp;FS Education and Technology Service Ltd.  Lanka ORIX Leasing Company Ltd.</p>
10	<p><b>MR. GIRISH M. DAVE</b>  <i>Independent Director</i>  S/o Late Mr. Mohanlal Dave  1<sup>st</sup> Floor, Sethna Building,  55, Maharashi Karve Road,  Marine Lines, Mumbai – 2  Advocate &amp; Solicitor  <i>Director liable to retire by rotation</i></p>	67	<p><b>Director</b>  PCS Technology Limited  Birla Global Finance Limited  Vinati Organics Limited  Manglore Refinery and Petrochemicals Limited  PSI Data Systems Limited  OTC Exchange of India Limited</p>
11.	<p><b>MR. RAVI ADUSUMALLI</b>  <i>Director</i>  S/o Mr. Subbarao Adusumalli  Two Palo Alto Square,  Suite 500, 3000, El Camino Real,  Palo Alto,  CA 94306  (Nominated by SAIF)  Service  <i>Director liable to retire by rotation</i></p>	29	<p><b>Director</b>  Sify Inc.  Intelligroup  Seven Networks  Sky pilot Networks</p>
12.	<p><b>MR. ROBERT JARRETT LILIEN</b>  <i>Director*</i>  S/o Mr. Robert David Lilien  1200, Broadway Apartment 8A,  NY – 10001  USA  (Nominated by ETM)  <i>Director liable to retire by rotation</i></p>	43	<p><b>Director</b>  Barton Mines  E*TRADE Asia Ltd.  E*TRADE Technologies Holding Limited  EGI Canada Corporation  E*TRADE Technologies Corporation  3045175 Nova Scotia Company  TIR (Holdings) Limited  ETRADE Securities (Hong Kong) Limited  ETRADE Securities Limited  ETRADE Asia Services Limited  E TRADE Systems India Private Limited</p>

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Sr. No.	Name, Designation, Father's Name, Address, Occupation and Term	Age (Years)	OTHEIR DIRECTORSHIPS
13.	<b>MR. TODD C MACKAY</b> <i>Alternate Director to</i> Mr. Robert Jarrett Lilien S/o Mr. Donald Mackay 2728, Chain Bridge Road, Washington DC – 20016 <i>Director liable to retire by rotation</i>	31	E*TRADE Europe Services Limited E*TRADE Securities Corporation TIR Securities (UK) Limited E*TRADE Brokerage Holdings, Inc. E*TRADE Brokerage Services, Inc. E*TRADE Clearing LLC E*TRADE Securities LLC Professional Path, Inc. U.S. Raptor One, Inc. U.S. Raptor Two, Inc. U.S. Raptor Three, Inc. NIL

\* Owing to certain disputes amongst shareholders of these companies, it is not possible to confirm whether Mr. Neel Raheja continues on the board.

### Borrowing powers of Directors

By an ordinary resolution passed at the EGM of the Company held on December 3, 1999, the Board of Directors of the Company has been authorized pursuant to Section 293(1)(d) of the Companies Act to borrow, from time to time, any sums of monies not exceeding Rs. 300 crores on such terms and conditions as the Board of Directors may deem fit, notwithstanding that the aggregate amounts of monies borrowed exceeds the aggregate paid up capital and the free reserves of the Company. By an ordinary resolution passed at the EGM of the Company held on December 3, 1999, the Board of Directors of the Company has been authorized pursuant to Section 293(1)(a) of the Companies Act to create such security as the Board of Directors may deem fit on amounts to be borrowed by the Company upto Rs. 300 crores.

### Terms of Appointment of Directors & their Remunerations

#### Mr. Hemang Raja, Managing Director & CEO

Mr. Hemang Raja was re-appointed as the Managing Director of the Company for a period of 5 (five) years with effect from April 1, 2004 in accordance with the resolution passed at the EGM of Company held on July 7, 2004. He is not liable to retire by rotation.

In accordance with the resolution passed at the EGM of the Company held on July 7, 2004, Mr. Hemang Raja, Managing Director and CEO, is entitled to remuneration, benefits and amenities as per the terms and conditions set out below:

#### (a) Basic Pay:

Basic consolidated pay of Rs. 2,00,000/- (Rupees Two Lacs only) per month for the period commencing from April 1, 2004 with an annual increment of Rs. 40,000/- with effect from April 2005 and onwards.

#### (b) Allowances

- Leave Travel Concession: The Managing Director and his family shall be entitled to leave travel concession on actual basis, subject to a ceiling of one time basic consolidated salary, once in a year to any destination in India by air and/or rail or road, subject to deduction of Income Tax at Source, as applicable.
- Medical Reimbursement: The Managing Director will be entitled to actual Medical Expenses incurred by him and his family subject to a ceiling of one time basic consolidated salary, for a financial year. The Managing Director shall also be entitled to reimbursement of unclaimed medical expenses for any particular year(s), during any or all the succeeding three years or until the expiry of his tenure of appointment.
- Gas & Electricity: Reimbursement of gas & electricity charges at residence of the Managing Director on actual basis.



- (iv) House Maintenance Allowance: The Managing Director shall be entitled to a house maintenance allowance up to a maximum amount of Rs.40,000/- (Rupees Forty Thousand only) per annum during the tenure of his services.

**(c) Perquisites**

- (i) Car: The Managing Director will be provided with a chauffeur driven car for use on the Company's business. All running and maintenance expenses incurred on the car would be borne by the Company. The use of car for private purposes will be billed by the Company to the Managing Director as per rules of the Company as may be specified from time to time.
- (ii) Housing Loan: The Managing Director will be eligible for a housing loan as per the rules of the Company. Repayment of such loan shall be made on or before retirement age in equated monthly installments. In case the Managing Director ceases to be in employment before reaching retirement age, he would be relieved only after settlement of all dues to the Company. All formalities/documentation for availing the loans as laid down by the Company from time to time will have to be fulfilled.
- (iii) Housing Accommodation: The Company shall provide the Managing Director with furnished accommodation. In case no accommodation is provided, the Managing Director shall be entitled to house rent allowance at the rate of 100% of basic consolidated pay, subject to a maximum amount of Rs 1,25,000/- per month.
- (iv) Telephone: The Managing Director may opt for two telephones and one tele-fax at his residence as per the rules of the Company. He shall be entitled to reimbursement of the following on production of telephone bills:
- Rental charges, all local call charges, all official long distance calls and applicable surcharge in respect of two telephones and one tele-fax.
- (v) Club Fees: The Managing Director would be entitled to two club memberships.
- (vi) Mediclaim Insurance: The Company shall pay premium in respect of mediclaim insurance, under Group Mediclaim Insurance Policy, for the Managing Director and his family.
- (vii) Personal Accident Insurance: The Company shall pay premium in respect of Personal Accident Insurance policy in the name of the Managing Director.
- The total premium payable on the above mediclaim and personal accident policies shall not exceed Rs 25,000/- (Twenty Five Thousand only) per annum.
- (viii) Leave Encashment: Encashment of leave, as per the rules of the Company, subject to deduction of tax at source, as applicable.

**(d) Commission :**

Such remuneration by way of performance based rewards/incentives, in addition to the above salary and perquisites, as may be determined by the Board of Directors of the Company and / or Remuneration Committee of Board of Directors of the Company, subject to the overall ceilings stipulated in Section 198 and 309 of the Act.

**(e) Ward Education Assistance**

The Managing Director shall be entitled to avail benefit in terms of the scheme of ward education assistance made available by IL&FS Investsmart Employees Welfare Trust (IIEWT).

**(f) Retirement Benefits:**

Contribution to Provident Fund, Gratuity and Super-annuation as per the rules of the Company.

**(g) Minimum Remuneration**

Notwithstanding anything to the contrary herein contained, where in any financial year during the currency of his tenure, the Company has no profits or its profits are inadequate, remuneration by way of salary, commission and perquisites shall not exceed the aggregate of the annual remuneration as provided above or the maximum remuneration payable as per the limits set out in Section II of Part II of Schedule XIII of the Companies Act 1956, whichever is lower, unless otherwise determined by the Board of Directors and/or Remuneration Committee of the Board of Directors, subject to approval of the Central Government, if required.

**(h) General Conditions**

- (i) The total remuneration payable to the Managing Director along with other Whole-time Directors of the Company, if any, shall not exceed 10% of the net profits during any financial year. In case there is no other Whole-time Director, the total remuneration payable to the Managing Director shall not exceed 5% of the net profits during any financial year or such other

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limit as may be prescribed by the Central Government. The remuneration payable shall be subject to review and renewal after the initial period of 3 (three) years.

- (ii) The Managing Director will not be liable to retire by rotation.
- (iii) The Managing Director will not be paid any sitting fees for attending meetings of the Board of Directors or Committees thereof.

### **Mr. Ramesh C. Bawa, Deputy Managing Director**

Mr. Ramesh C. Bawa was appointed as the Deputy Managing Director of the Company for a period of 5 (five) years with effect from April 1, 2004 in accordance with the resolution passed in the EGM of the Company held on July 7, 2004. He is not liable to retire by rotation.

In accordance with to the resolution passed at the EGM of the Company held on July 7, 2004, Mr. Ramesh C. Bawa, Deputy Managing Director, is entitled to remuneration, benefits and amenities as per terms and conditions set out below:

#### **(a) Basic Pay:**

Basic consolidated pay of Rs. 1,75,000/- (Rupees One Lac Seventy Five Thousand only) per month for the period commencing from April 1, 2004 and an annual increment of Rs. 35,000/- with effect from April 2005 onwards.

#### **(b) Allowances**

- (i) Leave Travel Concession: The Dy. Managing Director and his family shall be entitled to leave travel concession on actual basis, subject to a ceiling of one time basic consolidated salary, once in a year to any destination in India by air and/or rail or road, subject to deduction of Income Tax at Source, as applicable.
- (ii) Medical Reimbursement: The Dy. Managing Director will be entitled to actual Medical Expenses incurred by him and his family subject to a ceiling of one time basic consolidated salary, for a financial year. The Dy. Managing Director shall also be entitled to reimbursement of unclaimed medical expenses for any particular year(s), during any or all the succeeding three years or until the expiry of his tenure of appointment.
- (iii) Gas & Electricity: Reimbursement of gas & electricity charges at residence of the Dy. Managing Director on actual basis.
- (iv) House Maintenance Allowance: The Dy. Managing Director shall be entitled to a house maintenance allowance up to a maximum amount of Rs.40,000/- (Rupees Forty Thousand only) per annum during the tenure of his services.

#### **(c) Perquisites**

- (i) Car: The Dy. Managing Director will be provided with a chauffeur driven car for use on the Company's business. All running and maintenance expenses incurred on the car would be borne by the Company. The use of car for private purposes will be billed by the Company to the Dy. Managing Director as per rules of the Company as may be specified from time to time.
- (ii) Housing Loan: The Dy. Managing Director will be eligible for a housing loan as per the rules of the Company. Repayment of such loan shall be made on or before retirement age in equated monthly installments. In case the Dy. Managing Director ceases to be in employment before reaching retirement age, he would be relieved only after settlement of all dues to the Company. All formalities/documentation for availing the loans as laid down by the Company from time to time will have to be fulfilled.
- (iii) Housing Accommodation: The Company shall provide the Dy. Managing Director with furnished accommodation. In case no accommodation is provided, the Dy. Managing Director shall be entitled to house rent allowance at the rate of 100% of basic consolidated pay, subject to a maximum amount of Rs 1,25,000/- per month.
- (iv) Telephone: The Dy. Managing Director may opt for two telephones and one tele-fax at his residence as per the rules of the Company. He shall be entitled to reimbursement of the following on production of telephone bills:  
  
Rental charges, all local call charges, all official long distance calls and applicable surcharge in respect of two telephones and one tele-fax.
- (v) Club Fees: The Dy. Managing Director would be entitled to two club memberships.
- (vi) Mediclaime Insurance: The Company shall pay premium in respect of mediclaime insurance, under Group Mediclaime Insurance Policy, for the Dy. Managing Director and his family.
- (vii) Personal Accident Insurance: The Company shall pay premium in respect of Personal Accident Insurance policy in the name of the Dy. Managing Director.

The total premium payable on the above mediclaim and personal accident policies shall not exceed Rs 25,000/- (Twenty Five Thousand only) per annum.

- (viii) Leave Encashment: Encashment of leave, as per the rules of the Company, subject to deduction of tax at source, as applicable.

**(d) Commission :**

Such remuneration by way of performance based rewards/incentives, in addition to the above salary and perquisites, as may be determined by the Board of Directors and/or Committee of Directors of the Board of Directors of the Company, subject to the overall ceilings stipulated in Section 198 and 309 of the Act.

**(e) Ward Education Assistance**

The Dy. Managing Director shall be entitled to avail benefit in terms of the scheme of ward education assistance made available by IL&FS Investsmart Employees Welfare Trust (IIEWT).

**(f) Retirement Benefits:**

Contribution to Provident Fund, Gratuity and Superannuation as per the rules of the Company

**(g) Minimum Remuneration :**

Notwithstanding anything to the contrary herein contained, where in any financial year during the currency of his tenure, the Company has no profits or its profits are inadequate, remuneration by way of salary, commission and perquisites shall not exceed the aggregate of the annual remuneration as provided above or the maximum remuneration payable as per the limits set out in Section II of Part II of Schedule XIII of the Companies Act 1956, whichever is lower, unless otherwise determined by the Board of Directors and/or Committee of Directors of the Board of Directors of the Company, subject to approval of the Central Government, if required.

**(h) General Conditions**

- (i) The total remuneration payable to the Dy. Managing Director along with other Whole-time Directors of the Company, if any, shall not exceed 10% of the net profits during any financial year. In case there is no other Whole-time Director, the total remuneration payable to the Dy. Managing Director shall not exceed 5% of the net profits during any financial year or such other limit as may be prescribed by the Central Government. The remuneration payable shall be subject to review and renewal after the initial period of 3 (three) years.
- (ii) The Dy. Managing Director will not be liable to retire by rotation.
- (iii) The Dy. Managing Director will not be paid any sitting fees for attending meetings of the Board of Directors or Committees thereof.

**Mr. Arun Saha**

Mr. Arun Saha is a part time Director and Vice Chairman liable to retire by rotation. In accordance with a resolution passed at the Annual General Meeting of the Company held on September 15, 2003, a consolidated monthly remuneration of Rs. 50,000/- was accorded to Mr. Arun Saha with effect from April 01, 2003 towards his services and advise on compliance and regulatory matters. Further, such consolidated remuneration fees shall be paid notwithstanding any loss or inadequacy of profits in any financial year, and where the Central Government approval is required, the consolidated remuneration shall be paid subject to such approval from the Government, if required, and further, Mr. Saha shall also be entitled to be paid such commission/performance related pay/ex-gratia, either with respect to a financial year or otherwise, as the Board may decide.

**Mr. Ravi Parthasarathy**

Mr. Ravi Parthasarathy is the Chairman of the Company for 5 years w.e.f. March 09, 2004 subject to maintenance of certain minimum percentage of shareholding by Promoter. He is a permanent director on the Board of the Company and is not liable to retire by rotation. He is entitled to be paid sitting fees of Rs. 5,000/- each per board meeting and committee meeting attended. He is also entitled to reimbursement of out-of-pocket expenses and traveling expenses for attending these meetings.

**Other Directors**

The independent Directors on the Board are entitled to sitting fees of Rs. 5,000/- each per board meeting and committee meeting attended, apart from actual boarding and lodging expenses. The directors may also be paid commission and any other amounts as may be decided by the Board in accordance with the provisions of the Companies Act and any other applicable Indian laws and

## **IL&FS INVESTSMART LIMITED**

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regulations. In terms of the resolution passed at the EGM of the Company on July 7, 2004, the non executive / non wholetime Directors of the Company may be paid a commission at the discretion of the Board of Directors, not exceeding a sum of 1% of the net profits of the Company.

### **CORPORATE GOVERNANCE**

The SEBI Guidelines in respect of Corporate Governance will be applicable to the Company immediately upon listing of their equity shares on the various stock exchanges. The Company undertakes to take the necessary steps to comply with all the requirements of the SEBI Guidelines on Corporate Governance as may be applicable to the Company upon listing of its equity shares, including broad basing its Board of Directors, and also setting up such Committees as may be necessary under the requirements of the SEBI Guidelines.

#### **Audit Committee**

The Audit Committee of Directors of the Company was constituted by the Board of Directors at their Meeting held on March 19, 2001. The present members of the committee constitute:

1. Mr. A. R. Barve
2. Mr. Arun Saha
3. Mr. Yoshitaka Matsuno  
Mr. Chosei Azuma (alternate to Mr. Matsuno)
4. Mr. Ravi Adusumalli
5. Mr. Robert Jarrett Lilien  
Mr. Todd Mackay (alternate to Mr. Lilien)

The Audit Committee complies with the following:

1. have meetings periodically as it may deem fit with at least three meetings in a year
2. invite such of the executives to be present at the meetings of the Committee, whenever required by it
3. the Internal Auditor and the Statutory Auditors of the company shall attend and participate at the meetings without the right to vote

The Audit Committee deals in the following matters :-

1. investigate into any matter in relation to the items specified in section 292A and as referred to by the Board. It shall have full access to information contained in the records of the company and external professional advice
2. investigate any activity within its terms of reference, seek information from any employees, obtain outside legal / professional advice.
3. oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible
4. recommend the appointment and removal of external auditor, fixation of audit fee and also approve payment for any other services
5. discuss with the Auditors periodically on internal control systems, scope of audit including observations of the auditors and review the half yearly and annual financial statements before submission to the Board and ensure compliance of internal control system
6. recommendation on financial management including the audit report shall be binding on the Board

### Compensation Committee

The Remuneration Committee of Directors was originally constituted by the Board of Directors at their meeting held on July 12, 1999 as "Compensation Committee". The said Committee was re-designated as "Remuneration Committee" by the Board of Directors in their meeting held on February 19, 2003. The said Committee was further re-designated as "Compensation Committee" by the Board of Directors at their meeting held on January 13, 2005 in terms of the Shareholder's Agreement. The present members of the Committee constitute :

1. Mr. A. R. Barve
2. Mr. Ravi Parthasarathy
3. Mr. Yoshitaka Matsuno  
Mr. Chosei Azuma ( alternate to Mr. Matsuno)
4. Mr. Ravi Adusumalli
5. Mr. Robert Jarrett Lilien  
Mr. Todd Mackay (alternate to Mr. Lilien)

The Compensation Committee deals in the following matters :-

1. To determine and approve the remuneration to be payable to managerial personnel of the Company in compliance of Section II of Part II of Schedule XIII of the Companies Act, 1956
2. To formulate the Compensation & Incentive Policy to be followed by the Company
3. To determine the quantum of Incentive payable to the employees each year and distribution of the same
4. To formulate Employee Welfare related schemes such as Employee Stock Options, Superannuation Fund, Gratuity Fund and implementation of the same
5. To do all such acts, deeds and things as may be within the purview of the Committee

### Committee of Directors

The Committee of Directors was originally constituted by the Board of Directors at their meeting held on February 19, 2003 as "Executive Committee of Directors". The said Committee was re-designated as "Committee of Directors " by the Board of Directors at their meeting held on July 14, 2003. The present members of the committee are:

Mr. Arun K. Saha  
Mr. Vibhav Kapoor  
Mr. Hemang Raja  
Mr. Ramesh C. Bawa

The Committee of Directors deals in all routine matters including the following:

- 1 Reviewing and monitoring the business policies and operational decisions of the Board, from time to time;
- 2 Supervision and review of the performance of various operational activities on an ongoing basis;
- 3 Establishing and operationalising the branch offices of the Company, including staffing and infrastructural requirements;
- 4 Authorising negotiations and arrangements for operational and administrative requirements;
- 5 Availing of administrative and operational services of various agencies for business operations and incurring capital expenditure for the same;
- 6 Allotment and transfer/ transmission / split / consolidation/ replacement of securities/ share certificates, issue of duplicate share certificates;
- 7 Opening/ closing bank/ depository accounts and change in authorised signatories in respect of these accounts and various other business operations;
- 8 Issue of power of attorney to the officials of the Company
- 9 Any other incidental or other matter in the ordinary course of business

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The powers of the Committee were further expanded by the Board of Directors at their meeting held on March 9, 2004 to include the following:

1. To authorize negotiations and arrangements with respect to availing / renewal of Guarantee Facilities / Short Term Loans / Line of Credit and other such financial arrangements not exceeding Rs. 50.00 Mn. in each case
2. To contribute / donate for charitable / social cause upto a limit of Rs. 0.5 Mn subject to the provisions of Companies Act, 1956
3. To invest temporary surplus funds in such securities, Debt instruments and units of mutual funds, etc
4. To invest in specific eligible funds recognized and accepted by Stock Exchanges as margins
5. Any other incidental or other matter in the ordinary course of the business

### **Share Transfer and Investor Grievance Redressal Committee**

Share Transfer and Investor Grievance Redressal Committee was constituted by the Board of Directors in their Meeting held on March 09, 2004. The members of the Committee constitute:

1. Mr. A.R.Barwe, Chairman
2. Mr. Vibhav Kapoor
3. Mr. Hemang Raja

As on date, there are no complaints pending redressal.

### **Shareholding of the Directors**

As per Article 132, no Director of the Company is required to hold any qualification shares of the Company.

Except to the extent of options granted under the ESOP 2005 scheme, the Directors do not hold any equity shares in the Company.

### **Interest of Directors**

All the directors of the Company, with the exception of Mr. Hemang Raja and Mr. R.C. Bawa, are interested in their capacity as a Director to the extent of fees, if any, payable to them for attending meetings of the Board or Committee and reimbursement of traveling and other incidental expenses, if any, for such attendance as per the Articles. The Managing Director & CEO, Dy. Managing Director and Vice Chairman are interested to the extent of remuneration paid to them for services rendered as officers or employees of the Company or as advisors to the Company. The non-wholetime / non-executive Directors are interested to the extent of the commission payable to them.

The Directors may also be considered interested in Company to the extent of any equity of Company held by or to be allotted to them or their relatives and associates or held by the companies, firms and trusts in which they are interested as director, member, partner, and/or trustee, and to the extent of benefits arising out of such shareholding and to the extent of options under the ESOP 2005 scheme granted to the Directors.

Directors of the Company who are also on the board of the Promoter may be considered interested in the transactions between the Promoter and the Company by virtue of their position as directors of both companies. For details of transaction, please refer to the section titled "Promoter" on page 85 of this Prospectus.

Mr. Ramesh C. Bawa is interested to the extent of Rs. 28,94,229/- outstanding as on February 28, 2005 on account of housing loan availed of by him from the Company prior to his appointment as Dy. Managing Director. The Company has taken on lease a residential property from Mr. Bawa to be provided as official accommodation to him as per his terms of appointment.

Mr. Hemang Raja is interested to the extent of property taken on lease by the Company from IL&FS, to be provided as official accommodation to him in terms of his employment.

Mr. Neel Raheja is interested to the extent of a property taken on lease by the Company from Ivory Properties and Hotels Pvt. Ltd., a company with which he is associated.

Mr. Arun K. Saha is interested to the extent of acquiring residential premises at Bangalore and Mumbai on Leave and License basis from the Company for a period of 11 months and 33 (renewed for 11 months) months ending on July 17, 2005 and March 11, 2005 respectively. The leave and license of the residential premises at Mumbai is in the process of being renewed.

For details of sale of shares in the Company by other Directors to IL&FS, please refer to the section on Capital Structure on Page 11 of this Prospectus document.

All Directors may be deemed to be interested in the contracts, agreements/arrangements entered into or to be entered into by the Company with any company/entity in which they hold directorships or any partnership firm in which they are partners.

Except as stated otherwise in this Prospectus, the Company has not entered into any contract, agreements or arrangement during the preceding two years from the date of the Prospectus in which the directors are interested directly or indirectly and no payments have been made to them in respect of these contracts, agreements or arrangements are proposed to be made to them.

### Changes in the Board of Directors during the last three years

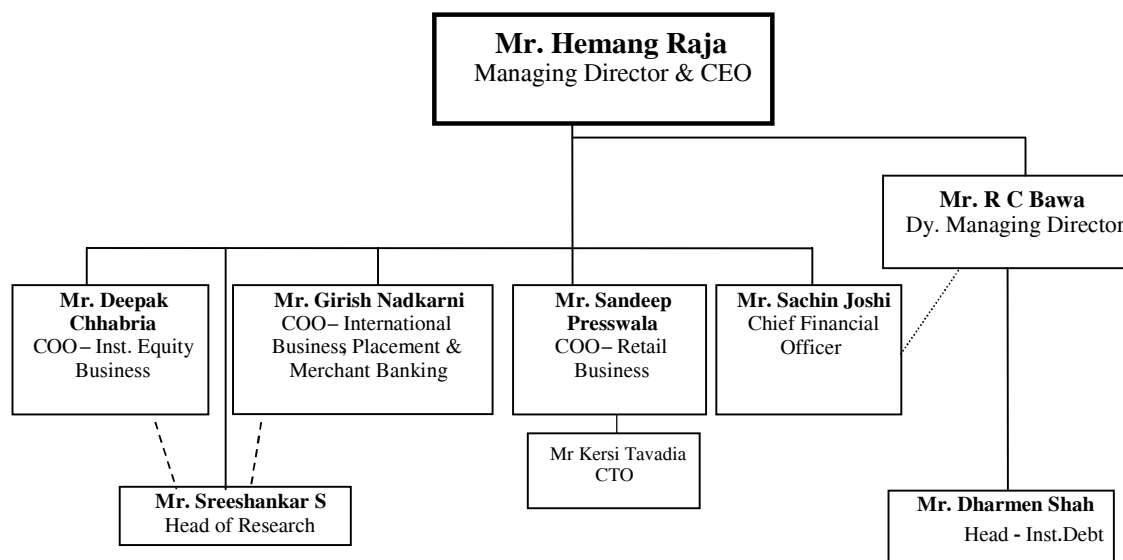
Changes in the Board of Directors in the last three years are as follows:

S.No.	Name	Date of Appointment	Date of cessation	Reason
1.	Mr. Robert Jarrett Lilien	January 13, 2005	-	ETM Recommendation
2.	Mr. Todd Mackay	January 13, 2005	-	ETM Recommendation – Alternate to Mr. Robert Jarrett Lilien
3.	Mr. Ravi Adusumalli	January 13, 2005	-	SAIF Recommendation
4.	Mr. Chosei Azuma	June 18, 2004	January 13, 2005	ORIX recommendation – Appointed as Additional Director
		January 13, 2005	-	ORIX recommendation – Alternate Director to Mr. Yoshitaka Matsuno. Ceased to be Alternate Director
5.	Mr. Vimal Bhandari	September 01, 1997	July 01, 2004	Personal
6.	Mr. Junichi Hayashi	May 10, 2004	January 13, 2005	ORIX recommendation
7.	Mr. Yasuo Uchida	July 16, 2002	June 17, 2004	ORIX recommendation
8.	Mr. Yoshio Ono	June 20, 2001	September 15, 2003	ORIX recommendation
9.	Mr. Yoshitaka Matsuno	February 19, 2003	September 15, 2003	ORIX recommendation - Alternate Director to Mr. Yoshio Ono. Ceased to be Alternate Director
		September 15, 2003	-	ORIX recommendation –Appointed as Additional Director
10.	Mr. Yuki Oshima	September 15, 2003	May 10, 2004	ORIX recommendation –Alternate Director to Mr. Matsuno
11.	Mr. Hemang Raja	April 16, 1999	April 1, 2001	Appointed as Managing Director. Resigned
		July 14, 2003	-	Appointed as Additional Director on July 14, 2003 and MD & CEO w.e.f. August 1, 2003
12.	Mr. Ramesh C. Bawa	July 14, 2003	-	Appointed as Additional Director on July 14, 2003 and Dy. MD w.e.f. August 1, 2003
13.	Mr. Gopal Rajgopalan	June 1, 2000	July 14, 2003	Personal
14.	Mr. Girish Dave	February 19, 2003	-	Independent Director
15.	Mr. Neel Raheja	June 1, 2000	February 19, 2003	Nominee Director of Raheja Group. Ceased to be a Director on February 19, 2003 pursuant to acquisition of their stake by IL&FS
		February 19, 2003	-	Independent Director

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S.No.	Name	Date of Appointment	Date of cessation	Reason
16.	Mr. Genichi Fujinaga	December 18, 2001	December 16, 2002	ORIX recommendation - Alternate Director to Mr. Yoshio Ono
17.	Mr. Yasuo Uchida	July 16, 2002	July 17, 2004	ORIX recommendation
18.	Mr. Yokota Masatoshi	June 1, 2000	June 18, 2002	ORIX recommendation
19.	Mr. Jaydev Raja	April 2, 1998	April 9, 2002	Personal

## ORGANISATION CHART



## KEY MANAGERIAL PERSONNEL

Details of the key managerial personnel are as follows:

### (1) Hemang Raja : Managing Director & CEO

Please refer to the section on Brief Profile of Directors on page 2 of the Prospectus.

### (2) RC Bawa : Deputy Managing Director

Please refer to the section on Brief Profile of Directors on page 2 of the Prospectus.

### (3) Sandeep Presswala : Chief Operating Officer – Retail Business

Mr. Sandeep Presswala, aged 39 years, son of Mr Anil Presswala, has over 14 years of experience in capital markets. He is a Chartered Accountant, and holds a bachelor's degree in commerce from Bombay University in the year 1987. He was a whole time director in Infin Equity Services (P) Ltd., a SEBI registered merchant banker and was involved in corporate finance and advisory work with corporates for raising finance. He authored the publication 'SEBI Guidelines on Public Issues - an Analysis' published by the BCA. He was appointed as a member of the Financial Services Committee of the Bombay Chartered Accountants Society & was elected on Board of the Association of Merchant Bankers of India for the year 1997 - 1998. Mr. Presswala joined the IL&FS group in 1997. From July 1997 to June 1999 he worked as senior manager responsible for investment banking activities including corporate finance, infrastructure product advisory and merchant banking activities. On October 01, 1999 he joined IL&FS Investsmart and is presently the Chief Operating Officer (COO)-Retail Business, he is responsible for the overall retail businesses. He reports to Mr Hemang Raja, Managing Director & CEO. His compensation for 2004-05 was Rs.30 lacs.



**(4) Sachin Joshi : Chief Financial Officer**

Mr. Sachin Joshi, aged 39 years, son of Mr Roopnarayan Joshi has over 16 years of financial management experience. His core functional strengths lie in the areas of resource mobilization, seeking credit rating, corporate structuring, including merger, issue management activities, strong budgeting, monitoring and control systems, operational support. He is a Graduate CWA (1991), ACA (1990), LLB (Gen) and B Com (1985). He started his career with a publications group viz. Navneet Publications in 1989 handling the accounting and taxation functions. Thereafter he moved to Lupin Laboratories Limited where he was responsible for project funding and other long term and short term requirements, through various institutions and banks. Mr.Joshi joined the IL & FS group in April 1994 as Manager - Resources. His responsibilities included seeking credit rating of the company, funds mobilization from banks, domestic and multilateral institutions to take care of the working capital and other term loan requirements of the IL&FS group. He joined the Company on October 1, 1999 and is currently the Chief Financial Officer (CFO). He is responsible for the accounts and finance, operations and risk management, human resources development, and administrative functions. He reports to Mr Hemang Raja, Managing Director & CEO. His compensation for 2004-05 was Rs.30 lacs.

**(5) Deepak Chhabria : Chief Operating Officer – Institutional Equity Business**

Mr. Deepak Chhabria, aged 36 years, son of Mr Manoharlal Chhabria, has over 14 years of industry experience nurturing relationships with corporates, domestic financial institutions and FIIs. He is a commerce graduate from Bombay University (1989) and has done a course in technical analysis from ICFAI. He started his career in the financial markets in 1992 on the institutional desk at Prabhudas Lilladher where he was instrumental in expanding the business in terms of both institutional and corporate clients. Later he moved to Birla Sun Life Securities to set up their institutional business. In 10 years time he built a profitable financial advisory business across equities, mutual funds and derivatives. During his stint at Birla Sun Life, as recognition of his achievements as Head – Equity, he was nominated for the Outstanding Business Leadership Program (Year: 2003) of the Aditya Birla Group, conducted by the McClelland Institute. He joined IL&S Investsmart on February 09, 2004 and reports to Mr Hemang Raja, Managing Director & CEO. His compensation for 2004-05 was Rs.32 lacs.

**(6) Mr. Girish Nadkarni: Chief Operating Officer - International Business and Placement**

Mr. Girish Nadkarni, aged 37 years, son of Mr Shrikrishna Nadkarni, has over 15 years experience. His core functional strengths lie in the areas of initiating new businesses including establishment of business plans, establishing business relationships (domestic and foreign), operating procedures, infrastructure etc. He holds a Post Graduate Diploma in Management from IIM, Ahmedabad (1990), ICWA (1991) and B Com, 1988, from Mumbai University. During his career he was associated with organizations like ICICI Limited, ITC Limited, TAIB Securities (India) Limited. He started his career with ICICI Limited and gained exposure to the areas of Project analysis and developed financial pricing and tax structuring models for lease business. After this he joined ITC Ltd. and his core function was strategic planning, treasury operations and restructuring. He was also part of the team involved in structuring merger of ITC Classic Finance with ICICI. After completing 6 years at ITC he moved to TAIB Securities as Director. He joined the Company on March 22, 2004. In his current capacity, he is responsible for international business, placements with additional responsibility of monitoring merchant banking activities and reports to Mr. Hemang Raja Managing Director & CEO. His compensation for 2004-05 was Rs.31.51 lacs.

**(7) Dharmen Shah : Head - Institutional Debt**

Mr. Dharmen Shah, aged 38 years, son of Mr Harishkumar Shah with 19 years of experience including more than 13 years experience in the finance industry specialising in debt broking, debt sales, investment banking and funds management. He holds a Masters degree in Financial Management from Bombay University (1995), Chartered Accountancy (1991) and B Com, Bombay University (1987). He started his professional career with JM Morgan Stanley Fixed Income Securities Ltd. (JMMSFIS). After serving as a senior member of the debt sales team for 8 years at JMMSFIS, he joined the Company on February 24, 2000. In his current capacity he is responsible for fixed income business, SLR & non-SLR broking, debt market research and maintenance of the web site “DebtNet”. He reports to Mr R C Bawa, Deputy Managing Director. His compensation for 2004-05 was Rs.15.95 lacs.

**(8) Mr. Kersi J Tavadia: Chief Technology Officer**

Mr. Kersi Tavadia, aged 43 years, son of Mr. Jamshed Tavadia, has over 20 years experience with large corporate houses. He is a post-graduate in computer sciences. Mr. Tavadia has served as the head of information technology departments in various financial institutions. Prior to joining the Company he was the IT head of Motilal Oswal Securities Limited and was instrumental in implementing various best practice procedures. As the Chief Technology Officer (CTO), he worked as part of the core team and was instrumental in setting up the portal “motilaloswal.com” and retail ground work network for the brokerage house. He joined the Company on May 03, 2004 as the CTO. He reports to Mr. Sandeep Presswala. His compensation for 2004-05 was Rs.12.76 lacs.

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### (9) Mr. R. Sreesankar: Head of Research

Mr.Sreesankar, aged 42 years, son Mr. V.Radhakrishnanan, has 21 years experience with large corporate houses. He completed his B.Sc from the University of Calicut. He started his career with Canara Bank as credit officer. During his career he has been associated with organizations like DSP Merrill Lynch Investment Managers Ltd. as Chief Investment Officer (CIO), SSKI Securities as Chief Executive Officer, Barring Asset Management as product head- South Asia at London, ABN Amro Securities Ltd as senior manager equity research, and Canbank Mutual Fund. His last assignment was with Polaris Software as vice-president responsible for investment strategies of its business. He joined the Company on February 28, 2005. In his current capacity he is heading the Company's research desk. He reports to Mr. Hemang Raja, Managing Director & CEO. His compensation for 2004-05 was Rs. 2.07 lacs.

**The key managerial personnel whose names appear above are permanent employees and are on the rolls of the Company.**

### Shareholding of the Key Managerial Personnel

Except to the extent of options granted under the ESOP 2005 scheme, the key managerial personnel of the Company do not hold any equity shares in the Company.

### Bonus or Profit sharing plan for the Key Managerial Personnel

The Compensation Committee constituted by the Board of Directors has approved in its meeting dated July 14, 2003, a profit sharing plan for the employees including Key Managerial Personnel whereby maximum of one third of net profit earned by the company may be distributed amongst employees including Key Managerial Personnel.

### Changes in the Key Managerial Personnel in the last one year

Following are the changes in the key management personnel in the last one year:

Sr. No.	Name	Designation	Date of Joining	Date of Leaving the Company
1)	Deepak Chhabria	Head - Institutional Equity Business	February 09, 2004	-
2)	Girish Nadkarni	Head - International Business & Placements	March 22, 2004	-
3)	Kersi Tavadia	Chief Technology Officer	May 3, 2004	-
4)	R. Sreesankar	Head – Research	February 28, 2005	-
5)	Mridul Mehta	Chief Operating Officer – Project Syndication	-	May 11, 2005

### Investsmart India Employees' Welfare Trust (Trust)

In order to provide some tangible benefit to its employees of the nature envisaged by proviso (b) to Section 77 (2) of the Companies Act, 1956, the Company on September 30, 1999, set up a trust with Mr. Ravi Parthsarathy, Mr. Arun K. Saha, Mr. Hemang Raja, Mr. S. Rengarajan and Mr. Sachin Joshi as its first trustees. The funds of the Trust comprising the initial corpus of Rs. 15,000 as also funds contributed and advanced by the Company and the Promoter may be utilized for the benefit of the employees only.

The employees entitled to the benefit of the Trust are all persons in the employment of the Company or any of its affiliates, including such of their dependents / family members as may be determined by the trustees.

The primary object of the Trust is the welfare of the employees, which has been defined in the Trust Deed to include the following:

- Providing, housing facilities to the employees of the Company or employees for purchase of residential premises;
- Providing relief in any distress caused to the employees by elements of nature or otherwise;
- Providing medical relief, health relief, educational relief, including of schools, hospitals, sanatoriums or any other institutions;
- Providing scholarships to employees and their dependents;
- Gifting, or distribution in cash or in such other manner as whether for a consideration or at a market or at subsidized rate or subsidizing the acquisition of any asset, property, benefit or right including any share, securities or any other investments, whether forming part of the Trust funds or otherwise;

- vi. Leasing or providing limited use of any of such assets absolutely or for ever or for limited period and with or without condition as the trustees may consider appropriate out of the Trust funds or by liquidating any Trust investments, or otherwise as the trustees may consider appropriate; and
- vii. Any other welfare objects or purposes, which are conducive to be beneficial to the employees of the Company.

#### ESOP 2005

For details of the ESOP 2005, please refer to the section titled “Capital Structure” at page 17 of this Red Herring Prospectus.

#### Payment or Benefit to Officers (non-salary related)

Except as stated otherwise in this Red Herring Prospectus, no amount or benefit has been paid or given within the two preceding years or is intended to be paid or given to any of the officers except the normal remuneration for services rendered as officers or employees.

#### Recruitment & Selection

Selection of right personnel is critical and the recruitment of manpower is an important function within the organization. The selection process is generally a 3-tier approach, where by an applicant is interviewed by the immediate supervisor, his/ her reporting and HRD representative. Further we give very high weightages to career track record and independent references. In every case, the approval of functional head is required before a person is recruited. The Company is growing and has a constant need for experienced personnel. The Company sources manpower from various sources: viz., media advertisements (web & print), employee referrals, search agencies, and internal lateral movements etc.

The Company is able to attract talent as a result of the brand it has created for itself coupled with the pedigree of its Promoter and other major stakeholders. By and large, employee turnover at senior levels has been low. All the Company’s mid-managerial and above position are KRA driven career plan based, which makes the work environment challenging and helps us to recognize performers at a very early stage.

Employee turnover over the past has been as follows:

Year	No of Emps	Separations	% of Attrition
April 2002 – March 2003	241	56	23
April 2003 – March 2004	342	74	22
April 2004 – March 2005	498	115	23

Among the senior levels (Assistant Vice President and Above)

Year	No of Emps	Separations	% of Attrition
April 2002 – March 2003	19	4	21
April 2003 – March 2004	24	3	13
April 2004 – March 2005	30	3	10

#### Training Programmes

Following are some of the external training programmes organized in the last financial year:

Leadership Programme for Senior Management (1 day)  
 Branch Management Programme (2 days workshop)  
 Performance Counseling and Feedback for Middle Managers (1 day)  
 Performance Appraisal Exercise for Branch Heads (1 day)  
 Internal Customer Service Programme (2 days workshop)  
 Selling Skills (2 days workshop)  
 Business Etiquettes (1 day)  
 HNI Focused Sales Training (3 days workshops)  
 3 days in-house programme on Mutual Fund Product Training and Sales  
 IRDA Training on Insurance products ( 2 weeks)  
 New Employee Induction and Company Orientation Programmes (3 days)

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In addition to the above, employees were nominated to various external institutions viz., London Business School, National Banking Institute, Bombay Stock Exchange, UTI Institute of Capital Markets and such various other organizations etc.

Further, select employees are nominated for various industry seminars / conferences etc. To leverage the same we do have an internal knowledge sharing process by which, employees who participated in external trainings/ conferences / seminars etc, need to present their key learning to their peer groups by way of formal presentations.

All above are in addition to internal training programmes conducted by various departments/product groups.

### **Steps Taken to Handle Attrition:**

Structured tools-based recruitment and selection process. This has helped to substantially reduce cases of wrong recruitment decisions and attrition rates among the new employees. Institutionalized process', which encourages upward communication and continues employee feedback. Continuous identification and updation of key employees / "must retain" employees, with structured career progression plans. Continuous skill upgradation programmes which enhance in-house competences thereby facilitating job rotation, multi skilling, multi tasking, etc which enhances the perceived value of the job or employment association Institutionalized performance driven transparent Incentive policies and increased weightages on performance related pay. This step to a large extent did help to curtail attrition among the top performing employees developed excellent manpower sourcing ability, viz., support from external agencies, employee referrals, active data base management, industry referrals etc. Speedy closure of selection process. Intensive employee induction and orientation process, resulting in any new joiner becoming completely productive in 2-3 weeks time. Built-in large amount of flexibility in employee compensation restructuring and refitting, which helped the team leaders in pre-empting many possible separations, by bridging the gaps in compensation levels to industry standards / local market norms.

### **Code of Conduct & Personal Trading Policy**

The Company introduced a Code of Conduct & Personal Trading Policy effective from July 01, 2003 and made it applicable to all employees in the Management Cadre i.e. Assistant Manager and above. This Code covers the personal securities transactions of the covered employees. The object of the Code is to ensure that the employees do not take any inappropriate or undue advantage of the price sensitive information that they may receive or otherwise. In the year 2004, the Code was revised to make it applicable to all the employees and whole time directors of the Company and prohibiting employees from carrying out derivative transactions. Mr. Shekhar Deshpande, Company Secretary & Head - Legal has been designated as the Compliance Officer in terms of the requirement of SEBI (Prohibition of Insiders Trading), Regulation, 1992.

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## PROMOTER & GROUP COMPANIES

### PROMOTER

The Company has been promoted by Infrastructure Leasing and Financial Services Ltd.

### BACKGROUND OF PROMOTER :

#### History

IL&FS is a non banking finance company, promoted by the Central Bank of India (CBI), Housing Development Finance Corporation Limited (HDFC) and Unit Trust of India (UTI). Over the years IL&FS has broad-based its shareholding and inducted institutional shareholders including State Bank of India, ORIX Corporation, Japan, International Finance Corporation, Washington, Credit Commercial de France and Indinvest Pte Ltd, an Affiliate of Government of Singapore.

The Promoter has been mandated to undertake operations in the following business segments:

- (a) Commercialisation of infrastructure projects through formulation of commercially viable schemes in conjunction with public and private sector project sponsors as well as project development and infrastructure advisory services
- (b) Providing a full range of financial services including leasing, investment banking, corporate finance, project finance, advisory services and distribution

#### Business Operations

The business operations of IL&FS can be categorised into the following broad areas:

- (1) Infrastructure Project Development and Services
- (2) Investment Banking

#### (1) Infrastructure and Development Services:

IL&FS has been specifically mandated to implement infrastructure projects on a commercial format. Over the last few years, IL&FS has been actively engaged in creating and developing a framework to enable such commercialisation.

IL&FS's focus in infrastructure is on the following sectors :

- (a) Surface Transport and Transportation Systems
- (b) Water Supply
- (c) Hydro Power
- (d) Special Economic Zones
- (e) Ports
- (f) Environmental & Social Management

In respect of infrastructure sectors such as surface transport, water supply and area development, IL&FS has adopted a multiplicity of roles including project conceptualisation, project development, financing, sponsorship, project management and project implementation.

#### (a) Surface Transport and Transportation Systems:

The important initiatives of IL&FS in the surface transport sector are briefly provided below :

##### (i) Delhi - Noida Bridge :

An eight-lane bridge of approximately 550 meters length across the Yamuna River and approach roads on the South Delhi and Noida ends has been completed. The project was among the first large private sector initiatives in the surface transport sector in India and has been implemented during a period characterised by difficult economic conditions, four months ahead of schedule and within budgeted costs. Noida Toll Bridge Company Limited (NTBCL) the project company, has now embarked on programs to attract additional vehicular traffic through direct marketing, advertising, etc with a focus on emphasising the benefits of the project in terms of fuel and time saving

## IL&FS INVESTSMART LIMITED

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### (ii) Gujarat Road Projects :

The Company has promoted two toll road projects in the State of Gujarat alongwith Government of Gujarat (GoG). The Vadodara Halol Toll Road (VHTR) Project was commissioned in FY-2001 and Amhedabad Toll Road (AMTR) Project was commissioned in FY-2003. However, both the projects had been facing difficulties and traffic was below expectations, given the general recessionary conditions in the State of Gujarat. A restructuring exercise has been initiated with the GoG and other shareholders as well as creditors. As part of this restructuring, AMTRL and VHTRL are proposed to be merged with North Karnataka Expressway Limited (NKEL).

### (iii) North Karnataka Expressway Project :

The Project entail the construction of 77 kms cement road on National Highway Number 4, connecting Belgaum to the Maharashtra Border. North Karnataka Expressway Limited, a Special Purpose Vehicle has been formed to undertake the implementation of the project. The project had been bid out by NHAI, and was the first Annuity project to be awarded. The project has been completed well ahead of schedule and within the budgeted cost. In order to consolidate operations in the road sector, steps have been taken to merge this project with Gujarat Toll Road Projects.

### (iv) Tamil Nadu Road Projects :

Tamil Nadu Road Development Company Limited (TNRDC) is a venture jointly promoted by IL&FS and Tamil Nadu Industrial Development Corporation Limited (TIDCO). TNRDC has taken up the improvement and maintenance of the East Coast Road (ECR), connecting Chennai and Pondicherry (via Mahabalipuram). The project was commissioned on time and within the budgeted costs and the facility is opened for commercial operations.

### (v) Surface Transport Initiatives :

The Company alongwith its affiliate Consolidated Toll Network India Limited, is working on following advisory mandates :

- (a) Second Vivekananda Toll Bridge Project
- (b) Pune – Shirur Road Project
- (c) Nashik – Niphad Road Project
- (d) Jabalpur – Narsinghpur – Piparia Road Project
- (e) Jas Toll Road
- (f) Prakasha Chadwel Vinchur Sawalivihir Road Project
- (g) McNally Bharat Engineering Company Limited
- (h) Mega Rail – cum – Road Bridges as Boghibil in Assam and Monghyr in Bihar
- (i) Karnataka Road Development Corporation Limited – Bridges
- (j) Sevok – Gangtok – Nathula Road Project

### (vi) Pradhan Mantri Grameena Sadak Yojna :

Pradhan Mantri Grameena Sadak Yojna (PMGSY) has been conceived by Government of India (GoI) to provide road connectivity to approximately 1.58 lakhs villages. The PMGSY is being managed by State Governments with the Ministry of Rural Development, GoI acting as the nodal agency.

IL&FS has been appointed as Programme Manager to the Warana Rural Roads Development and Maintenance Co-operative Society Limited, a subsidiary of Warana Co-operative Society, for the development, implementation and maintenance of approximately 1,100 kilometers of rural roads in Maharashtra. This is the first such experiment in the country involving a Public Private Partnership framework in the implementation of PMGSY. As Programme Manager, IL&FS would prepare the Detailed Project Report and finalise the design of the roads, the Concession Agreement, as well as would ensure resource mobilisation and supervision of project implementation.

### (b) Water Supply:

#### (i) Tirupur Project :

IL&FS has evolved an integrated area development program for Tirupur, a leading knitwear centre in Tamil Nadu. The program encompasses development of water supply, drainage and effluent treatment, road network improvement, telecom

up-gradation and housing. The project has received significant support from Ministry of Commerce, Government of India, which has also mandated the Project Company as Programme Manager for establishment of an Apparel Park.

**(ii) Visakhapatnam Industrial Water Supply Project:**

The Visakhapatnam Industrial Water Supply Project (VIWSP) was conceived to deliver 520 mld water to industrial areas around Visakhapatnam and Visakhapatnam Municipal Corporation on a BOOT basis in a Public Private Partnership (PPP) format. Phase I of the project involves extraction of water from the Godavari river and pumping it through a new 56 km long steel pipeline into the existing Yeleru canal for further conveyance. Construction work has been completed and the project is commissioned in September 2004.

**(c) Hydro Power:**

IL&FS is focussing on the Hydro Power Sector in States having significant potential like Arunachal Pradesh, Uttaranchal and Sikkim. Initial initiatives have been well received by all concerned personnel in Government, although there would necessarily be a significant gestation period prior to specific transactions fructifying in this sector.

**(d) Special Economic Zones :**

- (i) Government of India Policy :** The development of Special Economic Zones (SEZ) was announced by the Ministry of Commerce (MoC), Govt in FY 2000 to provide impetus to export oriented manufacturing and other activities. IL&FS has been closely involved over the past three years with the evolution of policy relating to the governance of SEZs in the country. The Company has recognized that the development of SEZs is an infrastructure initiative of national importance.
- (ii) Mumbai Special Economic Zone (SEZ) :** IL&FS has been appointed as Financial Advisor, Syndication Manager and Co-Developer by the Maha Mumbai Special Economic Zone (MMSEZ), which entails a capital outlay of Rs 49 billion. Approval has been obtained from Government of India for MMSEZ, a project development company has been setup and financial closure is expected in the near term.
- (iii) Expansion of Surat SEZ Project :** The Surat SEZ is one of the Export Processing Zone converted into SEZs in accordance with the provisions of the Exim Policy 2000. It is an expansion project with an estimated outlay of Rs 230 million, entails the development of land, roads, sewage disposal facilities, electricity distribution and a water supply system. IL&FS has been appointed as Project Advisor and Arranger for Project debt.
- (iv) Handicraft Special Economic Zone :** This project is to develop a Product Specific Special Economic Zone for handicrafts, Carpets, Jute and other related product at Gautam Buddha Nagar in NOIDA. IL&FS role is comprehensive and includes project design, induction of private promoter and syndication of finances.
- (v) The Kakinada Special Economic Zone :** The project entails the development of a Port-based Special Economic Zone at Kakinada in Andhra Pradesh. IL&FS is a member of the consortium that will develop the proposed SEZ. IL&FS will act as Project Advisors and Project Management Consultant, and deliver the comprehensive range of services needed for implementation of the project.

**(e) Ports :**

**(i) Rewas Port**

The Company has been selected as co-developer and financial advisor for the Rewas-Aware Port Project in Maharashtra which had been conceived an international hub with 42 all weather, deep draught berths to be implemented in three phases, with an estimated investment in Phase I of Rs 21 billion.

**(ii) Dighi Port**

IL&FS has entered into an agreement to act as an Advisor and Co Developer to the Dighi Port, being developed by Balaji Infra Projects Limited under a Concession from the Maharashtra Maritime Board. The project site is located in the Dighi Bay in Raigad district 50 nautical miles south of Mumbai Port and is proposed to be developed into a deep draft all weather port. The port has already begun limited operations and is currently exporting bauxite through lighterage operations.

The project site is currently connected by the State Highway 97 and is in close proximity to the National Highway 17 and the Konkan Railway line. The port will have 6 – 8 berths and will cater to the next generation of POL, Chemical, LPG/ LNG, Coal, Ore and Container ships. The project is proposed to be developed over two phases. The project cost is currently estimated at Rs 4000 million and Rs 2500 million for Phase I and II respectively.

## IL&FS INVESTSMART LIMITED

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As a Codeveloper of the Dighi Port, alongwith with Rewas Port and Mumbai Special Economic Zone (MiSEZ), IL&FS is now actively involved in all the major development projects in the mainland across Mumbai.

**(f) Environment & Social Management Group (ESMG) :**

Ecosmart India Limited (Ecosmart) promoted by IL&FS focusses on the environmental sector initiatives. Ecosmart provides consulting services to project developers, belonging to public and private sectors as well as financial institutions, in India as well as abroad.

Ecosmart operates on a proactive philosophy that ecological thinking is critical to bring in both sustainability and competitiveness in any economic development. This distinguishes Ecosmart from other environmental consulting companies. Again, besides consultancy services, Ecosmart promotes environmental initiatives in the framework of public private partnership. Here Ecosmart operates as a programme manager to conceive, steer and manage projects that have a complex interface between government, business and communities. Programmes such as Ecocity and Environmental Information Centre with the Ministry of Environment and Forests, Government of India or Greenhouse Gas Reduction in Textile Cluster at Tirupur with US Agency for International Development are illustrations of ongoing projects where Ecosmart operates as a Programme Manager.

**(2) INVESTMENT BANKING :**

**(a) Strategy :** In the area of investment banking, the strategy of IL&FS has been to develop a comprehensive range of financing options for customers. IL&FS provides range of facilities which include :

- Asset Financing
- Corporate Advisory Services
- Capital Markets
- Project Financing

**(b) Asset Financing :** IL&FS provides customised solutions to its customers to meet their financial needs, wherein a facility is structured based on the specific requirements of a customer. IL&FS offers the following types of credit facilities:

- Leasing
- Debenture Subscriptions
- Term Loans

**(c) Corporate Advisory :** The corporate advisory group within IL&FS helps develop financial plans that address the requirements of the promoters as well as their corporates. Typical assignments in this field include :

- Structured Finance Solutions
- Financial Re-structuring
- Mergers and Divestitures
- Valuation Services

**(d) Capital Markets :** The principal activities of the capital market services include :

- Structuring of Issues
- Development of Financial Plans and Financial Instruments
- Underwriting

**(e) Project Financing :** IL&FS has actively developed project finance capabilities i.e. providing advisory, financial structuring, structured finance and capital market solutions, as a composite approach to finance projects for its corporate clients. IL&FS has provided project finance solutions in areas such as power, hydro, surface transport and telecom

**(f)** In addition to the foregoing, IL&FS has also settled and made contributions to the following Trusts/ Funds :

- IL&FS Investment Trust – I
- IL&FS Investment Trust – II
- IL&FS Investment Trust – IV
- IL&FS Infrastructure Equity Fund



## THE INDIAN INNOVATION AWARDS – 2005

IL&FS has been awarded The Indian Innovation Award 2005 by President of India on March 7, 2005 at Vigyan Bhawan, New Delhi. Among the various participants, IL&FS has been considered as most suitable to confer upon this award. This award is planned annually with the intention to identify and bring forward innovative organizations and organizational innovations which have impacted major changes, so that not only is the process of innovation understood, in the Indian context, but also role models are created for India so that a 'culture of innovation' can be seeded and is encouraged to blossom.

### Main Object of IL&FS

The following are the primary objects with which IL&FS has been promoted:

- (i) To undertake and carry on the business of Equipment Leasing, Leasing of immovable and movable properties of all kinds and description and right, title and interest therein and Leasing of all kinds of goods and articles (including Plants, Machinery, Vehicles, Ships, Vessels, Air-crafts, Apparatuses and Computers) whether required for consumption or for commercial, industrial or business use or for any purpose whatsoever.
- (ii) To undertake and carry out the business of merchant banking including consultancy services of all kinds and descriptions and in all branches and kinds and for this purpose, to open branch/branches in India or any part of the world and without prejudice to the generality of the foregoing, to buy, underwrite, invest in and acquire and hold, sell and deal in stocks, debenture stock, bonds, obligations and securities issued or guaranteed by any Government, State, dominions, commissioners public body or authority, municipal, local or otherwise, firm or person in India or elsewhere and to act as a technical consultant to act as Registrars for share transfers, financial consultancy, managers to issue of shares, debentures, bonds and securities, investment counselling, portfolio management, providing financial and investment assistance, syndication of loans, counselling and tie-up for project and working capital finance, syndication of financial arrangements whether in domestic market or international market handling of mergers and amalgamations, assisting the setting up of joint ventures, foreign currency lending, services to Non Resident Indians, tax Consultancy, to act as a Discount house and in consortium to underwrite any securities and to do all other incidental activities which come within the scope of merchant banking activity and to render any kind of management, technical, financial and allied consultancy services in furtherance of the main objects.
- (iii) To set up, create, issue, float and manage trusts or funds including any mutual fund, growth funds, investment funds, income or capital funds, taxable or tax exempt funds, provident, pension, gratuity and superannuation funds, charitable funds, trusts, or consortium funds to act as administrators or managers of such funds and trusts and to act as trustees for bondholders, debenture holders and for other purposes herein.
- (iv) To give advise and or to offer, give, take circulate and/ or otherwise organise, accept or implement any takeover bids, mergers, amalgamations, acquisitions, diversification, rehabilitation or restructuring of any business, concern, undertaking, company, body corporate, partnership firm or any other association of persons whether incorporated or not, by acquisition of shares or assets and liabilities, and whether as a going concern or as a part of the concern or otherwise as may be required having regard to business exigencies; and to promote or procure incorporation formation or setting up of concerns and undertakings whether as company, body corporate, partnership or any other association of persons for engaging in any industrial, commercial or business activities.
- (v) To set up, provide and/or participate in providing venture capital, technology funds or any other funds for seed capital, risk capital foundation, including giving guarantees or such other financial assistance as may be conducive for development of new enterprises, innovative methods of production and development of existing and new technology, to identify projects, project ideas, to prepare project profiles, project reports, market research, feasibility studies and reports, preinvestments studies and investigation of industries on micro and macro level; to undertake appropriate service to identify scope or potential for economic and industrial development in any particular geographical area or location whether in India or abroad; to act as lead managers in respect of project assignments by undertaking follow-up, supervision and co-ordination work at the instance, behest, or on behalf of banks, financial institutions, companies, bodies corporate and to monitor the same to the participants; to act as an adviser in the management of undertakings, business, enterprises, offices, trade, occupations, calling or professions by introducing modern methods and techniques and systems, and render all assistance as may be necessary including by acting as agents for recruitment of personnel, technical, skilled, unskilled, supervisory, managerial or otherwise; and to act as an adviser in the selection of technical process, economic size, sources of plant and machinery and other utilities for business entrepreneurs.
- (vi) To carry on the business of promotion, organising, procuring incorporation of and giving financial or other assistance in India or abroad independently or in association with any person, Government or any other agencies whether incorporated or not, for any business of the Company.

## IL&FS INVESTSMART LIMITED

### Shareholding Pattern

As on March 31, 2005, the shareholding pattern of IL&FS was as follows :

Sr. No	Name of the Shareholders	No. of shares	% of holding
1	Administrator of the Specified Undertakings – UTI Asset Management Co Pvt Ltd	27,986,818	26.10
2	ORIX Corporation, Japan	22,861,313	21.32
3	Housing Development Finance Corporation Ltd	14,049,500	13.10
4	Central Bank of India	9,843,386	9.18
5	State Bank of India	8,237,967	7.68
6	International Finance Corporation, Washington	6,491,000	6.05
7	Credit Commercial de France	5,609,953	5.23
8	Indinvest Pte Ltd	5,610,000	5.23
9	IL&FS Employees' Welfare Trust & Others	5,609,624	4.63
10	UTI-Unit Linked Insurance Plan – UTI Asset Management Company Pvt. Ltd	946,000	0.88
	<b>Total</b>	<b>10,72,45,561</b>	<b>100.00</b>

### Board of Directors

As on March 31, 2005, the board of directors of IL&FS comprised of:

Sr No	Name of the Director	Designation
1	Mr Ravi Parthasarathy	Chairman & Managing Director
2	Mr Yoshihiko Miyauchi	Chairman & Group Chief Executive Officer ORIX Corporation, Japan
	Alternate : Mr Junichi Hayashi	ORIX Corporation, Japan
3	Mr Yoshitaka Matsuno	Corporate Executive Officer International Head Quarters ORIX Corporation, Japan
	Alternate : Mr Chosei Azuma	Senior Vice President, IL&FS Ltd
4	Mr SB Mathur	Administrator of the Specified Undertakings of Unit Trust of India
5	Mr KM Mistry	Managing Director Housing Development Finance Corporation Limited
6	Mr VN Saxena	Executive Director, Central Bank of India
7	Mr AK Sharma	Deputy Managing Director & Chief Financial Officer State Bank of India
8	Mr Gopi K Arora	Ex-Finance Secretary, Government of India
9	Mr Michael Pinto	Secretary (Retd), Government of India
10	Mr RC Bhargava	Managing Director (Retd), Maruti Udyog Limited
11	Mr Hari Sankaran	Joint Managing Director
12	Mr Arun K Saha	Executive Director

There has been no change in the management or control of IL&FS since its incorporation within the provisions of Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeover).

## Financial Performance

The brief financial details of IL&FS for the last three years are as under:

(Rs in Lacs)

Particulars	For the Year/ Period ended/ As at March 31		
	2002	2003	2004
Total Income	52239.37	53800.03	57085.84
Profit After Tax (PAT)	8065.29	7624.29	8211.76
<b>Shareholders Funds</b>			
Equity Share Capital	10724.56	10724.56	10724.56
Preference Share Capital	5200.00	5200.00	5200.00
Reserves (excluding revaluation reserve)	47831.91	52211.66	56598.70
Net Worth	58556.47	62936.22	67323.26
Earning Per Share (EPS) (Rs.)	6.74	6.65	7.20
Net Asset Value (NAV) per share (Rs.)	54.60	58.68	62.77
Dividend (Equity)	1886.12	2681.14	2895.63

Adjusted PAT = PAT - Preference Dividend

Networth = Paid up Equity Capital + Reserves (excluding revaluation reserves)-Accumulated Losses - Deferred Expenditure to the extent not written off

EPS = Adjusted PAT/ No. of equity shares outstanding at the end of the year

NAV = Networth/ No. of equity shares outstanding at the end of the year

Preference Shares are cumulative and redeemable, and have a face value of Rs. 100 each

The Permanent Account Number, Bank Account Numbers, IL&FS Registration Numbers and the address of the Registrar of Companies where IL&FS is registered have been submitted to the Stock Exchanges on which securities are proposed to be listed, at the time of filing the Prospectus with them.

## Common Pursuits

Promoter is engaged in capital market services including structuring of issues, development of financial plans and financial instruments and underwriting business. It also has SEBI registration for underwriting business. The Company is also engaged in capital market activity including managing and structuring issues and underwriting business and upto that extent pursue common activities.

## Interest of Promoters

### In promotion of the Company

The primary interest of the Promoter in promoting the Company was the creation of a retail distribution network, which could be utilized to distribute various financial products including debt and equity instruments. This distribution network would enable the Promoter in mobilizing retail resources for financing of various infrastructure and other projects over a period of time.

### Property acquired by the Company within 2 years

The Company has entered into business services agreements dated April 23, 2004 and December 31, 2004 with IL&FS pursuant to which it occupies the premises at The IL&FS Financial Centre, Bandra Kurla Complex, Mumbai. The Company makes monthly payment of Rs.24,90,360 for occupying the said premises.

## IL&FS INVESTSMART LIMITED

The Company has also taken the following properties from the Promoter on leave and license or on a business center arrangement:

Sl. No.	Address	Tenor	Deposit	Rent
1.	Flat No. 408, Sun Set 1, Raheja Vihar, Powai, Mumbai	33 Months	300,000	9,500
2.	Flat No. 708, Sun Set 1, Raheja Vihar, Powai, Mumbai	11 Months	300,000	9,000
3.	Flat No. 105, Sun Set 1, Raheja Vihar, Powai, Mumbai	11 Months	300,000	9,000
4.	Flat No. 308, Sun Set 1, Raheja Vihar, Powai, Mumbai	11 Months	300,000	9,000
5.	Flat No. D/4, 4th Floor, Rashmi Apts, 11, Carmichael Road, Mumbai 400 026	33 Months	9,000,000	35,000
6.	HDFC House, Ground Floor, 51, Kasturba Road, Bangalore	Business center arrangement	-	250,000
7.	Constantia, Ground Floor, 11, U N B Street, Kolkatta 700017	Business center arrangement	-	87,400
8.	Indian Habitat Centre	Business center arrangement	-	121,140

### Payment or Benefit to Promoter

In addition to the payments disclosed above in relation to the properties acquired from the Promoter, the Company makes payments to the Promoter on account of various transactions entered into by it with the Promoter in the ordinary course of business.

### Related Party Transaction

Except as stated in "Related Party Transactions" on page 127 of the Prospectus, the Promoter, does not have any interest in the Company's business except to the extent of investments made by them in the Company and earning returns thereon.

### Third party guarantees issued as on March 31, 2004

Corporate guarantee	Rs. (mn)	Period	Reason	Security	Obligations on issuer	Financial implications in case of default
Malana Power Ltd.	247.77	15-Oct-2012	Guarantee provided to investors for debentures issued by Company	<i>Pari-Passu</i> first charge on all movable and immovable assets including intangible assets, assignment of book debts, receivables and operating cash flows, pledge of 51% equity share holding of Malana Power	Financial Guarantee	To fund the guaranteed amount in case of default
Aircell Cellular Limited	248.40	15-Sept-2008	Put option given for sale of debentures of the company by IL&FS	Springing negative lien of 51% of promoters shares in ACL backed by deposit of shares, mortgage and charge over all movable and immovable assets, assignments of all licenses permitted by DOT.	Put option	Purchase debentures in case of exercise of put option by investors

Corporate guarantee	Rs. (mn)	Period	Reason	Security	Obligations on issuer	Financial implications in case of default
Hathaway	116.43	4-Jan-2005	Gurantee given to bank for giving LC facility to company	<i>Pari-Passu</i> first charge on present and future movable assets of the company with the minimum cover of 1.75 times, negative lien on entire shareholding of Rajan Raheja Group in Hathaway Cable.	Financial Gurantee	To fund the guranteed amount in case of default
NTBCL	352.94	3 <sup>rd</sup> -Nov-2008	Take out option provided to investor for issue of deep discount bond issued by the company	<i>Pari-Passu</i> first mortgage charge on all movable and immovable project assets	Take Out	Purchase debentures in case of exercise of put option by investors
VHTRL	112.57	17 <sup>th</sup> -Apr-2008	Take out option provided to investor for issue of deep discount bond issued by the company	<i>Pari-Passu</i> first mortgage charge on all movable and immovable project assets	Take Out	Purchase debentures in case of exercise of put option by investors
TNRDC	250.00	13 <sup>th</sup> Feb-2015	Put option given for sale of debentures of the company by IL&FS	<i>Pari-Passu</i> first mortgage charge on all movable and immovable assets of the company.	Put option	Purchase debentures in case of exercise of put option by investors
<b>TOTAL</b>	<b>1328.11</b>					

## IL&FS INVESTSMART LIMITED

### GROUP COMPANIES

List of Group companies of IL&FS with its individual shareholding in each of them

Sr. No.	Name	Shareholding %
1.	IL&FS Infrastructure Development Corporation Ltd. (IIDC)	100.00
2.	IL&FS Energy Development Company Limited	100.00
3.	IL&FS Finvest Limited	100.00
4.	IL&FS Trust Company Limited	70.00
5.	MP Toll Roads Ltd	80.00
6.	Tamil Nadu Water Investment Company Limited	53.84
7.	Consolidated Toll Network India Limited	49.47
8.	IL&FS Education and Technology Services Limited	27.03
9.	Tamil Nadu Road Development Company Ltd. (TNRDC)	50.00
10.	ORIX Auto and Business Solutions Ltd	47.50
11.	Vadodara Halol Toll Road Company Limited	85.07
12.	Gujarat Toll Road Investment Company Limited	66.67
13.	Noida Toll Bridge Co. Ltd.	29.41
14.	North Karnataka Expressway Limited	28.50
15.	Colliers International India Property Services (P) Ltd	15.00
16.	Rewas Port Development Co. Ltd.	16.64
17.	Road Infrastructure Development Company of Rajasthan Limited (RIDCOR)	50.00
18.	TVC India Private Limited	29.30
19.	Dronagiri Infrastructure Private Limited	26.06

### DIVIDEND POLICY

The declaration and payment of dividends will be recommended by the Board of Directors and the shareholders, in their discretion, and will depend on a number of factors, including but not limited to the earnings, capital requirements and overall financial condition.

In terms of the Shareholders Agreement entered into between, ORIX, ETM, SAIF, IL&FS and the Company, any declaration of dividend (including interim dividend) or any other distribution to the Shareholders by the board that would require distribution in a financial year of more than 25% of the profits of the Company in the preceding financial year requires, in addition to the quorum requirement, the affirmative votes of the directors nominated by at least three Shareholders (i.e. three out of ORIX, ETM, SAIF and IL&FS) in favour of, or approving or authorising such action.

The dividends paid by the Company (excluding corporate tax on dividend including cess thereon) during the last five fiscal years are presented below:

FY Ended March 31 <sup>st</sup>	Face Value of Equity Share (Rs.)	Amount (Rs. In Lacs)*	Dividend (%)
2001	10	238.66	8%
2002	10	Nil	NA
2003	10	Nil	NA
2004	10	699.99	20%
2005**	10	787.49	22.50%

\* Including pro-rata dividend for the shares issued during the respective years.

\*\* Includes final dividend proposed by the Board of Directors in their meeting held on 4th May, 2005 @ 12.5%, amounting to Rs. 43,745,645, subject to approval of the share holders alongwith tax on dividend of Rs. 6,135,888 at the ensuing Annual General Meeting.

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**FINANCIAL STATEMENT****RESTATED FINANCIAL INFORMATION****NMS/3061  
AUDITORS' REPORT**

The Board of Directors  
IL&FS Investsmart Limited  
The IL&FS Financial Centre  
Bandra Kurla Complex  
Bandra (East)  
Mumbai 400 051

Dear Sirs,

As required by Part II of Schedule II of the Companies Act, 1956 and the Guidelines titled Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000 (the 'Guidelines') issued by the Securities and Exchange Board of India (SEBI) in pursuance of Section 11 of the Securities and Exchange Board of India Act, 1992 and related clarifications and in accordance with the request dated 6<sup>th</sup> May, 2005 received from **IL&FS Investsmart Limited** ("the Company"), we have examined the financial information of the Company and its subsidiaries contained in the statements annexed to this report which is proposed to be included in the Prospectus of the Company in connection with the proposed issue of shares and we report thereon as follows:

1. We have examined the 'Statement of Adjusted Profits and Losses' of the Company for each of the financial years ended 31<sup>st</sup> March, 2001, 2002, 2003, 2004 and 2005 and the 'Statement of Adjusted Assets and Liabilities' as at those dates enclosed as ANNEXURES I and II, respectively to this report and confirm that:
  - a. These statements reflect the profits and losses and the assets and liabilities of the Company for each of the financial years as extracted from the Profit and Loss Account for the financial years ended 31<sup>st</sup> March, 2001, 2002, 2003 and 2004 and the Balance Sheets as at 31<sup>st</sup> March, 2001, 2002, 2003 and 2004 audited by us, and adopted by the members after making therein the disclosures and adjustments required to be made in accordance with the provisions of paragraph 6.10.2.1 of the Guidelines. These statements also reflect the profit and losses and the assets and liabilities of the Company extracted from Profit and Loss Account for the financial year ended 31<sup>st</sup> March, 2005 and the Balance Sheet as at 31<sup>st</sup> March, 2005 audited by us and to be adopted by the members at next annual general meeting after making therein the disclosures and adjustments required to be made in accordance with the provisions of paragraph 6.10.2.1 of the Guidelines. Attention is invited to Note 4 of Notes to the Statement of Adjusted Profits and Losses (ANNEXURE I) in respect of balance of Miscellaneous Expenditure (to the extent not written off or adjusted) as at 31<sup>st</sup> December, 2001 charged to the Share Premium Account and to the fact that, based on legal advice obtained by the Company, the balance as at 31<sup>st</sup> December, 2001, was determined without considering the write off aggregating Rs.366.23 lakhs for the nine months ended 31<sup>st</sup> December, 2001. We express no opinion on the matter.
  - b. The Significant Accounting Policies adopted by the Company are enclosed as ANNEXURE III.
  - c. The Notes to the 'Statement of Adjusted Assets and Liabilities' are enclosed as ANNEXURE IV.
2. We have also examined the Statements of Profits and Losses of subsidiaries of the Company i.e. Investsmart Insurance Agency Pvt. Ltd. (100%) and IL&FS Investsmart Insurance and Risk Management Services Ltd. (Erstwhile Investsmart Insurance Distribution Pvt. Ltd.) (50.25%), for the years ended 31<sup>st</sup> March, 2002 (since incorporation), 2003, 2004 and 2005, IL&FS Academy for Insurance and Finance Ltd. (Erstwhile SAIFA Training Academy Ltd.) (100%), another subsidiary of the Company for the years ended 31<sup>st</sup> March, 2004 (since incorporation) and 2005, and IL&FS Investsmart Commodity Brokers Ltd. for the year ended 31<sup>st</sup> March, 2005 (since commencement of commercial operations) enclosed as Annexure V, VI, VII and VIII, respectively, and the Statements of Assets and Liabilities of these subsidiaries as at those dates and IL&FS Investsmart Commodity Brokers Ltd. (100%) as at 31<sup>st</sup> March, 2004 enclosed as ANNEXURES IX, X, XI and XII, respectively, and confirm that these statements reflect the profits and losses and the assets and liabilities of the subsidiaries for each of the relevant years as extracted, without any adjustments, from the financial statements of these subsidiaries for the relevant years, as audited by Messrs J. D. Bhagchandani & Co., Chartered Accountants for Investsmart Insurance Agency Pvt. Ltd. and IL&FS Investsmart Insurance and Risk Management Services Ltd. and by Messrs Lakhani & Co., Chartered Accountants for IL&FS Investsmart Commodity Brokers Ltd. and IL&FS Academy for Insurance and Finance Ltd.
3. We have examined the 'Statement of Adjusted Consolidated Profit and Losses' of the Company for each of the financial years ended 31<sup>st</sup> March, 2002, 2003, 2004 and 2005 and the 'Statement of Adjusted Assets and Liabilities as at those dates enclosed as ANNEXURES XIII and XIV, respectively, to this report and confirm that:

## IL&FS INVESTSMART LIMITED

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- a. These statements reflect the profits and losses and the assets and liabilities of IL&FS Investsmart Ltd., and its subsidiaries ("the Group") for each of the financial years as extracted from the Consolidated Profit & Loss Account for the financial years ended 31<sup>st</sup> March, 2002, 2003, 2004 and 2005 and the Consolidated Balance Sheet as at 31<sup>st</sup> March, 2002, 2003, 2004 and 2005 audited by us, and taken on record by the Board of Directors after making therein the disclosures and adjustments required to be made in accordance with the provisions of paragraph 6.10.2.1 of the Guidelines. Attention is invited to Note 4 of Notes to the Statement of Adjusted Profits and Losses (ANNEXURE XIII) in respect of balance of Miscellaneous Expenditure (to the extent not written off or adjusted) as at 31<sup>st</sup> December, 2001 charged to the Share Premium Account and to the fact that, based on legal advice obtained by the Company, the balance as at 31<sup>st</sup> December, 2001, was determined without considering the write off aggregating Rs.366.23 lakhs for the nine months ended 31<sup>st</sup> December, 2001. We express no opinion on the matter.
  - b. The Significant Accounting Policies adopted by the Group are enclosed as ANNEXURE XV.
  - c. The Notes to the 'Statement of Consolidated Assets and Liabilities' are enclosed as ANNEXURE XVI.
  - d. The Company did not have any subsidiaries upto the year 2000-2001.
4. We have examined the 'Statement of Accounting Ratios' of the Company for each of the financial years ended 31<sup>st</sup> March, 2001, 2002, 2003, 2004 and 2005 enclosed as ANNEXURE XVII to this report and confirm that they have been correctly computed from the figures as stated in the 'Statement of Adjusted Profits and Losses' and 'Statement of Adjusted Assets and Liabilities' of the Company referred to in paragraph 1 above.
  5. We have examined the accompanying 'Statement of Related Party Disclosure' for each of the financial years ended 31<sup>st</sup> March, 2002, 2003, 2004 and 2005, enclosed as ANNEXURE XVIII to this report and confirm that the relationships and transactions between the Company and its related parties have been reported in accordance with 'AS – 18 Related Party Disclosures' issued by The Institute of Chartered Accountants of India for the years the standard was applicable to the Company.
  6. We have examined the 'Statement of Dividend Paid' by the Company in respect of each of the financial years ended 31<sup>st</sup> March, 2001, 2002, 2003, 2004 and 2005 on equity shares of the Company, enclosed as ANNEXURE XIX to this report and confirm that it correctly reflects the dividend paid in respect of each of those years. We further state that the subsidiary companies have not declared any dividend since inception.
  7. We have examined the 'Statement of Tax Shelter' for each of the financial years ended 31<sup>st</sup> March, 2001, 2002, 2003, 2004 and 2005 enclosed as ANNEXURE XX to this report and report that, in our opinion, it correctly reflects the 'Tax Shelter' for the Company for each of these years.
  8. We have examined the 'Capitalisation Statement' enclosed as ANNEXURE XXI to this report and report that it correctly records the matters stated therein.

We further report that the information mentioned in the items 4 to 7 above has been correctly computed from the figures as stated in the Statements of Adjusted Profits and Losses and Adjusted Assets and Liabilities referred to in paragraph 1 above.

This report is intended solely for your information for inclusion in the Prospectus in connection with the proposed Public Issue of the Company's shares and is not to be used, referred to or distributed for any other purpose without our prior written consent.

Yours faithfully,

For **S. B. Billimoria & Co.**  
Chartered Accountants

**Nalin M. Shah**  
Partner  
(Membership No. 15860)

Mumbai, 14 May, 2005



# ANNEXURE I

(Referred to in para. 1 of our report)

## IL&FS INVESTSMART LIMITED

### STATEMENT OF ADJUSTED PROFITS & LOSSES

Rs. lakhs

PARTICULARS	FOR THE YEARS ENDED 31ST MARCH,				
	2001	2002	2003	2004	2005
<b>Income</b>					
Retail — Broking (see Note 6 below)	1,319.14	913.85	1,314.87	3,339.70	4,160.58
Retail — Other Services & related interest	155.40	125.89	474.81	2,296.65	3,527.56
Institutional — Broking	370.86	190.27	308.98	761.93	973.38
Institutional — Other Services	100.87	544.67	1,012.73	1,106.40	1,785.96
Income From Stock-in-trade (see Note 8 below)	82.04	14.89	12.22	24.29	277.80
Profit/(Loss) on sale of investments (see Note 3 below)	(19.37)	658.11	10.66	494.95	3.16
Other Income (see Note 1 below)	120.34	105.19	207.62	211.08	105.67
<b>TOTAL INCOME</b>	<b>2,129.28</b>	<b>2,552.88</b>	<b>3,341.89</b>	<b>8,235.00</b>	<b>10,834.11</b>
<b>Expenses</b>					
Interest and Finance Charges	175.31	332.79	644.99	1,099.17	349.29
Staff Costs	671.01	771.40	897.13	1,730.17	2,307.81
Rent	327.60	373.45	357.19	469.63	854.67
Administrative and Other Expenses	852.10	977.64	886.71	1,437.27	1,957.00
Advertisement and Business Promotion Expenses	0.28	2.38	12.45	143.39	124.14
Provision for Bad / Doubtful Debts	61.55	50.20	28.80	19.95	4.96
Provision for Diminution in Value of Investments (see Note 4 below)	-	-	6.18	11.86	-
Deferred Revenue Expenditure Written Off (see Note 4 below)	140.89	-	-	-	-
Amalgamation Expenses Written Off (see Note 5 below)	-	3.09	12.37	12.37	12.37
Loss on conversion of investments in to Stock in - trade	-	-	-	-	1.54
Loss on sale of Fixed Assets	-	1.12	17.19	0.05	9.88
Preliminary Expense Written Off	0.53	-	-	-	-
Depreciation / Amortisation (see Note 4 below)	119.73	288.22	386.84	351.94	339.72
Impairment of Delhi Stock Exchange Card	-	-	-	-	2.40
	<b>2,349.00</b>	<b>2,800.29</b>	<b>3,249.85</b>	<b>5,275.80</b>	<b>5,963.78</b>
Transferred to Deferred Revenue Expenditure	(574.82)	(309.50)	-	-	-
<b>TOTAL EXPENSES</b>	<b>1,774.18</b>	<b>2,490.79</b>	<b>3,249.85</b>	<b>5,275.80</b>	<b>5,963.78</b>
Profit Before Tax	355.10	62.09	92.04	2,959.20	4,870.33
Provision for Tax					
Current	27.00	5.00	7.25	610.00	1,535.00
Prior period Tax			(11.02)		5.04
Deferred (see Note 2 below)	-	-	32.07	140.00	23.90
<b>Net Profit after Tax</b>	<b>328.10</b>	<b>57.09</b>	<b>63.74</b>	<b>2,209.20</b>	<b>3,306.39</b>
<b>Adjustment due to changes in accounting policies</b>					
Depreciation / Amortisation (see Note 9(a) below)	13.76	15.43	14.60	14.60	-
Retirement Benefits (see Note 9(b) below)	2.30	8.81	-	-	-
Impact of prior period tax	5.04	(0.25)	11.02	-	(5.04)
<b>Total Impact of Adjustments</b>	<b>21.10</b>	<b>23.99</b>	<b>25.62</b>	<b>14.60</b>	<b>(5.04)</b>
<b>Net Profit as adjusted</b>	<b>307.00</b>	<b>33.10</b>	<b>38.12</b>	<b>2,194.60</b>	<b>3,311.43</b>

## IL&FS INVESTSMART LIMITED

### NOTES TO THE STATEMENT OF ADJUSTED PROFITS & LOSSES

Rs. lakhs

1 Details of Other Income :	FOR THE YEARS ENDED 31ST MARCH,				
	2001	2002	2003	2004	2005
Miscellaneous income	0.40	2.29	2.23	12.95	67.04
Advertisement Income	-	18.99	7.90	7.95	9.35
Interest income	108.30	22.57	65.30	17.39	7.04
Rent	8.85	52.45	117.46	66.91	9.20
Income from Investments	2.79	8.89	14.73	105.88	13.04
<b>Other Income</b>	<b>120.34</b>	<b>105.19</b>	<b>207.62</b>	<b>211.08</b>	<b>105.67</b>

- 2 The Accounting Standard relating to 'Accounting for Taxes on Income' (AS 22), issued by The Institute of Chartered Accountants of India became applicable to the Company from the financial year ended 31<sup>st</sup> March, 2003. Accordingly, the Company had adjusted the Deferred Tax Asset (net) arising on account of timing differences as on 1<sup>st</sup> April, 2002 of Rs. 204.66 lakhs against the balance in Profit & Loss Account. No adjustment for deferred tax has been made in the financial years ended 31<sup>st</sup> March, 2001 and 2002 above, since the Standard was not applicable to the Company during these years.
- 3 Profit on sale of investments for the year ended 31st March, 2004, includes write back of provision for diminution in value of investments amounting to Rs 340.94 lakhs of which Rs 315.15 lakhs pertains to diminution on long term investments which was charged to the Amalgamation Reserve in terms of the Scheme of Amalgamation approved by the Bombay High Court in the financial year 2001-02, referred to in Note 5 below.
- 4 The Shareholders of the Company at the Extra-Ordinary General Meeting held on 27th May, 2002, approved and the High Court of Judicature, at Mumbai, vide its order passed on 1st August, 2002, confirmed the utilisation of the Share Premium Account in accordance with the provisions of Section 78, read with Section 100 of the Companies Act, 1956, towards adjustment of the following debit balances as on 31st December, 2001:

Particulars	Rs. lakhs
Miscellaneous Expenditure (to the extent not written-off or adjusted )	1,069.44
Fixed Assets	15.98
Diminution in value of investments	324.75
<b>Total</b>	<b>1,410.17</b>

The balance of Miscellaneous Expenditure (to the extent not written-off or adjusted) as at 31<sup>st</sup> December, 2001 had been arrived at as follows:

Particulars	Rs. lakhs
Preliminary Expenses balance as at 31st March, 2001	3.20
Deferred Revenue Expenditure balance as at 31st March, 2001	756.74
Deferred Revenue Expenditure balance from 1st April, 2001 to 31st December, 2001	309.50
<b>Total</b>	<b>1,069.44</b>

Although the Scheme referred to the write-off of the balance in the Miscellaneous Expenditure Account as at 31st December, 2001, the Preliminary Expenses and Deferred Revenue Expenditure amount written-off were arrived at without considering the write-off aggregating Rs 366.23 lakhs for the nine months ended 31st December, 2001 based on the legal advice obtained by the Company in respect of the interpretation of the Order of the High Court of Judicature at Mumbai passed on 1st August, 2002.

- 5 During the financial year 2001-02, the amalgamation of IL&FS Merchant Banking Services Limited (IMBSL) and DebtonNet India Limited (DebtonNet) with the Company was accounted for under the 'pooling of interests' method as prescribed by Accounting Standard 14 issued by The Institute of Chartered Accountants of India. Accordingly, all the assets (movable and immovable, tangible and intangible), all debts, liabilities, duties, undertakings, obligations and reserves of IMBSL and DebtonNet as at 1st January, 2002 were taken over at their book values, subject to adjustments effected for differences in the accounting policies between the three companies and/or as specified in the Scheme of Amalgamation. The take over had resulted in an amalgamation reserve.

- 6 Revenue from Broking Business includes the Company's share of income in respect of business done through franchisees. From the financial year 2003-04, the arrangement with the franchisees of sharing the profit after adjusting expenses has been modified. The revised arrangement entails sharing of gross revenues earned through the franchisee arrangement after deducting transaction charges.
- 7 In view of the amalgamation as stated in Note 5 above, with effect from 1st January, 2002, the figures for the financial years 2001-02, 2002-03 and 2003-04 are not comparable with those of the earlier years.
- 8 The Company has invested in units of UTI-Growth & Value Fund (Bonus Plan), which was wound up by UTI Asset Management Company Pvt. Ltd. (UTI AMC) on 1st February, 2005 in accordance with the SEBI circular. Few unit holders have challenged validity of the circular in a writ petition. In order to avail the benefit, if any, on outcome of the said petition, the Company has returned the redemption cheque to UTI AMC in terms of the High Court interim order which has been invested by UTI AMC in a Scheduled Bank. Pending outcome of the litigation, gain on redemption of the units is not recognised in the books of account.

## 9 Changes in accounting policies

### a. Depreciation / Amortisation

- (i) During the financial year 2001-02, the Company had changed the method of providing depreciation in respect of premises owned by it from Written Down Value Method to Straight Line Method (SLM), at the rates provided under Schedule XIV of the Companies Act, 1956, with retrospective effect.

In order to bring about consistency in accounting policy, depreciation for the year 2000-2001 has been recomputed at the SLM rates and related assets and depreciation have been restated.

- (ii) Consequent to the opinion of the Expert Advisory Committee of the Institute of Chartered Accountants of India dated: May 11, 2004, the cost of Stock Exchange membership cards is amortised in accordance with Accounting Standard – 26 "Intangible Assets" over a period of 10 years from the date of acquisition. In accordance with transitional provision of AS-26, the accumulated amortisation of Rs. 68.93 lakhs as on March 31, 2004 has been charged against General Reserve during the year 2004-05.

In order to bring about consistency in accounting policy, amortisation for the year 2000-2001, 2001-2002, 2002-2003 and 2003-2004 has been recomputed and related asset and amortisation have been restated.

### b. Retirement Benefits

During the financial year 2001-02, the Company had changed the accounting policy for valuation of Leave Encashment benefits from accrual to actuarial basis.

In order to bring about consistency in accounting policy, provisions for Leave Encashment as per actuarial valuation for the year 2000-2001 has been restated.

**IL&FS INVESTSMART LIMITED**
**ANNEXURE II**

(Referred to in para. 1 of our report)

**IL&FS INVESTSMART LIMITED**
**STATEMENT OF ADJUSTED ASSETS & LIABILITIES**

Rs. lakhs

PARTICULARS	AS AT 31ST MARCH,				
	2001	2002	2003	2004	2005
<b>A Fixed Assets</b>					
Gross Block - Tangible Assets	732.53	4,274.61	4,296.54	1,504.82	1,892.33
Gross Block - Intangible Assets	499.45	630.02	639.43	666.72	692.81
Less: Depreciation	214.42	523.54	908.99	1,003.21	1,327.96
<b>Net Block</b>	<b>1,017.56</b>	<b>4,381.09</b>	<b>4,026.98</b>	<b>1,168.33</b>	<b>1,257.18</b>
<b>B Investments</b>					
Current - Unquoted	350.00	398.86	150.00	1,006.84	-
Current - Quoted	-	23.25	23.25	-	-
Long Term - Unquoted	703.53	737.65	725.10	1,539.59	1,604.44
Long Term - Quoted	232.78	223.05	188.77	76.80	-
	<b>1,286.31</b>	<b>1,382.81</b>	<b>1,087.12</b>	<b>2,623.23</b>	<b>1,604.44</b>
Less: Diminution in value of investments	-	344.36	350.54	11.86	-
<b>Total</b>	<b>1,286.31</b>	<b>1,038.45</b>	<b>736.58</b>	<b>2,611.37</b>	<b>1,604.44</b>
<b>C Deferred Tax Asset</b>	-	-	172.59	32.59	8.69
<b>D Current Assets</b>					
Cash and Bank Balances	2,028.84	2,248.83	1,285.85	1,241.62	5,531.14
Sundry Debtors	2,895.77	2,780.45	815.63	6,995.90	3,135.52
Loans and Advances	1,728.99	2,574.56	4,453.00	5,406.85	7,342.83
Stock-in-trade	89.05	45.10	28.67	29.62	2,282.83
Other Assets	0.29	20.88	27.53	53.95	107.11
<b>Total</b>	<b>6,742.94</b>	<b>7,669.82</b>	<b>6,610.68</b>	<b>13,727.94</b>	<b>18,399.43</b>
<b>E Liabilities &amp; Provisions</b>					
Secured Loans	-	3,123.41	3,110.24	570.52	280.52
Unsecured Loans	662.86	2,910.38	2,360.36	1,055.26	2,000.00
Interest Accrued but not due	-	-	-	2.74	-
Sundry Creditors	3,674.88	1,842.43	666.25	7,160.34	6,643.60
Margin Money Received from Clients	27.78	382.23	378.18	814.18	472.23
Provisions	324.35	144.10	58.24	1,475.38	2,744.23
Other Liabilities	55.02	123.68	154.90	225.87	465.81
<b>Total</b>	<b>4,744.89</b>	<b>8,526.23</b>	<b>6,728.17</b>	<b>11,304.29</b>	<b>12,606.39</b>
<b>F Net Worth (A+B+C+D-E)</b>	<b>4,301.92</b>	<b>4,563.13</b>	<b>4,818.67</b>	<b>6,235.94</b>	<b>8,663.35</b>
<b>Represented by</b>					
Paid-up Share Capital	3,000.00	3,000.00	3,499.97	3,499.97	3,499.97
Share Capital Suspense Account	-	499.97	-	-	-
Reserves	2,061.86	1,121.92	1,365.09	2,769.99	5,185.03
<b>G Total</b>	<b>5,061.86</b>	<b>4,621.89</b>	<b>4,865.06</b>	<b>6,269.96</b>	<b>8,685.00</b>
<b>H Miscellaneous Expenditure Not Written Off</b>	759.94	58.76	46.39	34.02	21.65
<b>I Net Worth (G-H)</b>	<b>4,301.92</b>	<b>4,563.13</b>	<b>4,818.67</b>	<b>6,235.94</b>	<b>8,663.35</b>

## ANNEXURE III

(Referred to in para. 1b of our report)

### SIGNIFICANT ACCOUNTING POLICIES

#### I. **Basis for preparation of Financial Statements:**

The Company prepares its financial statements under the historical cost convention in accordance with the Generally Accepted Accounting Principles (GAAP) as followed in India and the provisions of the Companies Act, 1956, as adopted consistently by the Company. All income and expenditure having a material bearing on the financial statements are recognised on an accrual basis.

#### II. **Fixed Assets:**

##### (i) **Own Assets:**

- (a) All Fixed Assets are stated at cost of acquisition and other incidental expenses.
- (b) Cost of Stock Exchange Membership Cards and cost towards Web Development have been classified as Intangible Assets.
- (c) Leasehold Improvements include amounts spent on furnishing new branches excluding movable fixed assets, which have been capitalised separately under their natural heads.

##### (ii) **Leased Assets:**

All Fixed Assets acquired under Finance Lease with effect from April 1, 2001 have been capitalised at the fair value of assets or present value of minimum lease payment whichever is lower.

#### III. **Depreciation:**

- (i) Stock Exchange Membership Card has been amortised equally over a period of 10 years from the date of acquisition.
- (ii) The Company follows the policy of writing off Leasehold Improvements on a pro-rata basis over the period of lease commencing from the date ready to put to use or date of commencement of lease till the termination of lease.
- (iii) Buildings are depreciated on a Straight Line basis at the rates provided under Schedule XIV of the Companies Act, 1956.
- (iv) Depreciation on Fixed Assets, other than on assets specified in notes (i), (ii) and (iii) above, has been provided for using Written Down Value Method at the rates provided under Schedule XIV of the Companies Act, 1956. Assets costing less than Rs. 5,000/- each are depreciated at 100% in the year of capitalisation.
- (v) The Company follows the policy of writing off the Web Development Cost on a pro-rata basis over a period of sixty months from the date of capitalisation of the website. The Company has established a policy of reviewing the technology used in Web Development and related costs at periodic intervals. The Company writes off assets and facilities becoming obsolete due to such review during the same period.
- (vi) Depreciation on software has been provided at 40% using the Written Down Value method.
- (vii) Mobile Phones are depreciated at 100% in the year of purchase.

#### IV. **Investments:**

- (i) Investments are recorded by the Company at cost, which includes acquisition charges such as brokerage, fees and duties. Provision is made for any diminution, other than temporary, in the value of long term investments.
- (ii) Current Investments are stated at the lower of cost and market value on individual scrip-by-scrip basis.

#### V. **Stock in Trade:**

Stock in trade is valued by the Company at the lower of cost and market value on individual scrip-by-scrip basis.

#### VI. **Miscellaneous Expenditure:**

- (i) The Company had the following policy to write-off deferred revenue expenses:
  - (a) Brand Development Cost: The Company had classified the expenditure incurred on sales promotion, advertising, training etc for building its corporate image as Brand Development Cost. As the benefits from these expenses would accrue to the Company in subsequent periods, the same were being written off over a period of three years.
  - (b) Branch Set up Cost: Initial Branch rollout expenses incurred during the first six months before stabilisation of commercial operations were treated as Branch Set-up Cost and amortised over succeeding 12 months.

## IL&FS INVESTSMART LIMITED

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- (c) Web Business Development Cost: The Company had classified the expenditures relating to Internet Based Trading Project as Web Business Development Cost which was being amortised over a period of next sixty months from the date of commissioning of the Project.

However, pursuant to the approval of the Scheme of Amalgamation by the Hon'ble High Court, the Company had written off Deferred Revenue Expenses outstanding at 1<sup>st</sup> April, 2001 and the amounts incurred upto 31<sup>st</sup> December, 2001 against the Share Premium Account. The Company has not incurred any such expenditure subsequent to such adjustment.

- (ii) Amalgamation expenses are amortised over a period of 60 months.

### VII. Revenue Recognition:

- (i) Broking commission on secondary market trades is recognised on execution of deals and net of origination commission.
- (ii) Fee Income received on placement of securities with investors is recognised on completion of specific milestones, on an accrual basis.
- (iii) Income on placement / mobilisation of securities/ funds is recognised on time proportion basis / on completion of specific milestones, on an accrual basis.
- (iv) Income from mobilisation of Fixed Deposits, Bonds and units of Mutual Funds are recognised on an accrual basis, net of mobilisation expenses.
- (v) Fees from hosting of issues on the Website are recognised on completion of the issue, on accrual basis.

#### a. Retirement Benefits:

- (i) The Company has a defined contribution plan for provident fund and benefit defined Superannuation Fund and the Company's contribution thereto is charged to the Profit and Loss Account. The Company has participated in group gratuity cum life assurance scheme of Life Insurance Corporation of India for gratuity payable to the employees and contribution thereto, based on an actuarial valuation, is charged to the Profit and Loss Account and the unfunded amount being disclosed as a provision.
- (ii) Provision for Leave Encashment is made on the basis of actuarial valuation at the end of each year.

### IX. Taxation:

Provision for taxation is made on the basis of current liability method. Deferred tax liability / asset has been provided in the books in accordance with Accounting Standard 22 (Accounting for Taxes on income) with effect from financial year ended 31<sup>st</sup> March, 2003.

### X. CHANGES IN ACCOUNTING POLICIES

#### a) Depreciation :

- (i) During the financial year 2001-02, the Company had changed the method of providing depreciation in respect of premises owned by it from Written Down Value Method to Straight Line Method (SLM), at the rates provided under Schedule XIV of the Companies Act, 1956, with retrospective effect.

In order to bring about consistency in accounting policy, depreciation for the year 2000-2001 has been recomputed at the SLM rates and related assets and depreciation have been restated.

- (ii) Consequent to the opinion of the Expert Advisory Committee of the Institute of Chartered Accountants of India dated: May 11, 2004, the cost of Stock Exchange membership cards is amortised in accordance with Accounting Standard – 26 "Intangible Assets" over a period of 10 years from the date of acquisition in accordance with transitional provision of AS-26, the accumulated amortisation of Rs. 68.93 lakhs as on March 31, 2004 has been charged against General Reserve during the year 2004-05.

In order to bring about consistency in accounting policy, amortisation for the year 2000-2001, 2001-2002, 2002-2003 and 2003-2004 has been recomputed and related asset and amortisation have been restated.

#### b) Retirement Benefits :

##### Leave Encashment Benefits :

During the financial year 2001-02, the Company had changed the accounting policy for valuation of Leave Encashment benefits from accrual to actuarial basis. In order to bring about consistency in accounting policy, provisions for Leave Encashment as per actuarial valuation for the year 2000-2001 has been restated.

## ANNEXURE IV

(Referred to in para. 1c of our report)

### NOTES TO THE 'STATEMENT OF ADJUSTED ASSETS AND LIABILITIES'

**(1) Details of movement in share capital are given below:**

Particulars	Number of Shares	Rs. lakhs
Equity Shares of Rs.10/- each fully paid as at 31 <sup>st</sup> March, 2000	75,00,007	750.00
Shares originally issued for cash to:		
AIG Indian Sectoral Fund – Unit C	50,00,000	500.00
Infrastructure Leasing & Financial Services Limited (Promoter)	34,99,993	350.00
Investsmart India Employees Welfare Trust	30,00,000	300.00
ORIX Corporation, Japan (Promoter)	80,00,000	800.00
K. Raheja Pvt. Ltd.	30,00,000	300.00
Shares issued to Infrastructure Leasing & Financial Services Limited (Promoter) pursuant to the scheme of amalgamation of IL&FS Merchant Banking Services Limited and DebonNet India Limited.	49,99,716	499.97
<b>Total as at 31<sup>st</sup> March, 2005</b>	<b>34,999,716</b>	<b>3,499.97</b>

**(2) Contingent liability to the extent not provided for:**

Rs. lakhs

Particulars	As at 31 <sup>st</sup> March,				
	2001	2002	2003	2004	2005
(i) Contracts remaining to be executed on capital account	1,676.05	6.15	11.90	29.67	126.18
(ii) Income Tax matter pending in appeal	-	-	-	2.73	0.44

(iii) During the financial year 2003-04 the Company had entered into an agreement with Infrastructure Leasing & Financial Services Ltd. (IL&FS), the Holding Company, for financing Company's Clients towards subscription for Initial Public Offering. Pursuant to the foregoing agreement, the Company is liable to bear the losses, if any, in an agreed ratio, in the event of default towards recovery of the amount so advanced by IL&FS for the clients. The Company's share of the amount outstanding as on 31<sup>st</sup> March, 2005 pertaining to the foregoing works out to Rs. Nil (Previous year 32,685.52 lakhs).

**(3) Details of the Secured Loans as at 31st March, 2005 are given below:**

Total Loans	Car Loans	Lease Loans
Rs.280.52 lakhs	Rs.24.23 lakhs	Rs.256.29 lakhs
Lender	ORIX Auto & Business Solutions Limited	Infrastructure Leasing & Financial Services Limited (Promoter)
Rate of interest	6%	12.5% (See Note below)
Tenor	3-4 year	5 – 10 years
Repayment date	Monthly instalments payable upto 1 <sup>st</sup> July, 2008	Monthly instalments payable upto 1 <sup>st</sup> April, 2012

Note : In case of leased assets, internal rate of return calculated based on cash-flow of the transaction is considered as interest rate.

## IL&FS INVESTSMART LIMITED

- (4) The following table represents the break-up of outstanding Unsecured Loans taken by the Company as at 31st March, 2005:

Name of the Lender	Rs. lakhs
Infrastructure Leasing & Financial Services Limited (Promoter): - Short Term Loan (interest at 9.25% p.a. payable quarterly, with an option at the end of each calendar quarter to recall/repay the entire facility)	2,000.00
<b>Total Unsecured Loans</b>	<b>2,000.00</b>

- (5) Following is an analysis of Sundry Debtors as at 31st March, 2005:

Rs. lakhs			
Particulars	More than 6 months	Others	Total
Group	88.16	-	88.16
Others	60.66	2,986.70	3,047.36
Debtors	148.82	2,986.70	3,135.52

Above does not include amount due from others outstanding for more than 6 months considered doubtful and provided for Rs. 4.96 lakhs.

- (6) Following is an analysis of Loans and Advances as at 31st March, 2005:

Rs. lakhs			
Particulars	Group	Others	Total
Secured			
Loans to Employees	-	36.25	36.25
<b>Unsecured Considered Good</b>			
Loans	-	196.18	196.18
Advances Recoverable in Cash or Kind or value to be received	3.16	284.31	287.47
Other Deposits	3,723.20	530.76	4,253.96
Advance Payment of Taxes	-	2,568.97	2,568.97
<b>Total</b>	<b>3,726.36</b>	<b>3,616.47</b>	<b>7,342.83</b>

- (7) In compliance with the Accounting Standard relating to "Accounting for Taxes on Income" (AS – 22) issued by The Institute of Chartered Accountants of India, following are the components of deferred tax items:

Rs. lakhs			
Particulars	Deferred Tax Asset/ (Liability) as at 31 <sup>st</sup> March,		
	2003	2004	2005
Depreciation/Amortisation	(123.89)	(34.39)	(42.25)
Provision for diminution in value of investments	2.45	-	-
Amalgamation Expenses	(3.41)	(3.33)	(3.12)
Lease	62.75	55.70	39.85
Retirement Benefits	(12.84)	14.61	14.21
Unabsorbed Loss **	247.53	-	-
<b>Total</b>	<b>172.59</b>	<b>32.59</b>	<b>8.69</b>

\*\* The deferred tax assets had been recognised on unabsorbed loss based on the evidence of future years financial projections provided.



- (8) The Company has acquired Office Equipments and Data Processing Equipments under Finance Leases after 1st April, 2001, which have been capitalised as per the Accounting Standard - 19 issued by The Institute of Chartered Accountants of India. The total minimum lease payments (MLP) in respect thereof and the present value of the future lease payments, discounted at the interest rates implicit in the lease are:

Rs. lakhs	
Particulars	As at 31 <sup>st</sup> March, 2005
Total MLP	295.06
Interest	38.77
Principal	256.29

Rs. Lakhs		
Particulars	Total MLP As at 31 <sup>st</sup> March, 2005	Principal As at 31 <sup>st</sup> March, 2005
Less than one year	148.37	126.00
One to five years	145.42	129.15
Greater than five years	1.27	1.14
<b>Total</b>	<b>295.06</b>	<b>256.29</b>

The lease rentals are based on variation in the prime lending rates, subject to a minimum lending rate. The agreements will remain effective until all MLPs under the lease agreements are paid over the lease tenor.

- (9) The following is the aggregate value of the quoted investments:

Rs. lakhs					
Particulars	As at 31 <sup>st</sup> March,				
	2001	2002	2003	2004	2005
Cost	232.78	246.30	212.02	76.80	-
Market value	175.92	190.08	153.21	61.73	-

- (10) Employee Stock Option Plan (ESOP)- 2005

The Shareholders of the Company have approved the following Employee Stock Option Plans (ESOP) during 2004-05 :

Particulars	ESOP 2005
No. of Options authorised to be Granted	3,550,000
No. of Options Granted	3,382,000
Eligibility	Directors & Employees, of the Company, its Subsidiaries and Holding Company.
Vesting period for Options granted during the year	Starting from one to four years from the date of grant.
Exercise Period	Three months from the date of vesting.
No. of Options Vested as at March 31, 2005	Nil
No. of Options Lapsed as at March 31, 2005	Nil
No of Outstanding Options to be Granted	168,000

The Company values the above Options at its intrinsic value based on fair value of equity shares determined in an arm's length transaction between willing parties.

## IL&FS INVESTSMART LIMITED

### ANNEXURE V

(Referred to in para. 2 of our report)

INVESTSMART INSURANCE AGENCY PVT. LTD. (SUBSIDIARY)

#### STATEMENT OF PROFITS AND LOSSES

Rs. lakhs

PARTICULARS	FOR THE YEARS ENDED 31ST MARCH,			
	2002	2003	2004	2005
<b>Income</b>				
Insurance Commission & Brokerage	2.25	4.09	9.96	8.62
Interest/ Dividend Income	-	0.01	-	-
Other Income	-	-	-	0.08
<b>TOTAL INCOME</b>	<b>2.25</b>	<b>4.10</b>	<b>9.96</b>	<b>8.70</b>
<b>Expenses</b>				
Staff Costs	1.94	3.63	3.41	6.83
Administrative and Other Expenses	0.98	0.70	1.81	0.58
<b>TOTAL EXPENSES</b>	<b>2.92</b>	<b>4.33</b>	<b>5.22</b>	<b>7.41</b>
Profit/(Loss) Before Tax	(0.67)	(0.23)	4.74	1.29
Provision for Tax				
Current	-	-	1.47	0.48
Deferred (See Note below)	-	-	-	-
<b>Net Profit / (Loss) after Tax</b>	<b>(0.67)</b>	<b>(0.23)</b>	<b>3.27</b>	<b>0.81</b>

#### Note :

The Accounting Standard relating to 'Accounting for Taxes on Income' (AS 22), issued by The Institute of Chartered Accountants of India became applicable to the Company from the financial year ended 31st March, 2003, however, no adjustment for deferred tax has been made in that financial year. The Company has adjusted the Deferred Tax Asset (net) arising on account of timing differences as on 1st April, 2003 of Rs. 0.33 lakhs against the Provision for Taxes for the year. No adjustment for deferred tax has been made in the financial year ended 31st March, 2002 since the standard was not applicable to the Company during that year.

## ANNEXURE VI

(Referred to in para. 2 of our report)

**IL&FS INVESTSMART INSURANCE AND RISK MANAGEMENT SERVICES LTD. (SUBSIDIARY)**

**(ERSTWHILE INVESTSMART INSURANCE DISTRIBUTION PVT. LTD.)**

### STATEMENT OF PROFITS AND LOSSES

Rs. lakhs

PARTICULARS	FOR THE YEARS ENDED 31ST MARCH,			
	2002	2003	2004	2005
<b>Income</b>				
Agency Commission	0.96	1.68	16.61	19.06
Profit on Sale of Fixed Assets	-	-	0.07	-
Interest Income	-	0.01	0.34	3.78
<b>TOTAL INCOME</b>	<b>0.96</b>	<b>1.69</b>	<b>17.02</b>	<b>22.84</b>
<b>Expenses</b>				
Staff Expenses	1.95	1.83	5.31	14.81
Administrative Expenses	0.56	0.34	4.43	4.89
Depreciation	-	-	2.98	0.02
<b>TOTAL EXPENSES</b>	<b>2.51</b>	<b>2.17</b>	<b>12.72</b>	<b>19.72</b>
Profit / (Loss) Before Tax	(1.55)	(0.48)	4.30	3.12
Provision for Tax				
Current	-	-	1.91	2.20
Deferred (See Note below)	-	-	-	0.05
<b>Profit / (Loss) After Tax</b>	<b>(1.55)</b>	<b>(0.48)</b>	<b>2.39</b>	<b>0.97</b>

**Note :**

The Accounting Standard relating to 'Accounting for Taxes on Income' (AS 22), issued by The Institute of Chartered Accountants of India became applicable to the Company from the financial year ended 31st March, 2003, however, no adjustment for deferred tax has been made in that financial year. The Company has adjusted the Deferred Tax Asset (net) arising on account of timing differences as on 1st April, 2003 of Rs. 0.74 lakhs against the Provision for Taxes for the year. No adjustment for deferred tax has been made in the financial year ended 31st March, 2002 since the standard was not applicable to the Company during that year.

**IL&FS INVESTSMART LIMITED****ANNEXURE VII**

(Referred to in para. 2 of our report)

**IL&FS ACADEMY FOR INSURANCE AND FINANCE LTD. (SUBSIDIARY)****(ERSTWHILE SAIFA TRAINING ACADEMY LTD.)****STATEMENT OF PROFITS AND LOSSES**

Rs. lakhs

<b>PARTICULARS</b>	<b>For the period 1st January to 31st March, 2004</b>	<b>For the Year Ended 31st March, 2005</b>
<b>Income</b>		
Income from operations	261.51	497.83
Interest Income	-	2.77
Income from Investments	-	0.12
Other income	0.04	0.56
<b>TOTAL INCOME</b>	<b>261.55</b>	<b>501.28</b>
<b>Expenses</b>		
Operating Expenses	215.04	326.63
Staff Expenses	13.78	77.56
Administrative Expenses	20.70	55.18
Depreciation	6.84	15.52
Interest & Finance Charges	-	0.49
<b>TOTAL EXPENSES</b>	<b>256.36</b>	<b>475.38</b>
Profit Before Tax	5.19	25.90
Provision for Tax:		
Current	3.20	7.80
Deferred	-	(2.12)
Profit After Tax	1.99	20.22

# ANNEXURE VIII

(Referred to in para. 2 of our report)

IL&FS INVESTSMART COMMODITY BROKERS LTD. (SUBSIDIARY)

## STATEMENT OF PROFITS AND LOSSES

Rs. lakhs

Particulars	For the Year Ended 31st March, 2005
<b>Income</b>	
Broking Income	2.06
Interest Income	1.43
<b>TOTAL INCOME</b>	<b>3.49</b>
<b>Expenses</b>	
Staff Expenses	6.27
Administrative Expenses	10.76
Interest & Finance Charges	0.42
Depreciation	0.44
<b>TOTAL EXPENSES</b>	<b>17.89</b>
Loss Before Tax	(14.40)
Provision for Tax	
Current	-
Deferred	4.75
<b>Loss After Tax</b>	<b>(9.65)</b>

## IL&FS INVESTSMART LIMITED

### ANNEXURE IX

(Referred to in para. 2 of our report)

INVESTSMART INSURANCE AGENCY PVT. LTD. (SUBSIDIARY)

#### STATEMENT OF ASSETS AND LIABILITIES

Rs. lakhs

Particulars	As at 31st March,			
	2002	2003	2004	2005
<b>Current Assets (A)</b>				
Cash and Bank Balances	0.88	3.08	0.74	3.34
Sundry Debtors	1.99	0.14	5.37	-
Loans and Advances	0.23	1.10	3.11	3.20
<b>Total</b>	<b>3.10</b>	<b>4.32</b>	<b>9.22</b>	<b>6.54</b>
<b>Liabilities &amp; Provisions (B)</b>				
Sundry Creditors	2.78	3.92	3.35	-
Other Liabilities	0.11	0.39	1.09	0.44
Provisions	-	-	1.47	1.95
<b>Total</b>	<b>2.89</b>	<b>4.31</b>	<b>5.91</b>	<b>2.39</b>
<b>Net Worth (A-B)</b>	<b>0.21</b>	<b>0.01</b>	<b>3.31</b>	<b>4.15</b>
<b>Represented by</b>				
Paid-up Share Capital	1.00	1.00	1.00	1.00
Reserves	(0.67)	(0.90)	2.37	3.18
<b>Total (C)</b>	<b>0.33</b>	<b>0.10</b>	<b>3.37</b>	<b>4.18</b>
Miscellaneous Expenditure (not written off) (D)	0.12	0.09	0.06	0.03
<b>Net Worth (C-D)</b>	<b>0.21</b>	<b>0.01</b>	<b>3.31</b>	<b>4.15</b>

Note :

One of the fellow subsidiary, IL&FS Investsmart Insurance and Risk Management Services Ltd (erstwhile Investsmart Insurance Distribution Private Ltd.) has applied for Direct Insurance Broker license during 2004-05 and as one of the pre conditions set by Insurance Regulatory and Development Authority (IRDA), the Company has with effect from December 29, 2004 surrendered the Corporate Insurance Agency license provided by HDFC Standard Life Insurance Company and of ICICI Lombard General Insurance Company from 5<sup>th</sup> October 2004. In view of the above, the Company has no business activity at present and the management is reviewing options as regards future course of action.

## ANNEXURE X

(Referred to in para. 2 of our report)

**IL&FS INVESTSMART INSURANCE AND RISK MANAGEMENT SERVICES LTD. (SUBSIDIARY)**

**(ERSTWHILE INVESTSMART INSURANCE DISTRIBUTION PVT. LTD.)**

### STATEMENT OF ASSETS AND LIABILITIES

Rs. lakhs

Particulars	As at 31st March,			
	2002	2003	2004	2005
<b>Fixed Assets (A)</b>	-	-	-	<b>0.04</b>
<b>Deferred Tax Assets (B)</b>	-	-	-	<b>0.05</b>
<b>Current Assets ( C )</b>				
Cash and Bank Balances	1.47	0.79	5.77	200.21
Sundry Debtors	0.26	0.43	2.28	-
Loans and Advances	0.08	0.18	3.84	9.96
Other Assets	-	-	-	0.49
<b>Total</b>	<b>1.81</b>	<b>1.40</b>	<b>11.89</b>	<b>210.75</b>
<b>Liabilities &amp; Provisions (D)</b>				
Sundry Creditors	2.38	2.24	8.33	-
Other Liabilities	0.10	0.28	0.35	4.34
Provisions	-	-	1.91	4.11
<b>Total</b>	<b>2.48</b>	<b>2.52</b>	<b>10.59</b>	<b>8.45</b>
<b>Net Worth (A+B+C-D)</b>	<b>(0.67)</b>	<b>(1.12)</b>	<b>1.30</b>	<b>202.30</b>
<b>Represented by</b>				
Paid-up Share Capital	1.00	1.00	1.00	201.00
Reserves	(1.55)	(2.03)	0.36	1.33
<b>Total (E)</b>	<b>(0.55)</b>	<b>(1.03)</b>	<b>1.36</b>	<b>202.33</b>
Miscellaneous Expenditure (not written off) (F)	0.12	0.09	0.06	0.03
<b>Net Worth (E-F)</b>	<b>(0.67)</b>	<b>(1.12)</b>	<b>1.30</b>	<b>202.30</b>

Note :

The Company was a wholly owned subsidiary of IL&FS Investsmart Limited up to 30th March, 2005 and became a 50.25% subsidiary thereafter.

## IL&FS INVESTSMART LIMITED

### ANNEXURE XI

(Referred to in para. 2 of our report)

IL&FS ACADEMY FOR INSURANCE AND FINANCE LTD. (SUBSIDIARY)

(ERSTWHILE SAIFA TRAINING ACADEMY LTD.)

#### STATEMENT OF ASSETS AND LIABILITIES

Rs. lakhs

PARTICULARS	As at 31st March,	
	2004	2005
<b>Fixed Assets (Net Block) (A)</b>	<b>23.91</b>	<b>40.25</b>
<b>Deferred Tax Asset (B)</b>	<b>-</b>	<b>2.12</b>
<b>Current Assets (C)</b>		
Cash and Bank Balances	21.72	33.98
Sundry Debtors	162.26	113.93
Loans and Advances	172.41	99.09
<b>Total</b>	<b>356.39</b>	<b>247.00</b>
<b>Liabilities &amp; Provisions (D)</b>		
Sundry Creditors	163.34	38.63
Other Liabilities	13.42	10.93
Provisions	3.20	11.92
<b>Total</b>	<b>179.96</b>	<b>61.48</b>
<b>Net Worth (A+B+C-D)</b>	<b>200.34</b>	<b>227.89</b>
<b>Represented by</b>		
Paid-up Share Capital	200.00	200.00
Reserves	1.99	22.23
Secured Loans	-	6.95
<b>Total (E)</b>	<b>201.99</b>	<b>229.18</b>
Miscellaneous Expenditure (not written off) (F)	1.65	1.29
<b>Net Worth (E-F)</b>	<b>200.34</b>	<b>227.89</b>



## ANNEXURE XII

(Referred to in para. 2 of our report)

**IL&FS INVESTSMART COMMODITY BROKERS LTD. (SUBSIDIARY)**

### STATEMENT OF ASSETS AND LIABILITIES

PARTICULARS	Rs. lakhs	
	As at 31st March,	
	2004	2005
<b>Fixed Assets (A)</b>	-	<b>10.77</b>
<b>Deferred Tax Asset (B)</b>	-	<b>4.75</b>
<b>Current Assets (C)</b>		
Cash and Bank Balances	5.00	205.99
Debtors	-	0.06
Loans & Advances	-	49.55
<b>Total</b>	<b>5.00</b>	<b>255.60</b>
<b>Liabilities &amp; Provisions (D)</b>		
Sundry Creditors	-	27.30
Other Liabilities	1.60	4.61
Provisions	-	0.09
<b>Total</b>	<b>1.60</b>	<b>32.00</b>
<b>Net Worth (A+B+C-D)</b>	<b>3.40</b>	<b>239.12</b>
<b>Represented by:</b>		
Paid-up Share Capital (E)	5.00	250.00
Miscellaneous Expenditure (not written off)	1.54	1.23
Pre-operative expenses	0.06	-
Profit & Loss Account	-	9.65
<b>Total (F)</b>	<b>1.60</b>	<b>10.88</b>
<b>Net Worth (E-F)</b>	<b>3.40</b>	<b>239.12</b>

# IL&FS INVESTSMART LIMITED

## ANNEXURE XIII

(Referred to in para. 3 of our report)

IL&FS INVESTSMART LIMITED “THE GROUP”

### STATEMENT OF ADJUSTED CONSOLIDATED PROFITS & LOSSES

Rs. lakhs

PARTICULARS	FOR THE YEARS ENDED 31ST MARCH,			
	2002	2003	2004	2005
<b>Income</b>				
Retail — Broking (see Note 6 below)	913.85	1,314.87	3,339.70	4,162.64
Retail — Other Services & related interest	129.09	480.59	2,323.23	3,555.24
Institutional — Broking	190.27	308.98	761.93	973.38
Institutional — Other Services	544.67	1,012.73	1,106.40	1,785.96
Income from training	-	-	2.87	497.83
Income From Securities (see Note 8 below)	14.89	12.22	24.29	277.80
Profit on sale of investments (see Note 3 below)	658.11	10.66	494.95	3.16
Other Income (see Note 1 below)	105.19	207.64	211.50	113.99
<b>TOTAL INCOME</b>	<b>2,556.07</b>	<b>3,347.69</b>	<b>8,264.87</b>	<b>11,370.00</b>
<b>Expenses</b>				
Interest and Finance Charges	332.79	644.99	1,099.17	349.77
Staff Costs	775.29	902.59	1,739.04	2,413.28
Rent	373.45	357.19	469.65	858.41
Training and consultant expenses	-	-	2.37	324.47
Administrative and Other Expenses	979.12	887.69	1,443.66	2,019.97
Advertisement and Business Promotion Expenses	2.38	12.45	143.39	124.14
Provision for Bad / Doubtful Debts	50.20	28.80	19.95	11.03
Provision for Diminution in Value of Investments (see Note 4 below)	-	6.18	11.86	-
Amalgamation Expenses Written Off (see Note 5 below)	3.09	12.37	12.37	12.37
Loss on conversion of investments into stock-in-trade	-	-	-	1.54
Loss on sale of Fixed Assets	1.12	17.19	0.05	9.88
Preliminary Expense Written Off	0.06	0.06	0.06	0.80
Depreciation / Amortisation (see Note 4 below)	288.22	386.84	355.00	355.69
Impairment of Delhi Stock Exchange Card	-	-	-	2.40
	2,805.72	3,256.35	5,296.57	6,483.75
Transferred to Deferred Revenue Expenditure	(309.50)	-	-	-
<b>TOTAL EXPENSES</b>	<b>2,496.22</b>	<b>3,256.35</b>	<b>5,296.57</b>	<b>6,483.75</b>
Profit Before Tax	59.85	91.33	2,968.30	4,886.25
Provision for Tax				
Current	5.00	7.25	613.42	1,545.48
Prior period Tax	-	(11.02)	-	5.04
Deferred	-	32.07	140.00	22.33
Net Profit after Tax	54.85	63.03	2,214.88	3,313.40
<b>Adjustment due to changes in accounting policies</b>				
Depreciation / Amortisation (see Note 9(a) below)	15.43	14.60	14.60	-
Retirement Benefits (see Note 9(b) below)	8.81	-	-	-
Impact of prior period tax	(0.25)	11.02	-	(5.04)
<b>Total Impact of Adjustments</b>	<b>23.99</b>	<b>25.62</b>	<b>14.60</b>	<b>(5.04)</b>
<b>Net Profit as adjusted</b>	<b>30.86</b>	<b>37.41</b>	<b>2,200.28</b>	<b>3,318.44</b>

## NOTES TO THE STATEMENTS OF CONSOLIDATED PROFIT AND LOSSES

(Referred to in para. 3 of our report)

Rs. lakhs

1	Details of Other Income :	FOR THE YEARS ENDED 31ST MARCH,			
		2002	2003	2004	2005
	Miscellaneous income	2.29	2.23	13.03	67.68
	Advertisement Income	18.99	7.90	7.95	9.35
	Interest income	22.57	65.32	17.73	14.60
	Rent	52.45	117.46	66.91	9.20
	Income from Investments	8.89	14.73	105.88	13.16
	<b>Other Income</b>	<b>105.19</b>	<b>207.64</b>	<b>211.50</b>	<b>113.99</b>

- The Accounting Standard relating to 'Accounting for Taxes on Income' (AS 22), issued by The Institute of Chartered Accountants of India became applicable to the Group from the financial year ended 31st March, 2003. Accordingly, the Group had adjusted the Deferred Tax Asset (net) arising on account of timing differences as on 1st April, 2002 of Rs. 204.66 lakhs against the balance in Profit & Loss Account. No adjustment for deferred tax has been made in the financial year ended 31st March, 2002 above, since the Standard was not applicable to the Group during that year.
- Profit on sale of investments for the year ended 31st March, 2004, includes write back of provision for diminution in value of investments amounting to Rs 340.94 lakhs of which Rs 315.15 lakhs pertains to diminution on long term investments which was charged to the Amalgamation Reserve in terms of the Scheme of Amalgamation approved by the Bombay High Court in the financial year 2001-02, referred to in Note 5 below.
- The Shareholders of the IL&FS Investsmart Limited at the Extra-Ordinary General Meeting held on 27th May, 2002, approved and the High Court of Judicature, at Mumbai, vide its order passed on 1st August, 2002, confirmed the utilisation of the Share Premium Account in accordance with the provisions of Section 78, read with Section 100 of the Companies Act, 1956, towards adjustment of the following debit balances as on 31st December, 2001:

Particulars	Rs. lakhs
Miscellaneous Expenditure (to the extent not written-off or adjusted )	1,069.44
Fixed Assets	15.98
Diminution in value of investments	324.75
<b>Total</b>	<b>1,410.17</b>

The balance of Miscellaneous Expenditure (to the extent not written-off or adjusted) as at 31<sup>st</sup> December, 2001 had been arrived at as follows:

Particulars	Rs. lakhs
Preliminary Expenses balance as at 31st March, 2001	3.20
Deferred Revenue Expenditure balance as at 31st March, 2001	756.74
Deferred Revenue Expenditure balance from 1st April, 2001 to 31st December, 2001	309.50
<b>Total</b>	<b>1,069.44</b>

Although the Scheme referred to the write-off of the balance in the Miscellaneous Expenditure Account as at 31st December, 2001, the Preliminary Expenses and Deferred Revenue Expenditure amount written-off were arrived at without considering the write-off aggregating Rs 366.23 lakhs for the nine months ended 31st December, 2001 based on the legal advice obtained by the Group in respect of the interpretation of the Order of the High Court of Judicature at Mumbai passed on 1st August, 2002.

- During the financial year 2001-02, the amalgamation of IL&FS Merchant Banking Services Limited (IMBSL) and DebitonNet India Limited (DebitonNet) with the IL&FS Investsmart Ltd. was accounted for under the 'pooling of interests' method as prescribed by Accounting Standard 14 issued by The Institute of Chartered Accountants of India. Accordingly, all the assets (movable and immovable, tangible and intangible), all debts, liabilities, duties, undertakings, obligations and reserves of IMBSL and DebitonNet as at 1st January, 2002 were taken over at their book values, subject to adjustments effected for differences in the accounting policies between the three companies and/or as specified in the Scheme of Amalgamation. The take over had resulted in an amalgamation reserve.

## IL&FS INVESTSMART LIMITED

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6. Revenue from Broking Business includes the Group's share of income in respect of business done through franchisees. From the financial year 2003-04, the arrangement with the franchisees of sharing the profit after adjusting expenses has been modified. The revised arrangement entails sharing of gross revenues earned through the franchisee arrangement after deducting transaction charges.
7. In view of the amalgamation as stated in Note 5 above, with effect from 1st January, 2002, the figures for the financial years 2001-02, are not comparable with those of 2002-03, 2003-04 and 2004-05.
8. The Group had invested in units of UTI-Growth & Value Fund (Bonus Plan), which was wound up by UTI Asset Management Company Pvt. Ltd. (UTI AMC) on 1st February, 2005 in accordance with the SEBI circular. Few unit holders have challenged validity of the circular in a writ petition. In order to avail the benefit, if any, on outcome of the said petition, the Group has returned the redemption cheque to UTI AMC in terms of the High Court interim order which has been invested by UTI AMC in a Scheduled Bank. Pending outcome of the litigation, gain on redemption of the units is not recognised in the books of account.
9. Changes in accounting policies

**a. Depreciation / Amortisation**

- (i) During the financial year 2001-02, the Company had changed the method of providing depreciation in respect of premises owned by it from Written Down Value Method to Straight Line Method (SLM), at the rates provided under Schedule XIV of the Companies Act, 1956, with retrospective effect.

In order to bring about consistency in accounting policy, depreciation for the year 2000-2001 has been recomputed at the SLM rates and related assets and depreciation have been restated.

- (ii) Consequent to the opinion of the Expert Advisory Committee of the Institute of Chartered Accountants of India dated: May 11, 2004, the cost of Stock Exchange membership cards is amortised in accordance with Accounting Standard – 26 "Intangible Assets" over a period of 10 years from the date of acquisition in accordance with transitional provision of AS-26, the accumulated amortisation of Rs. 68.93 lakhs as on March 31, 2004 has been charged against General Reserve during the year 2004-05.

In order to bring about consistency in accounting policy, amortisation for the year 2000-2001, 2001-2002, 2002-2003 and 2003-2004 has been recomputed and related asset and amortisation have been restated.

**b. Retirement Benefits**

During the financial year 2001-02, the Company had changed the accounting policy for valuation of Leave Encashment benefits from accrual to actuarial basis.

In order to bring about consistency in accounting policy, provisions for Leave Encashment as per actuarial valuation for the year 2000-2001 has been restated.

# ANNEXURE XIV

(Referred to in para. 3 of our report)

IL&FS INVESTSMART LIMITED "THE GROUP"

## STATEMENT OF ADJUSTED CONSOLIDATED ASSETS & LIABILITIES

Rs. lakhs

PARTICULARS	AS AT 31ST MARCH,			
	2002	2003	2004	2005
<b>A Goodwill on Consolidation</b>	-	-	<b>1,048.03</b>	<b>1,048.03</b>
<b>B Fixed Assets</b>				
Gross Block - Tangible Assets	4,274.61	4,296.54	1,519.58	1,943.33
Gross Block - Intangible Assets	630.02	639.43	687.86	720.71
Less: Depreciation	523.54	908.99	1,015.20	1,355.79
<b>Net Block</b>	<b>4,381.09</b>	<b>4,026.98</b>	<b>1,192.24</b>	<b>1,308.25</b>
<b>C Investments</b>				
Current - Unquoted	398.86	150.00	1,006.84	-
Current - Quoted	23.25	23.25	-	-
Long Term - Unquoted	735.65	723.10	282.59	2.44
Long Term - Quoted	223.05	188.77	76.80	-
	1,380.81	1,085.12	1,366.23	2.44
Less: Diminution in value of investments	344.36	350.54	11.86	-
<b>Total</b>	<b>1,036.45</b>	<b>734.58</b>	<b>1,354.37</b>	<b>2.44</b>
<b>D Deferred Tax Asset</b>	-	<b>172.59</b>	<b>32.59</b>	<b>10.26</b>
<b>E Current Assets</b>				
Cash and Bank Balances	2,251.18	1,289.71	1,274.85	5,974.41
Sundry Debtors	2,782.70	816.20	7,165.45	3,249.51
Loans and Advances	2,569.71	4,448.12	5,566.52	7,503.67
Stock-in-trade	45.10	28.67	29.62	2,282.83
Other Assets	20.88	27.53	53.96	108.81
<b>Total</b>	<b>7,669.57</b>	<b>6,610.23</b>	<b>14,090.40</b>	<b>19,119.23</b>
<b>F Liabilities &amp; Provisions</b>				
Secured Loans	3,123.41	3,110.24	570.52	287.47
Unsecured Loans	2,910.38	2,360.36	1,055.26	2,000.00
Interest Accrued but not due		-	2.74	-
Sundry Creditors	1,847.59	672.41	7,316.85	6,709.53
Margin Money Received from Clients	382.23	378.18	814.18	472.23
Provisions	144.10	58.24	1,481.97	2,762.32
Other Liabilities	118.73	149.40	240.79	486.11
<b>Total</b>	<b>8,526.44</b>	<b>6,728.83</b>	<b>11,482.31</b>	<b>12,717.66</b>
<b>G Minority Interest</b>	-	-	-	<b>100.00</b>
<b>H Net Worth (A+B+C+D+E-F-G)</b>	<b>4,560.67</b>	<b>4,815.55</b>	<b>6,235.32</b>	<b>8,670.55</b>
<b>Represented by</b>				
Paid-up Share Capital	3,000.00	3,499.97	3,499.97	3,499.97
Share Capital Suspense Account	499.97	-	-	-
Reserves	1,119.70	1,362.15	2,772.74	5,194.80
<b>I Total</b>	<b>4,619.67</b>	<b>4,862.12</b>	<b>6,272.71</b>	<b>8,694.77</b>
<b>J Miscellaneous Expenditure Not Written Off</b>	<b>59.00</b>	<b>46.57</b>	<b>37.39</b>	<b>24.22</b>
<b>K Net Worth (I-J)</b>	<b>4,560.67</b>	<b>4,815.55</b>	<b>6,235.32</b>	<b>8,670.55</b>

**ANNEXURE XV**

(Referred to in para. 3b of our report)

**SIGNIFICANT ACCOUNTING POLICIES****I. Basis for preparation of Financial Statements:**

The financial statements have been prepared under the historical cost convention in accordance with the Generally Accepted Accounting Principles (GAAP) as followed in India and the provisions of the Companies Act, 1956, as adopted consistently by the Group. All income and expenditure having a material bearing on the financial statements are recognised on an accrual basis.

**II. Basis of Consolidation:**

The financial statements of the Company and its subsidiaries (the 'Group') have been consolidated on a line by line basis, to the extent possible and after eliminating all significant inter-company transactions in accordance with the Accounting Standard 21 on 'Consolidated Financial Statements' issued by the Institute of Chartered Accountants of India.

**III. Fixed Assets:****(i) Own Assets:**

- (a) All Fixed Assets are stated at cost of acquisition and other incidental expenses.
- (b) Cost of Stock Exchange Membership Cards and cost towards Web Development have been classified as Intangible Assets.
- (c) Leasehold Improvements include amounts spent on furnishing new branches excluding movable fixed assets, which have been capitalised separately under their natural heads.

**(ii) Leased Assets:**

All Fixed Assets acquired under Finance Lease with effect from 1<sup>st</sup> April, 2001 have been capitalised at the fair value of assets or present value of minimum lease payment whichever is lower.

**IV. Depreciation:**

- (i) Stock Exchange Membership Card acquired by the group has been amortised equally over a period of 10 years from the date of acquisition.
- (ii) The Group follows the policy of writing off Leasehold Improvements on a pro-rata basis over the period of lease commencing from the date ready to put to use or date of commencement of lease till the termination of lease.
- (iii) Buildings are depreciated on a Straight Line basis at the rates provided under Schedule XIV of the Companies Act, 1956.
- (iv) Depreciation on Fixed Assets, other than on assets specified in notes (i), (ii) and (iii) above, has been provided for using Written Down Value Method at the rates provided under Schedule XIV of the Companies Act, 1956. Assets costing less than Rs. 5,000/- each are depreciated at 100% in the year of capitalisation.
- (v) The Group follows the policy of writing off the Web Development Cost on a pro-rata basis over a period of sixty months from the date of capitalisation of the website. The Group has established a policy of reviewing the technology used in Web Development and related costs at periodic intervals. The Group writes off assets and facilities becoming obsolete due to such review during the same period.
- (vi) Depreciation on software and content development has been provided at 40% using the Written Down Value method.
- (vii) Intangible Assets include expenses incurred towards acquisition of courseware. These assets are amortised within the useful life of such assets or within a period of three financial years whichever is earlier.
- (viii) Mobile Phones are depreciated at 100% in the year of purchase.

**V. Investments:**

- (i) Investments are recorded by the Group at cost, which includes acquisition charges such as brokerage, fees and duties. Provision is made for any diminution, other than temporary, in the value of long term investments.
- (ii) Current Investments are stated at the lower of cost and market value on individual scrip-by-scrip basis.

## **VI. Stock in Trade:**

Stock in trade is valued by the Group at the lower of cost and market value on a scrip-by-scrip basis.

## **VII. Miscellaneous Expenditure:**

- (i) The Group had the following policy to write-off deferred revenue expenses:
  - (a) Brand Development Cost: The Group had classified the expenditure incurred on sales promotion, advertising, training etc for building its corporate image as Brand Development Cost. As the benefits from these expenses would accrue to the Group in subsequent periods, the same were being written off over a period of three years.
  - (b) Branch Set up Cost: Initial Branch rollout expenses incurred during the first six months before stabilisation of commercial operations were treated as Branch Set-up Cost and amortised over succeeding 12 months.
  - (c) Web Business Development Cost: The Group had classified the expenditures relating to Internet Based Trading Project as Web Business Development Cost which was being amortised over a period of next sixty months from the date of commissioning of the Project.

However, pursuant to the approval of the Scheme of Amalgamation by the Hon'ble High Court, the Group had written off Deferred Revenue Expenses outstanding at 1<sup>st</sup> April, 2001 and the amounts incurred upto 31<sup>st</sup> December, 2001 against the Share Premium Account. The Group has not incurred any such expenditure subsequent to such adjustment.

- (ii) Preliminary Expenses and Amalgamation Expenses are amortised over a period of 60 months.
- (iii) Pre-operative expenses are written-off in the year of commencement of commercial operation.

## **VIII. Revenue Recognition:**

- (i) Broking commission on secondary market trades is recognised on execution of deals and net of origination commission.
- (ii) Fee Income received on placement of securities with investors is recognised on completion of specific milestones, on an accrual basis.
- (iii) Income on placement / mobilisation of securities/ funds is recognised on time proportion basis / on completion of specific milestones, on an accrual basis.
- (iv) Income from mobilisation of Fixed Deposits, Bonds and units of Mutual Funds are recognised on an accrual basis, net of mobilisation expenses.
- (v) Fees from hosting of issues on the Website are recognised on completion of the issue, on accrual basis.
- (vi) Agency Commission is realised on the basis of the Policies executed during the Accounting Period and the same is recognised on time proportion basis.
- (vii) Income in case of training is recognised on the basis of the batches completed by the Group. In case where the batches are completed by more than 50% as at 31<sup>st</sup> March, the same is recognised on a proportionate basis to the extent completed.

## **IX. Retirement Benefits:**

- (i) The Group has a defined contribution plan for provident fund and benefit defined Superannuation Fund and the Group's contribution thereto is charged to the Profit and Loss Account. The Group has participated in group gratuity cum life assurance scheme of Life Insurance Corporation of India for gratuity payable to the employees and contribution thereto, based on an actuarial valuation, is charged to the Profit and Loss Account and the unfunded amount being disclosed as a provision.
- (ii) Provision for Leave Encashment is made on the basis of actuarial valuation at the end of each year.

## **X. Taxation:**

Provision for taxation is made on the basis of current liability method. Deferred tax liability / asset has been provided in the books in accordance with Accounting Standard 22 (Accounting for Taxes on income) issued by the Institute of Chartered Accountants of India.

## IL&FS INVESTSMART LIMITED

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### XI. Changes in Accounting Policies :

#### a) Depreciation :

- (i) During the financial year 2001-02, the Company had changed the method of providing depreciation in respect of premises owned by it from Written Down Value Method to Straight Line Method (SLM), at the rates provided under Schedule XIV of the Companies Act, 1956, with retrospective effect.

In order to bring about consistency in accounting policy, depreciation for the year 2000-2001 has been recomputed at the SLM rates and related assets and depreciation have been restated.

- (ii) Consequent to the opinion of the Expert Advisory Committee of the Institute of Chartered Accountants of India dated: May 11, 2004, the cost of Stock Exchange membership cards is amortised in accordance with Accounting Standard – 26 “Intangible Assets” over a period of 10 years from the date of acquisition in accordance with transitional provision of AS-26, the accumulated amortisation of Rs. 68.93 lakhs as on March 31, 2004 has been charged against General Reserve during the year 2004-05.

In order to bring about consistency in accounting policy, amortisation for the year 2001-2002, 2002-2003 and 2003-2004 has been recomputed and related asset and amortisation have been restated.

#### b) Retirement Benefits :

Leave Encashment Benefits :

During the financial year 2001-02, the Company had changed the accounting policy for valuation of Leave Encashment benefits from accrual to actuarial basis.



## ANNEXURE XVI

(Referred to in para. 3c of our report)

### NOTES TO THE ADJUSTED CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE GROUP

- (1) Contingent liability to the extent not provided for:

Particulars	As at 31 <sup>st</sup> March,			
	2002	2003	2004	2005
Contracts remaining to be executed on capital account	6.15	11.90	29.67	127.36
Income Tax matter pending in appeal	-	-	2.73	0.44

Rs. lakhs

During the financial year 2003-04, the Group has entered into an agreement with Infrastructure Leasing & Financial Services Ltd. (IL&FS), the holding Company, for financing Group's Clients towards subscription for Initial Public Offering. Pursuant to the foregoing agreement, the Group is liable to bear the losses, if any, in an agreed ratio, in the event of default towards recovery of the amount so advanced by IL&FS for the clients. The Group's share of the amount outstanding as on 31<sup>st</sup> March, 2005 pertaining to the foregoing works out to Rs. Nil (Previous year Rs. 32,685.52 lakhs)

- (2) In compliance with the Accounting Standard relating to "Accounting for Taxes on Income" (AS – 22) issued by The Institute of Chartered Accountants of India :

Particulars	Deferred Tax Asset/ (Liability) as at 31 <sup>st</sup> March,		
	2003	2004	2005
Depreciation	(123.89)	(34.39)	(43.25)
Provision for diminution in value of investments.	2.45	-	-
Amalgamation Expenses	(3.41)	(3.33)	(3.12)
Lease	62.75	55.70	40.02
Retirement Benefits	-	14.61	14.21
Others	(12.84)	-	2.40
Unabsorbed Loss **	247.53	-	-
<b>Total</b>	<b>172.59</b>	<b>32.59</b>	<b>10.26</b>

Rs. lakhs

\*\* The deferred tax asset had been recognised on unabsorbed loss for the year ended 31<sup>st</sup> March, 2003 was based on the evidence of financial projections provided.

- (3) Office Equipments and Data Processing Equipments acquired under Finance Leases after 1st April, 2001 have been capitalised as per the Accounting Standard - 19 issued by The Institute of Chartered Accountants of India. The total minimum lease payments (MLP) in respect thereof and the present value of the future lease payments, discounted at the interest rates implicit in the lease are:

Particulars	As at 31 <sup>st</sup> March, 2005
Total MLP	303.54
Interest	40.30
Principal	263.24

Rs. lakhs

Particulars	Total MLP As at 31 <sup>st</sup> March, 2005	Principal As at 31 <sup>st</sup> March, 2005
Less than one year	150.41	127.39
One to five years	151.87	134.71
Greater than five years	1.26	1.14
<b>Total</b>	<b>303.54</b>	<b>263.24</b>

Rs. lakhs

The lease rentals are based on variation in the prime lending rates, subject to a minimum lending rate. The agreements will remain effective until all MLPs under the lease agreements are paid over the lease tenor.

## IL&FS INVESTSMART LIMITED

### (4) Segment Reporting

Business segments have been considered as primary segment for disclosure. The categories included in each of the reported business segments are as follows:

(a) Broking business

(b) Other business includes Merchant Banking, Syndication, Training for Insurance Products and Insurance Agency.

The Revenues and Expenses directly arising out of the specific business segments have been segregated for the purpose of reporting. Similarly, all the Assets and Liabilities that can be directly identified towards the business segments have been accordingly segregated.

Revenues which relate to the Group as a whole and are not allocable to segments on a reasonable basis have been included under "Other Income".

Expenses which relate to the Group as a whole and are not allocable to segments on a reasonable basis have been included under "Unallocated Expenses" and "Interest Expense".

Assets and liabilities which relate to the Group as a whole and are not allocable to segments on a reasonable basis have been included under "Unallocated Assets" and "Unallocated Liabilities" respectively.

There are no geographic segments.

Segmental reporting for the financial year ended 31<sup>st</sup> March, 2003 is as follows:

	Rs. lakhs		
	Broking	Other Business	Total
<b>Revenue</b>	<b>2,111.92</b>	<b>1,005.25</b>	<b>3,117.17</b>
Unallocated Income			230.52
Total Revenue			3,347.69
<b>Segment Results (A)</b>	<b>735.24</b>	<b>296.96</b>	<b>1,032.20</b>
<b>Less : Unallocated Expenses</b>			
Interest Expenses			(644.99)
Other Expenses			(526.40)
<b>Total Unallocated Expenses (B)</b>			<b>(1,171.39)</b>
<b>Add : Unallocated Income</b>			
Profit on sale of Investments			10.66
Income from Stock-in-Trade			12.22
Interest Income			65.32
Income from Investments			14.73
Other Income			127.59
<b>Total Unallocated Income (C)</b>			<b>230.52</b>
<b>Profit before Taxation (A+B+C)</b>			<b>91.33</b>
<b>Segment Assets</b>	<b>1,930.79</b>	<b>1,262.60</b>	<b>3,193.39</b>
Unallocated Assets			8,350.99
<b>Total Assets</b>			<b>11,544.38</b>
<b>Segment Liabilities</b>	<b>1,021.10</b>	<b>644.38</b>	<b>1,665.48</b>
Unallocated Liabilities			5,063.35
<b>Total Liabilities</b>			<b>6,728.83</b>
<b>Capital Expenditure</b>	<b>35.09</b>	<b>9.53</b>	<b>44.62</b>
Unallocated Capital Expenditure			33.88
<b>Total Capital Expenditure</b>			<b>78.50</b>
<b>Depreciation/ Amortisation</b>	<b>144.32</b>	<b>25.66</b>	<b>169.98</b>
Unallocated Depreciation/ Amortisation			216.86
<b>Total Depreciation/ Amortisation</b>			<b>386.84</b>

Rs. lakhs

	Broking	Other Business	Total
Non cash expenses other than depreciation/ amortisation	28.80	-	28.80
Unallocated Non cash expenses	-	-	37.67
Total Non cash expenses	-	-	66.47

Segmental reporting for the financial year ended 31<sup>st</sup> March, 2004 is as follows:

Rs. lakhs

	Broking	Other Business	Total
<b>Revenue</b>	<b>4,234.64</b>	<b>3,299.49</b>	<b>7,534.13</b>
Unallocated Income	-	-	730.74
Total Revenue	-	-	8,264.87
<b>Segment Results (A)</b>	<b>1,554.83</b>	<b>1,427.12</b>	<b>2,981.95</b>
Less : Unallocated Expenses			
Interest Expenses			(195.01)
Other Expenses			(549.38)
Total Unallocated Expenses (B)			(744.39)
Add : Unallocated Income			
Profit on sale of Investments			494.95
Income from Stock-in-Trade			24.29
Interest Income			17.73
Income from Investments			105.88
Other Income			87.89

Rs. lakhs

	Broking	Other Business	Total
Total Unallocated Income (C)			730.74
Profit before Taxation (A+B+C)			2,968.30
<b>Segment Assets</b>	<b>11,651.22</b>	<b>2,360.20</b>	<b>14,011.42</b>
Unallocated Assets			3,706.21
Total Assets			17,717.63
<b>Segment Liabilities</b>	<b>8,188.63</b>	<b>648.69</b>	<b>8,837.32</b>
Unallocated Liabilities			2,644.99
Total Liabilities			11,482.31
<b>Capital Expenditure</b>	<b>308.57</b>	<b>44.50</b>	<b>353.07</b>
Unallocated Capital Expenditure			15.27
Total Capital Expenditure			368.34
<b>Depreciation/ Amortisation</b>	<b>236.11</b>	<b>19.45</b>	<b>255.56</b>
Unallocated Depreciation/ Amortisation			99.44
Total Depreciation/ Amortisation			355.00
<b>Non cash expenses other than depreciation/ amortisation</b>	<b>10.47</b>	<b>25.19</b>	<b>35.66</b>
Unallocated Non cash expenses			28.82
Total Non cash expenses			64.48

## IL&FS INVESTSMART LIMITED

Segmental reporting for the financial year ended 31<sup>st</sup> March, 2005 is as follows:

Rs. lakhs

	Broking	Other Business	Total
<b>Revenue</b>	<b>5,428.26</b>	<b>5,546.78</b>	<b>10,975.04</b>
Unallocated Income			394.96
<b>Total Revenue</b>			<b>11,370.00</b>
<b>Segment Results (A)</b>	<b>2,581.67</b>	<b>2,316.64</b>	<b>4,898.31</b>
Less : Unallocated Expenses			
Interest Expenses			(20.15)
Other Expenses			(386.87)
<b>Total Unallocated Expenses (B)</b>			<b>(407.02)</b>
Add : Unallocated Income			
Profit on sale of Investments			3.16
Income from Stock-in-Trade			277.80
Interest Income			14.60
Income from Investments			13.16
Other Income			86.24
<b>Total Unallocated Income (C)</b>			<b>394.96</b>
<b>Profit before Taxation (A+B+C)</b>			<b>4,886.25</b>
<b>Segment Assets</b>	<b>14,242.66</b>	<b>4,521.09</b>	<b>18,763.75</b>
Unallocated Assets			2,724.56
<b>Total Assets</b>			<b>21,488.21</b>
<b>Segment Liabilities</b>	<b>8,939.86</b>	<b>1,037.63</b>	<b>9,977.49</b>
Unallocated Liabilities			2,840.17
<b>Total Liabilities</b>			<b>12,817.66</b>
<b>Capital Expenditure</b>	<b>220.28</b>	<b>204.69</b>	<b>424.97</b>
<b>Unallocated Capital Expenditure</b>			<b>31.14</b>
<b>Total Capital Expenditure</b>			<b>456.11</b>
<b>Depreciation/ Amortisation</b>	<b>160.11</b>	<b>192.19</b>	<b>352.30</b>
Unallocated Depreciation/ Amortisation			3.39
<b>Total Depreciation/ Amortisation</b>			<b>355.69</b>
Non cash expenses other than depreciation/ amortisation	9.41	7.14	16.55
Unallocated Non cash expenses			15.04
<b>Total Non cash expenses</b>			<b>31.59</b>

(5) The Group's consolidated financial statements include the following subsidiaries:

Sr. No.	Name of the Company	Holding of IL&FS Investsmart Ltd	Country of Incorporation	With Effect from
1.	IL&FS Investsmart Insurance And Risk Management Services limited	100% 50.25%	India	August 16, 2001 March 31, 2005
2.	Investsmart Insurance Agency Private Limited	100%	India	August 16, 2001
3.	IL&FS Investsmart Commodity Brokers Limited.	100%	India	January 21, 2004
4.	IL&FS Academy For Insurance And Finance Limited	100%	India	March 31, 2004

#### (6) Employee Stock Option Plan (ESOP)- 2005

The Shareholders of the IL&FS Investsmart Limited have approved the following Employee Stock Option Plans (ESOP) during the year 2004-05 :

Particulars	ESOP 2005
No. of Options authorised to be Granted	3,550,000
No. of Options Granted	3,382,000
Eligibility	Directors & Employees, of the IL&FS Investsmart Ltd, its Subsidiaries and Infrastructure Leasing and Financial Services Ltd., the Holding Company.
Vesting period for Options granted during the year	Starting from one to four years from the date of grant.
Exercise Period	Three months from the date of vesting.
No. of Options Vested as at March 31, 2005	Nil
No. of Options Lapsed as at March 31, 2005	Nil
No of Outstanding Options to be Granted	168,000

The Group values the above Options at its intrinsic value based on fair value of equity shares determined in an arm's length transaction between willing parties.

**IL&FS INVESTSMART LIMITED****ANNEXURE XVII**

(Referred to in para. 4 of our report)

**IL&FS INVESTSMART LIMITED****STATEMENT OF ACCOUNTING RATIOS**

PARTICULARS	YEARS ENDED 31ST MARCH,				
	2001	2002	2003	2004	2005
Earning Per Share (Rs.)	1.02	0.11	0.11	6.27	9.45
Book Value (Rs.)	14.35	15.22	13.78	17.83	24.75
Return on Networth (%)	7.1%	0.7%	0.8%	35.2%	38.2%

Adjusted net profit / (loss)

Earning Per Share =

Number of shares

Net worth as per adjusted statement of assets and liabilities

Book Value =

Number of shares

Adjusted net profit / (loss)

Return on Networth =

Net worth as per adjusted statement of assets and liabilities

## ANNEXURE XVIII

(Referred to in para. 5 of our report)

### RELATED PARTY TRANSACTIONS

(1) As per the Accounting Standard on 'Related Party Disclosure' (AS-18) issued by the Institute of Chartered Accountants of India, the related parties are as follows :

	31 <sup>st</sup> Mar., 2002	31 <sup>st</sup> Mar., 2003	31 <sup>st</sup> Mar., 2004	31 <sup>st</sup> Mar., 2005
(i) Holding Company :				
Infrastructure Leasing & Financial Services Ltd.	✓	✓	✓	✓
(ii) Subsidiaries :				
Investsmart Insurance Agency Pvt. Ltd.	✓	✓	✓	✓
IL&FS Investsmart Insurance and Risk Management Services Ltd. (Erstwhile Investsmart Insurance Distribution Pvt.Ltd.)	✓	✓	✓	✓
IL&FS Investsmart Commodity Brokers Ltd.	-	-	✓	✓
IL&FS Academy fir Insurance and Finance Ltd. (Erstwhile SAIFA Training Academy Ltd.)	-	-	✓	✓
(iii) Fellow Subsidiaries :				
§ Companies :				
M P Toll Roads Ltd.	✓	✓	✓	✓
IL&FS Finvest Ltd. (Erstwhile IL&FS Asset Management Co.Ltd.)	✓	✓	✓	✓
IL&FS Energy Development Co. Ltd. (Erstwhile IL&FS Wind Farms Ltd.)	✓	✓	✓	✓
Tamil Nadu Water Investment Co. Ltd.	✓	✓	✓	-
IL&FS Infrastructure Development Corporation Ltd.	✓	✓	✓	✓
IL&FS Trust Company Ltd.	-	✓	✓	✓
IL&FS Education & Technology Services Ltd. (EITS) (erstwhile Schoolnet India Limited)	✓	✓	-	-
PDCOR Ltd.	-	✓	-	-
Learnet India Ltd.	-	✓	-	-
Consolidated Toll Network India Ltd.	-	✓	-	-
Ecosmartindia Ltd.	-	✓	-	-
IL&FS Merchant Banking Ltd.	✓	-	-	-
Gujarat Toll Road Investment Company Ltd.	-	-	-	✓
Vadodra Halol Toll Road Company Ltd	-	-	-	✓
(b) Enterprises :				
IL&FS Infrastructure Equity Fund	-	✓	✓	-
IL&FS Investment Trust I	-	✓	✓	-
(iv) Key Management Personnel :				
Mr. Hemang Raja (from 1 <sup>st</sup> August, 2003)				
Managing Director and Chief Executive Officer	-	-	✓	✓
Mr. R.C. Bawa (from 1st August, 2003)				
Deputy Managing Director	-	-	✓	✓
Mr. Sachin Joshi ( upto 31st July, 2003 )				
Manager	✓	✓	✓	-

## IL&FS INVESTSMART LIMITED

The Nature and Volume of transactions for the year ended 31<sup>st</sup> March, 2002 with the above related parties are as follows:

Rs. lakhs

	Holding Company	Subsidiaries	Fellow Subsidiaries	Key Management Personnel	Total
<b>Income</b>					
Broking	18.56	-	-	-	18.56
Interest	10.79	-	-	-	10.79
Rent	10.68	-	-	-	10.68
Other Services	50.32	-	-	-	50.32
Other Income	-	-	3.91	0.75	4.66
<b>Total</b>	<b>90.35</b>	<b>-</b>	<b>3.91</b>	<b>0.75</b>	<b>95.01</b>
<b>Expenses</b>					
Managerial Remuneration	-	-	-	14.83	14.83
Interest	270.48	-	-	-	270.48
Rent	19.54	-	-	-	19.54
License and Fees	12.37	-	-	-	12.37
Other expenses	90.40	-	74.00	-	164.40
<b>Total</b>	<b>392.79</b>	<b>-</b>	<b>74.00</b>	<b>14.83</b>	<b>481.62</b>
<b>Assets</b>					
Other Deposits	391.00	-	-	-	391.00
Housing Loan	-	-	-	18.45	18.45
Investments	-	-	-	-	-
Investment in equity shares	-	2.00	7.13	-	9.13
<b>Total</b>	<b>391.00</b>	<b>2.00</b>	<b>7.13</b>	<b>18.45</b>	<b>418.58</b>
<b>Borrowings &amp; Other Liabilities</b>					
<b>Secured Term Loans:</b>					
Taken during the year	2,717.30	-	-	-	2,717.30
Repaid during the year	-	-	-	-	-
<b>Outstanding Balance</b>	<b>2,717.30</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,717.30</b>
<b>Lease Loans:</b>					
Taken during the year	341.69	-	-	-	341.69
Repaid during the year	-	-	-	-	-
Outstanding balance	341.69	-	-	-	341.69
<b>Unsecured Loans:</b>					
Taken during the year	6,945.00	-	-	-	6,945.00
Repaid during the year	7,357.86	-	-	-	7,357.86
<b>Outstanding balance</b>	<b>150.00</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>150.00</b>
<b>Net Receivables /(Payables)</b>	<b>186.55</b>	<b>5.14</b>	<b>(1.20)</b>	<b>-</b>	<b>190.49</b>

The nature and volume of transactions for the year ended 31<sup>st</sup> March, 2003 with the above related parties are as follows:

Rs. lakhs

	Holding Company	Subsidiaries	Fellow Subsidiaries	Key Management Personnel	Total
<b>Income</b>					
Broking	88.94	-	2.76	0.09	91.79
Other Interest	43.35	-	-	0.73	44.08
Syndication	650.93	-	-	-	650.93
Rent	46.54	-	65.39	2.41	111.94
Dividend	-	-	3.99	-	3.99
Other services	27.20	-	2.80	-	30.00
<b>Total</b>	<b>856.96</b>	<b>-</b>	<b>74.94</b>	<b>3.23</b>	<b>935.13</b>



Rs. lakhs

	Holding Company	Subsidiaries	Fellow Subsidiaries	Key Management Personnel	Total
<b>Expenses</b>					
Remuneration	-	-	-	4.00	4.00
Sitting Fees	-	-	-	0.40	0.40
Interest	627.84	-	-	-	627.84
Rent	109.22	-	1.24	-	110.46
Licence & Fees	49.75	-	-	-	49.75
Other expenses	9.24	-	3.96	17.17	30.37
<b>Total</b>	<b>796.05</b>	<b>-</b>	<b>5.20</b>	<b>21.57</b>	<b>822.82</b>
Purchase of Fixed Assets	6.00	-	-	-	6.00
Sale of Fixed Assets	1.77	-	1.62	-	3.39
<b>Assets</b>					
Other Deposits	475.20	-	34.98	-	510.18
Others	-	2.00	-	1.74	3.74
<b>Total</b>	<b>475.20</b>	<b>2.00</b>	<b>34.98</b>	<b>1.74</b>	<b>513.92</b>
<b>Borrowings &amp; Other Liabilities</b>					
<b>Secured Term Loans:</b>					
Repaid during the year	0.13	-	-	-	0.13
<b>Outstanding balance</b>	<b>2,717.17</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,717.17</b>
<b>Lease Loans:</b>					
Taken during the year	66.98	-	-	-	66.98
Repaid during the year	15.59	-	-	-	15.59
<b>Outstanding balance</b>	<b>393.08</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>393.08</b>
Unsecured Loans:					
Taken during the year	10,760.00	-	-	-	10,760.00
Repaid during the year	8,550.00	-	-	-	8,550.00
<b>Outstanding balance</b>	<b>2,360.00</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,360.00</b>
<b>Other Liabilities</b>	<b>50.00</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>50.00</b>
<b>Net Receivables</b>	<b>245.81</b>	<b>6.05</b>	<b>38.59</b>	<b>12.94</b>	<b>303.39</b>

The nature and volume of transactions for the year ended 31<sup>st</sup> March, 2004 with the above related parties are as follows:

Rs. lakhs

	Holding Company	Subsidiaries	Fellow Subsidiaries	Key Management Personnel	Total
<b>Income</b>					
Broking	175.80	-	-	1.33	177.13
Other Interest	75.34	-	-	2.33	77.67
Syndication	266.95	-	-	-	266.95
Rent	1.53	-	22.18	-	23.71
Dividend	-	-	5.98	-	5.98
Other services	1,026.16	-	1.25	-	1,027.41
<b>Total</b>	<b>1,545.78</b>	<b>-</b>	<b>29.41</b>	<b>3.66</b>	<b>1,578.85</b>
<b>Expenses</b>					
Remuneration	-	-	-	85.63	85.63
Interest	1,058.73	-	-	-	1,058.73
Rent	167.11	-	4.20	-	171.31
Licence & Fees	94.31	-	-	-	94.31
Other expenses	0.84	-	-	-	0.84
<b>Total</b>	<b>1,320.99</b>	<b>-</b>	<b>4.20</b>	<b>85.63</b>	<b>1,410.82</b>
Purchase of Fixed Assets	-	1.44	-	-	1.44
Sale of Fixed Assets	2,797.22	5.57	-	0.29	2,803.08

## IL&FS INVESTSMART LIMITED

Rs. lakhs

	Holding Company	Subsidiaries	Fellow Subsidiaries	Key Management Personnel	Total
Investments	-	1,255.00	-	-	1,255.00
<b>Assets</b>					
Other Deposits	1,208.20	-	25.00	9.60	1,242.80
Interest Accrued	47.05	-	-	-	47.05
Secured Loans	-	-	-	75.88	75.88
<b>Total</b>	<b>1,255.25</b>	<b>-</b>	<b>25.00</b>	<b>85.48</b>	<b>1,365.73</b>
<b>Borrowings &amp; Other Liabilities</b>					
<b>Secured Term Loans:</b>					
Repaid during the year	2,473.44	-	-	-	2,473.44
<b>Outstanding balance</b>	<b>243.73</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>243.73</b>
<b>Lease Loans:</b>					
Repaid during the year	66.28	-	-	-	66.28
<b>Outstanding balance</b>	<b>326.80</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>326.80</b>
Unsecured Term Loans:					
Taken during the year	750.00	-	-	-	750.00
<b>Outstanding balance</b>	<b>750.00</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>750.00</b>
<b>Other Loans:</b>					
Taken during the year	20,140.00	-	-	-	20,140.00
Repaid during the year	22,500.00	-	-	-	22,500.00
<b>Outstanding balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Interest Accrued and due	305.26	-	-	-	305.26
<b>Net Receivables/ (Payables)</b>	<b>54.83</b>	<b>19.70</b>	<b>4.27</b>	<b>(2.53)</b>	<b>76.27</b>

The nature and volume of transactions for the year ended 31st March, 2005 with the above related parties are as follows:

Rs. lakhs

	Holding Company	Subsidiaries	Fellow Subsidiaries	Key Management Personnel	Total
<b>Income</b>					
Broking	203.85	-	101.30	0.89	306.04
Other Interest	114.08	0.42	-	2.92	117.42
Syndication	387.13	-	-	-	387.13
Rent	-	-	-	-	-
Dividend	-	-	-	-	-
Other services	2,725.94	-	107.60	-	2,833.54
Interest	-	-	-	-	-
<b>Total</b>	<b>3,431.00</b>	<b>0.42</b>	<b>208.90</b>	<b>3.81</b>	<b>3,644.13</b>
<b>Expenses</b>					
Syndication Fees	9.53	-	-	-	9.53
Remuneration	-	-	-	148.09	148.09
Sitting Fees	-	-	-	-	-
Interest	271.59	-	-	-	271.59
Rent	548.06	-	-	-	548.06
Licence & Fees	152.50	-	-	-	152.50
Other expenses	-	-	-	-	-
<b>Total</b>	<b>981.68</b>	<b>-</b>	<b>-</b>	<b>148.09</b>	<b>1129.77</b>
Investments	-	345.00	-	-	345.00
Purchase of Fixed Assets	-	-	-	-	-
Sale of Fixed Assets	-	-	-	-	-

Rs. lakhs

	Holding Company	Subsidiaries	Fellow Subsidiaries	Key Management Personnel	Total
<b>Assets</b>					
Other Deposits	3,723.20	-	-	-	3,723.20
Interest Accrued	-	-	-	-	-
Secured Loans	-	-	-	28.61	28.61
Other	-	-	-	2.18	2.18
<b>Total</b>	<b>3,723.20</b>	<b>345.00</b>	<b>-</b>	<b>30.79</b>	<b>4098.99</b>
<b>Borrowings &amp; Other Liabilities</b>					
Secured Loans					
- Term Loans					
Repaid during the year	243.73	-	-	-	243.73
Outstanding balance	-	-	-	-	-
- Lease Loans					
Repaid during the year	70.51	-	-	-	70.51
Outstanding balance	256.29	-	-	-	256.29
Unsecured Loans					
- Term Loans					
Repaid during the year	1,250.00	-	-	-	1,250.00
Taken during the year	500.00	-	-	-	500.00
Outstanding balance	-	-	-	-	-
- Other Loans					
Taken during the year	22,700.00	-	-	-	22,700.00
Repaid during the year	20,700.00	-	-	-	20,700.00
Outstanding balance	2,000.00	-	-	-	2,000.00
Interest accrued and due	-	-	-	-	-
Other Liabilities	-	-	-	-	-
Net Receivables/ (Payables)	(946.34)	-	0.67	(1.77)	(947.44)

Notes :

- (i) Income earned from fellow subsidiaries includes :

Rs. lakhs

Nature of Income	Fellow Subsidiaries	2001-02	2002-03	2003-04	2004-05
Rent	IL&FS Trust Company Ltd. IL&FS Investment Managers Ltd.	-	30.08	22.18	-
Other services rendered	IL&FS Finvest Ltd. (Erstwhile IL&FS Asset Management Company Ltd.)	-	-	-	107.10

- (ii) Transactions with Related parties in the normal course of business have not been disclosed in items of material transactions.
- (iii) The above includes Performance Related Pay to the Managing Director / Deputy Managing Director as remuneration on cash basis, since the amount is provided in aggregate in respective years.
- (iv) Related Party Transactions with individuals owning, directly or indirectly an interest in the voting power of the Company that gives them control or significant influence over the Company and relatives of any such individual.

NIL

- (v) Related Party Transactions with the Company in which Key Management Personnel of the Company are able to exercise significant influence.

NIL

**IL&FS INVESTSMART LIMITED****ANNEXURE XIX**

(Referred to in para. 6 of our report)

**IL&FS INVESTSMART LIMITED****STATEMENT OF DIVIDEND PAID**

PARTICULARS	FOR THE YEARS ENDED 31ST MARCH,				
	2001	2002	2003	2004	2005**
Equity Share Capital (Rs.)	300,000,000	300,000,000	349,997,160	349,997,160	349,997,160
No. of Shares	30,000,000	30,000,000	34,999,716	34,999,716	34,999,716
Dividend (%)	8	-	-	20	22.50
Dividend (Rs.)*	23,866,301	-	-	69,999,432	78,749,361
Corporate Tax on Dividend including cess thereon (Rs.)	2,434,363	-	-	8,968,677	10,889,288

\* Including pro-rata dividend for the shares issued during the respective years.

\*\* Includes final dividend proposed by the Board of Directors in their meeting held on 4th May, 2005 @ 12.5%, amounting to Rs. 49,881,533 including tax on dividend of Rs. 6,135,888, subject to approval of the share holders at the ensuing Annual General Meeting.

## ANNEXURE XX

(Referred to in para. 7 of our report)

### IL&FS INVESTSMART LIMITED

### STATEMENT OF TAX SHELTER

Rs. lakhs

PARTICULARS	FOR THE YEARS ENDED 31ST MARCH,				
	2001	2002	2003	2004	2005
Profit Before Tax as per Annexure I	355.10	62.09	92.04	2,959.20	4,870.33
Tax Rate	39.550%	35.700%	36.750%	35.875%	36.593%
Tax at Notional Rate	140.44	22.17	33.82	1,061.61	1,782.18
<b>Permanent Differences</b>					
Exempt Income	42.27	14.89	-	119.39	760.49
Deferred Revenue Expenditure	722.35	309.50	-	-	-
Bad debts written off	-	-	-	100.15	-
Other Adjustments	(123.80)	9.69	(20.37)	429.52	10.53
<b>Total Permanent Differences (A)</b>	<b>640.83</b>	<b>334.08</b>	<b>(20.37)</b>	<b>649.05</b>	<b>771.02</b>
<b>Timing Differences</b>					
Depreciation	54.99	148.20	101.87	(103.05)	(32.37)
Items allowed on payment basis	-	(64.08)	37.72	(17.46)	(22.66)
Provision for Doubtful Debts	(61.55)	-	(28.80)	-	(4.96)
Adjustments relating to finance leases		(1.91)	1.93	66.28	70.51
Other Adjustments	(64.25)	0.20	94.11	-	-
<b>Total Timing Differences (B)</b>	<b>(70.81)</b>	<b>82.41</b>	<b>206.83</b>	<b>(54.23)</b>	<b>10.52</b>
<b>Net Adjustments (A+B)</b>	<b>570.02</b>	<b>416.49</b>	<b>186.46</b>	<b>594.82</b>	<b>781.54</b>
Tax Savings thereon	225.44	148.69	68.52	213.39	285.98
Tax savings on unabsorbed loss	-	-	-	238.22	-
Tax on Income at other than notional rates	-	-	-	-	24.15
Interest on tax	-	-	-	-	14.65
<b>TOTAL TAX (C)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>610.00</b>	<b>1,535.00</b>
Taxable Income as per Minimum Alternate Tax (MAT)	312.83	47.20	94.31	N/A	N/A
MAT (D)	27.00	5.00	7.25	N/A	N/A
<b>TAX EXPENSE (MAXIMUM OF C AND D)</b>	<b>27.00</b>	<b>5.00</b>	<b>7.25</b>	<b>610.00</b>	<b>1,535.00</b>

**Note :**

The tax shelter is worked out on the basis of profits as per the audited accounts and is not based on profits as per the Statement of Adjusted Profits and losses attached as Annexure I.

**IL&FS INVESTSMART LIMITED****ANNEXURE XXI**

(Referred to in para. 8 of our report)

**IL&FS INVESTSMART LIMITED****CAPITALISATION STATEMENT**

		Rs. lakhs
PARTICULARS	PRE ISSUE AS ON 31st March, 2005	AS ADJUSTED FOR ISSUE
Short Term Debt	2,000.00	2,000.00
Long Term Debt	280.52	280.52
<b>Total Debt</b>	<b>2,280.52</b>	<b>2,280.52</b>
<b>Shareholders' Funds</b>		
Share Capital	3,499.97	***
Reserves	5,185.03	***
Less: Miscellaneous Expenditure not written off or adjusted	21.65	***
Total Shareholders' Funds (Networth)	8,663.35	***
Long Term Debt / Share Capital	0.08 : 1	***
Total Debt / Networth	0.26 : 1	***
Total Debt / Share Capital	0.65 : 1	***

\*\*\* Can be calculated only on the conclusion of the book building process.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of the financial condition and results of operations together with the audited financial statements for each of the fiscal years 2002, 2003, 2004 and 2005 including the notes thereto and the reports thereon, which appear under section "Restated Financial Information" in this Prospectus. These financial statements are prepared in accordance with Indian GAAP, the Companies Act 1956 and the SEBI Guidelines and as restated as described in the Auditor's Report of S. B. Billimoria & Co. in the section with the title "Financial Statements".

The following discussion is based on the audited financial statements (as restated) for each of fiscal years 2002, 2003, 2004 and 2005, which have been prepared in accordance with Indian GAAP, the Companies Act 1956 and the SEBI Guidelines and on information available from other sources. Company's fiscal year ends on March 31 of each year, so all references to a particular fiscal year are to the twelve-month period ended March 31 of that year.

### Overview

IL&FS Investsmart Limited (IL) is a financial services company engaged in intermediation of financial products and financial advisory services for retail & institutional investors and corporates. The Company holds the memberships of National Stock Exchange of India and The Stock Exchange, Mumbai and is involved in Merchant Banking and Syndication activities apart from Equity and Debt Broking, which forms a significant component of its gross revenues. It is also planning to engage in as insurance broking through its wholly owned subsidiary IL&FS Investsmart Insurance and Risk Management Services Limited (formerly Investsmart Insurance Distribution Pvt Ltd). The Company has also ventured into commodity broking through its subsidiary IL&FS Investsmart Commodity Brokers Limited. The Company has also acquired controlling stake in IL&FS Academy for Insurance and Finance Limited (formerly SAIFA Training Academy Limited), an IRDA approved Insurance training company from IL&FS Education & Technology Services Limited on March 31, 2004.

### Significant developments after March 31, 2005 that may affect the future results of operations of the company

The Company believes, no circumstances have arisen since the date of the last financial statements as disclosed in this Prospectus which materially and adversely affect or are likely to affect, operations or profitability (including subsidiaries), or the value of assets or ability to pay liabilities within the next twelve months. There is no subsequent development after the date of the Auditor's Report, which Company believes, is expected to have a material impact on the Company and its operations.

### Factors affecting results of Operation

The growth in revenues and profits achieved by the Company can mainly be attributed to following factors:

- Stabilisation of branch and franchisee network
- Consolidation of both Retail as well as Institutional capital market activities under one roof
- Enhancing the product basket available for offering it to the retail customers across locations
- Growth in overall volumes due to favourable capital market conditions
- Robust growth in income from syndication and merchant banking mandates handled by the Company

### Critical Accounting Policies

The financial statements have been prepared under the historical cost convention in accordance with the Indian Generally Accepted Accounting Principles (Indian GAAP) and the provisions of the Companies Act, 1956. All income and expenditure having material bearing on the financial statements are recognised on an accrual basis.

Preparation of financial statements in accordance with Indian GAAP and the provisions of the Companies Act, 1956, require management to make judgements, estimates and assumptions regarding uncertainties that affect the reported amounts of the Company's assets, liabilities, revenues and expenses and disclosure of contingent liabilities. These judgements, estimates and assumptions are reflected in accounting policies of the Company, which are more fully described in the auditors' report appearing in "Restated Financial Information" this Red Herring Prospectus.

Certain accounting policies are particularly important to the presentation of financial position and results of operations and require the application of significant assumptions and estimates of management. The Company refers to these accounting policies as "critical accounting policies". Management uses past experience, industry practices and information provided by outside sources, as appropriate when forming the assumptions and estimates.

For details of the accounting policies followed by the management in the preparation and presentation of its financial statements and changes in accounting policies, please refer to the section on Financial Statements on Page 95.

## IL&FS INVESTSMART LIMITED

### Results of Operation

#### Revenues

The Company revenues consist of income from activities such as Retail Broking, Institutional Broking, Distribution of financial products, Fees from activities such as Term Loan Syndication, Private Placement, Issue Management, other activities such as Margin Trade Financing etc

The table below sets forth certain information with respect to the Company's revenues, expenditure and profits for the fiscal 2002, 2003, 2004 and 2005 for respective periods

PARTICULARS	FOR THE YEAR ENDED 31 <sup>ST</sup> MARCH			
	2002	2003	2004	2005
<b>Income</b>				
Total Income	2,552.88	3,341.89	8,235.00	10,834.11
Retail — Broking	913.85	1,314.87	3,339.70	4,160.58
As a % of Total Income	35.80%	39.35%	40.55%	38.40%
Retail — Other Services	125.89	474.81	2,296.65	3,527.56
As a % of Total Income	4.93%	14.21%	27.89%	32.56%
Institutional — Broking	190.27	308.98	761.93	973.38
As a % of Total Income	7.45%	9.25%	9.25%	8.98%
Institutional — Other Services	544.67	1,012.73	1,106.40	1,785.96
As a % of Total Income	21.34%	30.30%	13.44%	16.48%
Income From Securities	14.89	12.22	24.29	277.80
As a % of Total Income	0.58%	0.37%	0.29%	2.56%
Profit/(Loss) on sale of investments	658.11	10.66	494.95	3.16
As a % of Total Income	25.78%	0.32%	6.01%	0.03%
Other Income	105.19	207.62	211.08	105.67
As a % of Total Income	4.12%	6.21%	2.56%	0.98%
<b>Expenses</b>				
Total Expense	2,515.03	3,264.45	5,290.40	5,963.78
As a % of Total Income	98.52%	97.68%	64.24%	55.05%
Interest and Finance Charges	332.79	644.99	1,099.17	349.29
As a % of Total Income	13.04%	19.30%	13.35%	3.22%
Staff Costs	780.21	897.13	1,730.17	2,307.81
As a % of Total Income	30.56%	26.84%	21.01%	21.30%
Rent	373.45	357.19	469.63	854.67
As a % of Total Income	14.63%	10.69%	5.70%	7.89%
Administrative and Other Expenses	977.64	886.71	1,437.27	1,957.00
As a % of Total Income	38.30%	26.53%	17.45%	18.06%
Advt. and Business Promotion Exp.	2.38	12.45	143.39	124.14
As a % of Total Income	0.09%	0.37%	1.74%	1.15%
Depreciation	303.65	401.44	366.54	339.72
As a % of Total Income	11.89%	12.01%	4.45%	3.14%
Adjusted Profit Before Tax	37.85	77.44	2,944.60	4,870.33
<b>Provision for Tax</b>				
Current	4.75	7.25	610.00	1,535.00
Deferred	-	32.07	140.00	23.90
<b>Adjusted Net Profit after Tax</b>	<b>33.10</b>	<b>38.12</b>	<b>2,194.60</b>	<b>3,311.43</b>
As a % of Total Income	1.30%	1.14%	26.65%	30.56%

CAGR over 3 years from 2001-02 to 2004-05 in terms of gross revenue, Profit before tax, Profit after Tax is 61.90%, 404.85% and 364.23% respectively.



### **Retail – Broking**

Retail Broking comprises of income from equity & derivatives broking operations. The share of Retail Broking has been growing in absolute terms. The income from Retail broking has increased from Rs 913.85 lakhs in FY02 to Rs 4160.58 lakhs in FY05. Further, the share of retail broking as a percentage of total income has marginally increased from 35.80% in FY02 to 38.40% FY05.

### **Retail – Other Services**

Income from Retail – Other Services comprises of income from distribution of financial products, Interest earned on margin trading, Income from distribution of public issues of companies and Fees for providing Portfolio management services. The income from Retail –Other Services has increased from Rs 125.89 lakhs in FY02 to Rs 3527.56 lakhs in FY05. Further its share as a percentage of total income has increased from 4.93% in FY02 to 32.56% in FY05. The share of Retail – Other services has been growing both in absolute terms and as a percentage of total income from 2002 onwards.

### **Institutional – Broking**

Institutional Broking comprises of income earned from equity & debt broking activity on behalf of institutional clients. The number of institutional equity relationships have increased from 54 clients in FY02 to 76 clients in FY05 resulting in the volumes increasing from Rs 373 crores in FY02 to Rs 5343 crores in FY05. Further, volume transacted in institutional debt segment in FY05 was Rs. 39678 crores. The Company has identified institutional broking as one of the thrust areas and is taking steps to strengthen this business segment by augmenting research & sales coverage.

### **Institutional – Other services**

Institutional Business comprises of syndication, merchant banking and other fees income. Pursuant to the consolidation of capital market activities, the merchant banking and syndication business of IL&FS group was merged with the Company w.e.f. January 1, 2002. The syndication team has been successful in leveraging the corporate, institutional and banking relationships across the group which enabled it in completing a few large infrastructure related transactions. The merchant banking activities complement the distribution business of the Company enabling it in offering a diversified range of services. The income from Institutional – Other services has been growing both in absolute terms and as a percentage of total income from 2002 onwards. Growth is due to buoyancy in capital markets coupled with the Company's ability to garner mandates.

### **Income from Securities**

Income from Securities comprises of Income earned on account of purchase and sale of securities held as Stock-in-Trade. In FY 2005, the Company had acquired certain equity shares through Initial Public Offers (IPOs). Income earned of Rs 277.80 lakhs comprises of profit on sale of shares and dividend income

### **Profit/Loss on Sale of Investments**

Profit/Loss on Sale of Investments includes income earned on account of sale of long term investments by the Company. In the FY05, the Company has earned an income of Rs 3.16 lakhs through sale of various mutual fund units and other long term securities.

### **Other Income**

Other income primarily comprises of interest earned on surplus funds deployed with mutual funds, rent income, etc.

### **Expenditure**

#### **Interest and Finance cost**

The Company's finance as a percentage of total income have been showing an increasing trend from fiscal 2002 onwards till fiscal 2004, however it has come down in fiscal 2005. The Company had taken a property loan in September, 2001 which increased the interest cost during the ensuing periods. This loan was repaid during FY 2003-04 leading to a reduction in interest and finance cost. However, the overall interest cost increased during FY 2003-04 primarily due to increase in working capital loans including funds for undertaking Margin Trade Financing activity through its books.

However, with effect from April 1, 2004, the Company has discontinued to take loans on its books leading to a reduction in interest and finance cost during FY 2004-05.

#### **Staff cost**

Staff cost comprises of salaries, wages, allowances and bonuses, contributions to provident fund, contributions to superannuation, gratuity, and leave encashment, welfare expenses, performance related pay etc.

Staff compensation as a percentage of total income has been declining from 30.56% in FY02 to 21.30% in FY05. However, as an absolute amount, Staff cost has gone up from Rs. 780.21 lakhs to Rs. 2307.81 lakhs over the same period due to increase in staff strength consequent to the increased level of operations. Number of employees have gone up from 202 in fiscal 2002 to 647 employees including 116 contract employees in fiscal 2005.

## IL&FS INVESTSMART LIMITED

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### Rent

The expenditure on account of rent primarily includes rent payable for branch premises and corporate premises. Expense on account of Rent in absolute terms has increased from Rs. 373.45 lacs in FY02 to Rs. 854.67 lacs in FY05. However, share of rent charges to total income has declined from 14.63% in FY02 to 7.89% in FY05. In February 2004 the Company has acquired office premises at Head Office under rental arrangement, which has increased outlay under this head.

### Administrative and other Misc. Expenses (including Advertisement and Business promotion expense)

Administrative and other expenses primarily include expenses incurred on traveling and conveyance, communication expenses, printing & stationery, repairs & maintenance, advertisement and business promotion expense etc. In the FY05 this amounted to Rs. 2081.14 lakhs as compared to Rs. 980.02 lakhs for the FY02. As a percentage of total income this expense has reduced from 38.39% in FY02 to 19.21% in FY05.

### Depreciation

For more information on depreciation policies, please see the section entitled "Significant Accounting Policies" on page 101 of this Prospectus.

### Fiscal 2005 compared to Fiscal 2004

#### Total Income

The total Income for FY05 stood at Rs. 10834.11 lakhs as compared to Rs. 8235.00 lakhs for FY 2004, a rise of 31.56%. Increase in total income is mainly on account of increase in retail and institutional income.

#### Retail Income

In FY05, Retail Income amounted to Rs. 7688.14 lakhs or 70.96% of total income as compared to Rs. 5636.35 lakhs or 68.44% of total income in FY 2003-04. Retail income in FY 2004-05 has increased by 36.40% over FY 2003-04. Retail income comprises of income from Retail-Broking and Retail-Other Services.

Retail – Broking has increased to Rs.4160.58 lakhs in FY05 from Rs.3339.70 lakhs for FY 2004 representing growth of 24.58% over previous period. This increase has been primarily on account of increase in equity and derivatives volumes by 38.95% and 13.99% respectively over FY 2003-04.

Retail – Other services contributed Rs.3527.56 lakhs in FY05 compared to Rs.2296.65 lakhs FY04 representing growth of 53.60% over previous period. Also, Retail – Other services as a percentage of total income has increased from 27.89% in FY04 to 32.56% in FY05.. This increase is primarily on account of increase in income from distribution of public issues and other financial products.

#### Institutional Income

Institutional Income comprises of Institutional Broking income and income from other services to institutions. For the FY05, this amounted to Rs. 2759.34 lakhs as compared to Rs. 1868.33 lakhs, a growth of 47.69%. This increase has been primarily on account of buoyant capital market leading to increase in volumes by over 60% in FY2004-05.

#### Income from Securities

Income from Stock-in-trade contributed Rs. 277.80 lakhs in FY05 compared to Rs.24.29 lakhs for FY04 primarily on account of sale of stocks acquired during initial public issue of various companies.

#### Profit/(Loss) on sale of Securities

Profit on sale of investment has decreased from Rs. 494.95 lacs in FY 2003-04 to Rs. 3.16 lacs in FY 2004-05. Profit in FY 2003-04 is attributed to profit booking on sale of investments.

#### Expenditure

Interest and Finance cost coupled with Staff costs accounts for 44.55% and 53.48% respectively of the total cost for FY05 and FY04. Interest cost and staff cost together accounted for 24.52% and 34.36% of the total income respectively for FY05 and FY04.

#### Interest and Finance cost

Interest and Finance cost in FY05 were Rs.349.29 lakhs, compared to Rs.1099.17 lakhs for FY04. Interest and finance cost has shown decrease of 68.22% over 2004. The Company repaid property loan during FY 2003-04. However, the overall interest cost increased during FY 2003-04 primarily due to increase in working capital loans including funds for undertaking Margin Trade Financing activity through its books. With effect from April 1, 2004, the Company has discontinued to take loans on its books leading to a reduction in interest and finance cost during FY 2004-05.

### **Staff cost**

Staff cost increased from Rs.1730.17 lakhs in FY04 to Rs.2307.81 lakhs in FY05 showing an increase of 33.39% over FY04. However, as a percentage of total income it has remained almost at the same levels at 21.30% in FY05. Increase in staff cost in absolute terms during FY05 is primarily on account of increase in number of employees across all levels.

### **Rent**

Rent cost amounted to Rs.854.67 lakhs in FY05 compared to Rs.469.63 lakhs for the FY04. Increase in Rent cost is due to sale of property by the Company to IL&FS in January 2004 and acquisition of same property on lease from IL&FS during the year.

### **Administrative and other expenses**

Administrative expenses amounted to Rs. 1957.00 lakhs in FY05 compared to Rs.1437.27 lakhs for the FY04. The increase in the expenditure in absolute terms is primarily on account of rise in the volume of business.

### **Depreciation**

Depreciation decreased to Rs. 339.72 lakhs in FY05 from Rs.366.54 lakhs for FY04. The decrease is primarily on account of sale of property in FY 2003-04.

### **Advertisement and Business Promotion expenses**

Advertisement and business promotion expenses have marginally decreased from Rs. 143.39 lakhs for FY04 to Rs. 124.14 lakhs in FY05.

### **Profit After Tax**

PAT increased from Rs. 2194.60 lakhs in FY04 to Rs. 3311.43 lakhs in FY05. Increase in bottom line is because of increase in over all topline by 31.56% where as corresponding increase in expenses amount to only 12.73%.

### **Fiscal 2004 compared to Fiscal 2003**

#### **Total Income**

The total Income for FY04 stood at Rs. 8235.00 lakhs as compared to Rs. 3341.89 lakhs for FY 2003, a rise of 146.42%. A major part of this rise is on account of increase in retail income and income from sale of investments.

#### **Retail Income**

In FY04, Retail Income amounted to Rs. 5636.35 lakhs or 68.44% of total income as compared to Rs. 1789.68 lakhs or 53.56 % of total income. This represents an increase of 214.94% over previous period. Retail income comprises of income from Retail-Broking and Retail-Other Services.

Retail – Broking contributed Rs.3339.70 lakhs in FY04 to Rs.1,314.87 lakhs for FY 2003 representing growth of 153.99% over previous period.

Retail – Other services contributed Rs.2296.65 lakhs in FY04 compared to Rs.474.81 lakhs FY03 representing growth of 383.70% over previous period.

#### **Institutional Income**

Institutional Income comprises of Institutional Broking income and income from other services to institutions. For the FY04, this amounted to Rs. 1868.33 lakhs as compared to Rs. 1321.71 lakhs, a growth of 41.36%.

Institutional – Broking contributed Rs.761.93 lacs in FY04 compared to Rs.308.98 lakhs for FY03 showing an increase of 146.6% over previous period.

Income from Institutional – Other services primarily comprises of merchant banking and syndication mandates undertaken by the Company. The income from such activities has marginally increased from Rs. 1012.73 lacs in FY03 to Rs.1106.40 lacs in FY04, an increase of 9.25%.

#### **Profit/Loss on Sale of Investments**

Profit/Loss on sale of investments contributed Rs. 494.95 lakhs in FY04 compared to Rs.10.66 lakhs for FY03 primarily on account of sale of mutual fund units and other long term securities.

#### **Expenditure**

Interest and Finance cost coupled with Staff costs accounts for 53.48% and 47.24% respectively of the total cost for FY04 and FY03. Interest and finance cost and staff cost together accounted 34.36% and 46.14% of the total income respectively for FY04 and FY03.

## **IL&FS INVESTSMART LIMITED**

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### **Interest and Finance cost**

Interest and Finance cost in FY04 were Rs. 1099.17 lakhs, compared to Rs. 644.99 lakhs for FY03. Interest and finance cost has shown an increase of 70.42% over 2003 primarily due to increase in working capital requirements of the Company including funds for margin trading activity. Further, the interest rate on secured borrowings also increased from 8% to 12% during FY04.

### **Staff cost**

Staff cost increased from Rs.897.13 lakhs in FY03 to Rs.1730.17 lakhs in FY04 showing an increase of 92.86% over FY03. However, as a percentage of total income it decreased from 26.84% in FY03 to 21.01% in FY04. Increase in staff cost in absolute terms during FY04 is primarily on account of the following :

- (i) Payment of ad-hoc ex-gratia in July 2003
- (ii) Introduction of quarterly incentives scheme for the sales teams.

### **Rent**

Rent cost amounted to Rs.469.63 lakhs in FY04 compared to Rs.357.19 lakhs for the FY03. Acquisition of premises on rent from IL&FS in February, 2004 and setting up of additional branches was the primary reason for such increase in rent cost.

### **Administrative and other expenses**

Administrative expenses amounted to Rs. 1,437.27 lakhs in FY04 compared to Rs.886.71 lakhs for the FY03. The increase in the expenditure in absolute terms is primarily on account of rise in the volume of business.

### **Depreciation**

Depreciation decreased to Rs. 366.54 lakhs in FY04 from Rs.401.44 lakhs for FY03. The overall decrease in percentage terms can be attributed to the Company following the "Written Down Value" method for depreciating the assets.

### **Advertisement and Business Promotion expenses**

Advertisement and business promotion expenses have increased from Rs. 12.45 lakhs for FY03 to Rs. 143.39 lakhs in FY04. This is on account of expenditure incurred by the Company in connection with advertisement expenditure incurred on account of change of its name from "Investsmart India Limited" to "IL&FS Investsmart Limited".

### **Profit After Tax**

PAT increased from Rs. 38.12 lakhs in FY03 to Rs. 2194.60 lakhs in FY04. Increase in bottom line is because of increase in over all topline by 146.42% where as corresponding increase in expenses amount to only by 62.06 %

### **Fiscal 2003 compared to Fiscal 2002**

IL&FS Merchant Banking Services Ltd. and DebonNet India Ltd. merged with the Company with effect from January 1, 2002. Thus, the figures of FY03 are not strictly comparable with FY02. For details kindly refer page 59 of Prospectus.

### **Total Income**

The total Income for FY03 stood at Rs. 3341.89 lakhs as compared to Rs. 2552.88 lakhs for FY02, a rise of 30.91%. Growth in total income was contributed by all segments except for Profit/(loss) on sale of investment.

### **Retail- Broking**

Retail – Broking contributed Rs.1314.87 lakhs for FY03 compared to Rs.913.85 lakhs for FY02. The increase is 43.88% in absolute terms.

### **Retail – Other Services**

Retail – Other services contributed Rs.474.81 lakhs for FY03 compared to Rs.125.89 lakhs for FY02. This increase was primarily due to increase in interest income earned on Margin Trade Financing activity undertaken by the Company

### **Institutional Broking**

Institutional – Broking contributed Rs.308.98 lakhs for the FY 2003 as compared to Rs.190.27 lakhs for FY 2002. It has shown an increase of 62.39%.

### **Institutional – Other services**

Institutional – Other services has shown increased from Rs. 544.67 lakhs in FY 2002 to Rs. 1012.73 lakhs in FY 2003 – a rise of 85.93%.

**Income from Securities**

Income from securities (including profit on sale of investments) declined from Rs. 673.00 lakhs in FY 2002 to Rs. 22.88 lakhs in FY 2003.

**Other Income**

Other income increased from Rs. 105.19 lakhs in FY 2002 to Rs. 207.62 lakhs in FY 2003. In absolute terms the rise has been 97.38%. The increase has been primarily on account of rent and interest income.

**Expenditure****Interest and Finance cost**

Interest and Finance cost in the FY03 were Rs. 644.99 lakhs, compared to Rs. 332.79 lakhs for FY02. The increase of 93.81% has been primarily due to increased working capital requirements of the Company including funds for margin trading activity.

**Staff cost**

Staff cost increased from Rs.780.21 lakhs in FY02 to Rs.897.13 lakhs for FY03. The rise has been 14.99% due to increase in employee strength pursuant to the merger.

**Rent**

Rent cost amounted to Rs.357.19 lakhs for the FY03 as compared to Rs.373.45 lakhs for FY02.

**Administrative and other expenses**

Administrative expenses amounted to Rs. 886.71 lakhs for FY03 as compared to Rs.977.64 lakhs for the FY02. The fall of 9.30% has been on account of cost cutting initiatives undertaken by the Company.

**Depreciation**

Depreciation has increased from Rs. 303.65 lakhs in FY 2002 to Rs. 401.44 lakhs in FY 2003. The increase of 32.20% has been primarily on account of acquisition of additional assets during FY 2002-03.

**Unusual or infrequent events or transactions**

Other than as described in this Prospectus, particularly in "Management's Discussion and Analysis of Financial Condition and Results of Operations" the Company believes, there are no events that may be described as unusual or infrequent events and transactions.

**Significant economic/regulatory changes**

The Company's business is highly dependent on the regulatory environment. All the activities carried out by the Company are regulated by SEBI and require prior registration in most of the cases. The operations are regulated and are subject to periodic review/ inspection from regulatory agencies and stock exchanges. Since the level of operations are dependent on the general economic conditions, any changes in the economic conditions may affect the revenues and profitability of the Company. Other than as described in this Prospectus, particularly in "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations", the Company believes, there are no significant economic / regulatory changes that materially affect or are likely to affect the income from continuing operations.

**New Products or business segments**

The Company has recently inducted ETM as strategic investor. Company might contemplate entering new products or business segment with partnership or any understanding with ETM. This might affect the risk and profitability of the Company. Other than as described in this Prospectus, particularly in the para on "Business", "Subsidiaries" there are no new business segments or material new products currently planned.

**Known trends and uncertainties**

Other than as described in this Prospectus, in "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations", the Company believes, there are no trends or uncertainties that have or had or are expected to have a material adverse impact on revenues or income of the Company from continuing operations.

**Future relationship between costs and income**

Other than as described in this Prospectus, particularly in "Management's Discussion and Analysis of Financial Condition and Results of Operations", the Company believes, there are no known factors, which will have a material adverse impact on the operation and finances of the Company and its subsidiaries, taken as a whole.

## **IL&FS INVESTSMART LIMITED**

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### **Seasonality of business**

Other than as described in this Prospectus, particularly in "Management's Discussion and Analysis of Financial Condition and Results of Operations", the business of the Company is not seasonal. The business of the Company is largely dependent on the state of capital markets, level of activity in the secondary market and over all economic conditions prevailing both locally and globally. The level of operations, income and profitability of the Company may be affected due to above factors.

### **Dependence on single or few suppliers / customers**

The Company is not dependent on single or few suppliers/customers. However, secured borrowings of Rs.256.29 lacs and entire unsecured borrowings amounting to Rs 2000.00 lacs outstanding as on March 31, 2005 are from IL&FS, the Promoter. The operations of the Company are dependent on the trading systems provided by the stock exchanges.

### **Competitive Conditions**

The Company operates in a highly competitive market where it faces competition in broking, distribution, investment advisory, syndication & merchant banking business. The Company offers number of products such as equity, debt and derivatives broking, investment advisory services, portfolio management services, merchant banking and loan syndication. The Company believes that multi-product offering capability distinguishes itself from other players in the market and helps in providing stability to its overall revenues.

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## GROUP COMPANIES

### 1) IL&FS Infrastructure Development Corporation Ltd. (IIDC)

IIDC was incorporated on December 7, 1999 as “India Water Infrastructure Company Limited” and is a wholly owned subsidiary of IL&FS. On October 4, 2001, pursuant to fresh certificate of incorporation consequent to change of name, IIDC changed its name to “IL&FS Project Development Corporation Limited”. Thereafter, on July 8, 2002, IIDC once again changed its name to “IL&FS Infrastructure Development Corporation Limited”.

IIDC has been engaged in development and/or promotion of infrastructure projects and providing all infrastructure project related services under one roof including arranging for financing of the infrastructural activities, providing advisory services relating to development of infrastructure projects and investment in infrastructure sector companies. IIDC has undertaken Project development work in varied sectors such as Airports, Ports, Gas Pipelines, Water supply, Special Economic Zone's and Mass Transit.

IIDC has worked through “Project Development and Promotion Partnerships” of IL&FS with the Andhra Pradesh Industrial Infrastructure Corporation (APIIC), Goa Industrial Infrastructure Corporation (GIIC), Punjab Infrastructure Development Board and Government of Kerala. IIDC has also worked with the National Institute of Smart Government, promoted by the Ministry of Information and Technology and NASSCOM to develop e-government projects in the country. IIDC is working in collaboration with the Ministry of Science and Technology for developing e-governance in the state of Uttaranchal Pradesh.

The Ministry of Commerce, Government of India has designated IIDC as an approved agency for assisting all state Governments in developing infrastructure projects on Public Private Partnership (PPP) format under the Assistance to State for Infrastructure development for Exports (ASIDE) programme.

IIDC has made investments in various infrastructure sector companies viz, Kampsax India Pvt. Ltd., Learnet India Limited, Manipal Healthcare Pvt. Ltd., Ecosmart India Limited, Urban Mass Transit Company Ltd. etc.

#### Shareholding Pattern

IIDC is a wholly owned subsidiary of IL&FS with IL&FS holding 100% by itself and through its nominees.

#### Board of Directors

As on March 31, 2004, the board of directors of IIDC comprised of:

##### Name

Mr. Ravi Parthasarathy

Mr. Hari Sankaran

Mr. Arun K Saha

Mr. Arvind Mayaram

Mr. Tomiya Tomota

Mr. Sandeep Junnarkar

Mr. Pradeep Puri

## IL&FS INVESTSMART LIMITED

### Financial Performance

The brief financials details of IIDC for the last three years are as under:

(Rs. in Lacs)

Particulars	For the Year/ Period ended/ As at March 31		
	2002	2003	2004
Total Income	523.43	615.05	832.67
Profit After Tax (PAT)	1.19	28.91	40.45
<b>Shareholders Funds</b>			
Equity Share Capital	67.50	500.00	500.00
Preference Share Capital	-	500.00	500.00
Advance towards Share Capital	-	1243.00	1342.15
Reserves (excluding revaluation reserve)	0.78	31.79	72.74
Net Worth	67.94	531.58	572.17
<b>Earning Per Share (EPS) (Rs.)</b>			
Basic	0.17	0.58	0.81
Diluted	-	0.13	0.17
Net Asset Value (NAV) per share (Rs.)	10.07	10.63	11.44
Dividend (Equity)	-	-	-

Preference shares are convertible into equity shares on or before February 24, 2010

### Notes :

*Adjusted PAT = PAT - Preference Dividend*

*Networth = Paid up Equity Capital + Reserves (excluding revaluation reserves)-Accumulated Losses - Deferred Expenditure to the extent not written off*

*EPS = Adjusted PAT/ No. of equity shares outstanding at the end of the year*

*NAV = Networth/ No. of equity shares outstanding at the end of the year*

### Transactions with IIL

IIDC had given residential premises on lease to the Company at a monthly rent of Rs. 35000 since December, 02 with security deposit of Rs. 11 lacs. The said lease has been terminated with effect from February 28, 2005. The Company has no transactions with IIDC for sales or purchases exceeding in value in aggregate of 10% of total sales or purchases of The Company.

### 2) IL&FS Energy Development Company Limited (IEDCL)

IEDCL was incorporated on January 22, 1997 as Prabhanjan Power India Limited. It was subsequently renamed to IL&FS Wind Farms Limited (IWFL) pursuant to obtaining a fresh Certificate of Incorporation on February 26, 1997. The Company intended to extend its areas of operation and hence the name of the Company was changed from "IL&FS Wind Farms Limited" to "IL&FS Energy Development Company Limited" to commensurate with its activities in near future by obtaining a fresh Certificate of Incorporation on February 11, 2004. It undertakes operations in the area of Wind Power Generation and Distribution.

### Shareholding Pattern

As on December 31, 2004, IEDCL is a wholly owned subsidiary of IL&FS with IL&FS holding 100% through itself and through its nominees.

### Board of Directors

As on December 31, 2004 the board of directors of IEDCL comprised:

Name	Designation
Mr. S Sivaramakrishnan	Director
Dr. Ashok Harane	Director
Mr. Manu Kochhar	Director
Mr. Subhash Mathurvaishya	Managing Director



## Financial Performance

The brief financial details of IEDCL for the last three years are as under:

(Rs. in Lacs)

Particulars	For the Year/ Period ended/ As at March 31		
	2002	2003	2004
Total Income	279.40	342.51	402.76
Profit After Tax (PAT)	(163.38)	6.94	66.46
<b>Shareholders Funds</b>			
Equity Share Capital	1729.70	1729.70	1729.70
Reserves (excluding revaluation reserve)	(82.52)	(141.36)	(74.89)
Net Worth	1407.90	1361.12	1439.65
Earning Per Share (EPS) (Rs.)	(0.94)	0.04	0.38
Net Asset Value (NAV) per share (Rs.)	8.14	7.87	8.32
Dividend (Equity)	NIL	NIL	NIL

*Networth = Paid up Equity Capital + Reserves (excluding revaluation reserves)-Accumulated Losses - Deferred Expenditure to the extent not written off*

*NAV = Networth / No. of equity shares outstanding at the end of the year*

## Intergroup transactions

The Company has no transactions with IEDCL for sales or purchases exceeding in value in aggregate of 10% of total sales or purchases of the Company.

## 3) IL&FS Finvest Limited (IFL)

IFL was incorporated on September 29, 1995 as IL&FS Asset Management Company Limited (IL&FS AMC). IL&FS AMC was acting as an Investment Manager for IL&FS Mutual Fund. Pursuant to sale of the Mutual Fund Schemes to UTI Asset Management Company Limited, the Company had altered its Object Clause to include fund based activities like Leasing, Corporate Finance, Investment Banking etc. The name of the Company was changed to IL&FS Finvest Limited and a fresh certificate of incorporation consequent to change of name was received on February 28, 2005. IFL has been mandated to undertake operations in the area of financial services and distribution of financial products. IL&FS along with its nominees holds entire equity share capital of IFL.

## Shareholding Pattern

IFL is a wholly owned subsidiary of IL&FS with IL&FS holding 100% through itself and through its nominees.

## Board of Directors

As on December 31, 2004 the board of directors of IFL comprised of:

Name	Designation
Mr. Vibhav Kapoor	Chairman
Mr. Manu Kochhar	Director
Mr. Shahzaad Dalal	Director

## IL&FS INVESTSMART LIMITED

### Financial Performance

The brief financial details of IFL for the last three years are as under:

(Rs. in Lacs)

Particulars	For the Year/ Period ended/ As at		
	March 31, 2002	March 31, 2003	September 30, 2004 (18 months)
Total Income	446.04	609.93	6008.30
Profit After Tax (PAT)	(479.91)	(604.73)	2306.80
<b>Shareholders Funds</b>			
Equity Share Capital	1000.00	1000.00	1000.00
Preference Share Capital	750.00	1500.00	1500.00
Reserves (excluding revaluation reserve)	(284.25)	(791.17)	1515.63
Net Worth	715.75	208.83	2515.63
Basic and Diluted Earning Per Share (EPS) (Rs.)	(48.73)	(7.27)	20.98
Net Asset Value (NAV) per share (Rs.)	5.61	2.08	25.16
Dividend (Equity)	NIL	NIL	NIL

*Networth = Paid up Equity Capital + Reserves (excluding revaluation reserves)-Accumulated Losses - Deferred Expenditure to the extent not written off*

*NAV = Networth/ No. of equity shares outstanding at the end of the year*

*Preference Shares are cumulative and redeemable. Preference dividend of Rs. 338.44 lakhs is in arrears as on September 30, 2004*

### Changes in Accounting Policy

In 2002-03, pursuant to decision of the management to implement Accounting Standard – 26 “Intangible Assets” issued by ICAI, payments made in earlier year in respect of Business Development and Brand Promotion expenses amortised over 4 years and 36 months respectively have now been adjusted against the debit balance in Profit and Loss Account as on April 1, 2002.

Had there been no change in method of accounting, loss for the year (before deferred tax credit) would have been lower by Rs.9,062,825, deferred tax credit for the year and deferred tax asset as at March 31, 2003 would have been lower by Rs. 8,796,387 and Debit balance in Profit and Loss Account as at March 31, 2003 would have been lower by Rs.15,723,159.

There has been no change in accounting policy in 2001-02 and 18 months accounts ended September 30, 2004.

### Intergroup transactions

IL&FS Investsmart Limited has no transactions with IFL for sales or purchases exceeding in value in aggregate of 10% of total sales or purchases of IIL.

### 4) IL&FS Trust Company Limited (ITCL)

ITCL was incorporated on December 19, 1995 and obtained Certificate for Commencement of Business on March 12, 1996. It has also altered its object clause by obtaining Certificate of Registration for alteration of objects on July 22, 2003. IL&FS holds 70.00% of the equity share capital of ITCL. ITCL provides a range of fiduciary services including inter alia trusteeship services for debentures, bonds, securitized paper, private equity, venture capital funds, etc.

### Shareholding Pattern

The shareholding pattern of ITCL is as follows:

Sr. No	Name of the Shareholders	% of holding
1.	IL&FS Ltd.	70.00
2.	IL&FS Investment Managers Ltd.	25.00
3.	Others	5.00
	<b>Total</b>	<b>100.00</b>

### Investor Grievances and Redressal System

The Investor Complaints in respect of Debenture and Bond Trusteeship are first resolved at the level of the R&T Agent. Regular follow up is being done for verifying the status of the complaints with the R&T Agent. The normal time taken to redress various types of complaints is between 10 – 20 days.

As a Debenture Trustee, for a Public Issue of Sardar Sarovar Ltd., the details of investor complaints are as under :

Received	:	2940
Resolved	:	2895
Pending	:	45

### Board of Directors

The board of directors of ITCL comprised of:

Sr. No.	Name of Director	Designation
1.	Dr. Arcot Ramchandran	Independent Director
2.	Mr. Moosa Raza	Independent Director
3.	Mr. J L Bajaj	Independent Director
4.	Mr. D K Contractor	Independent Director
5.	Dr. Jairam Ramesh	Independent Director
6.	Mr. Arun K Saha	Executive Director, IL&FS
7.	Mr. Sachin Gupta	General Counsel – IL&FS

### Financial Performance

The brief financial detail of ITCL for the last three years are as under:

(Rs. in Lacs)			
Year ended / As on 31 <sup>st</sup> March	2001-02	2002-03	2003-04
Total Income	122.28	246.08	407.61
Profit After Tax (PAT)	28.80	34.13	78.20
<b>Shareholders Funds</b>			
- Equity Share Capital	5.70	5.70	5.70
Reserves & Surplus	38.80	50.06	102.54
Net Worth *	38.86	55.31	104.07
Earnings per Share (Rs.)**	718.00	598.77	1371.93
Net Assets Value per share (Rs.)	681.75	970.35	1825.79
Dividend (Equity) (%)	200	300	400

Adjusted PAT = PAT – Preference Dividend

\* Net Worth = Paid up Equity Capital + Free Reserves (excluding Reservation Reserves) –

Accumulated losses – Deferred Expenditure (to the extent not written off)

\*\* EPS = Adjusted PAT / No. of equity shares outstanding at the end of the year

### Intergroup transaction

For the year ended March 31, 2004, ITCL has paid rent of Rs. 22,17,600 and dividend of Rs. 5,98,500 to IIL and recovered reimbursement of Rs. 10,03,082 for deputation from IIL.

### 5) MP Toll Roads Ltd (MPTRL)

MP Toll Roads Ltd was incorporated on January 22, 1996 as “MP Tolls Limited” and obtained Certificate for Commencement of Business on April 15, 1996. On March 21, 1997, pursuant to fresh certificate of incorporation consequent to change of name, MPTRL changed its name to MP Toll Roads Limited. IL&FS holds 80% of the equity share capital of MPTRL.

MPTRL has been mandated to undertake promote, finance, develop and upgrade various toll roads in the state of Madhya Pradesh. MPTRL's main activity is the carrying on of infrastructure development and has been formed as a Special Purpose Vehicle (SPV) used for domiciling the Rau-Pithampur Toll Road project jointly with Madhya Pradesh State Industrial Development Corporation Limited (MPSIDC).

## IL&FS INVESTSMART LIMITED

### Shareholding Pattern

Shareholding pattern of MPTRL as on December 31, 2004

Sr. No	Name of the Shareholders	No. of shares	% of holding
1.	IL&FS Ltd.	27,99,993	80.00
2.	Madhya Pradesh State Industrial Development Corporation Limited	7,00,000	20.00
3.	Individual (7 Nos.)	7	0.00
	<b>Total</b>	<b>35,00,000</b>	<b>100.00</b>

### Board of Directors

As on January 31, 2004, MP Toll Roads Ltd. is managed by following Board of Directors.

Sr. No.	Name of Director	Designation
1.	Mr. S R Mohanty	Director
2.	Mr. S C Dave	Director
3.	Mr. Gautam Kothari	Director
4.	Mr. Ashok Totlani	Director
5.	Mr. K Ramchand	Director
6.	Mr. Avinash Bagul	Director

### Financial Performance

The brief financials of MP Toll Roads Ltd for the last three years are as under:

(Rs.in Lacs)

Year ended / As on 31 <sup>st</sup> March	2001-02	2002-03	2003-04
Total Income	0.85	Nil	Nil
Profit After Tax (PAT)	(219.29)	(194.97)	(188.84)
<b>Shareholders Funds</b>			
- Equity Share Capital	350.00	350.00	350.00
Reserves & Surplus	(774.21)	(969.18)	(1158.02)
Net Worth *	(429.36)	(619.38)	(808.15)
Earnings per Share (Rs.)**	(6.27)	(5.57)	(5.40)
Net Assets Value per share (Rs.)	(12.26)	(17.70)	(23.09)
Dividend (Equity)	Nil	Nil	Nil

Adjusted PAT = PAT – Preference Dividend

\* Net Worth = Paid up Equity Capital + Free Reserves (excluding Reservation Reserves) –

Accumulated losses – Deferred Expenditure (to the extent not written off)

\*\* EPS = Adjusted PAT / No. of equity shares outstanding at the end of the year

MPTRL has incurred loss in all 3 years from 2001-02 onwards, and entire networth of MPTRL is eroded.

The Board of Madhya Pradesh State Industrial Development Corporation Limited (MPSIDC) had taken decision that Rau-Pithampur road project (the Project) which has been domiciled in the MPTRL should be taken back and handed over to Madhya Pradesh Audyogic Kendra Viaks Nigam (Indore) Limited (MPAKVN) for maintenance/upgrading. MPAKVN has vide letter dated March 13, 2001 has instructed SBI, Pithampur to stop transfer of amounts relating to toll collection to IL&FS. Accordingly, no toll revenue and related expenses have been incurred and accounted by MPTRL since March 13, 2001. As per the agreement signed for the Project, MPSIDC is contractually bound to pay return of 15% per annum on the Project investments. MPSIDC and IL&FS have appointed arbitrators to arbitrate the claim of both parties. As the matter is under arbitration between the MPTRL, IL&FS, MPSIDC and MPAKVN, the financial statements are prepared under going concern basis.

### Intergroup transaction

IL has no transaction with MP Toll Roads Ltd. where the value of such sales or purchases exceed 10% of the total sales and purchases of IL&FS Investsmart.

## 6) Tamil Nadu Water Investment Company Limited (TNWICL)

TNWICL was incorporated on January 27, 2000 as limited company. TNWICL was jointly promoted by IL&FS and the Government of Tamil Nadu to route the promoter's contribution of New Triupur Area Development Corporation through a single entity. TNWICL is registered with RBI as an NBFC.

### Shareholding Pattern

Shareholding pattern of TNWICL comprised of:

Sr. No	Name of the Shareholders	No. of shares	% of holding
1.	IL&FS	3,50,00,000	53.84%
2.	Government of Tamil Nadu	3,00,00,000	46.16%
	<b>Total</b>	<b>6,50,00,000</b>	<b>100.00%</b>

### Board of Directors

The Board of Directors of TNWICL comprised:

Name	Designation
Shri S. Venkitaramanan, IAS	Chairman
Shri Sameer Vyas, IAS	Director
Shri Hari Sankaran	Director
Smt. C.K.Gariyali, IAS	Director
Shri L. Krishnan, IAS	Director

### Financial Performance

The brief financial details of TNWICL for the last three years are as under:

(Rs. in Lacs)

Particulars	For the Year/ Period ended/ As at March 31		
	2002	2003	2004
Total Income	-	3.49	73.39
Profit After Tax (PAT)	-	(258.34)	(589.17)
<b>Shareholders Funds</b>			
Equity Share Capital	0.00	6500.00	6500.00
Advance Towards Share Capital	1030.00	-	-
Reserves (excluding revaluation reserve)	-	1667.00	3334.00
Net Worth	NA	7908.66	8986.49
Earning Per Share (EPS) (Rs.)	NA	(0.40)	(0.91)
Net Asset Value (NAV) per share (Rs.)	NA	12.17	13.83
Dividend (Equity)	-	-	-

*Networth = Paid up Equity Capital + Reserves (excluding revaluation reserves)-Accumulated Losses - Deferred Expenditure to the extent not written off*

*EPS = (PAT -Preference Dividend if any)/ No. of equity shares outstanding at the end of the year*

*NAV = Networth/ No. of equity shares outstanding at the end of the year*

### Intergroup transactions

IIL has no transactions with TNWICL for sales or purchases exceeding in value in aggregate of 10% of total sales or purchases of IIL.

## 7) Consolidated Toll Network India Limited (CTNL)

CTNL was incorporated on November 29, 2000 as Consolidated Toll Network India Private Limited. Subsequently, CTNL obtained fresh certificate of incorporation consequent to change of name to Consolidated Toll Network India Limited on July 22, 2002. On September 24, 2004, the name was changed to Consolidated Transportation Networks Limited. IL&FS along with its other subsidiaries and group companies holds 74.34% in CTNL. CTNL is mandated to undertake promote, finance and develop various infrastructure projects.

## IL&FS INVESTSMART LIMITED

### Shareholding Pattern

Shareholding pattern of CTNL as on December 31, 2004 is as follows

Sr. No	Name of the Shareholders	No. of shares	% of holding
1.	ORIX Auto & Business Solutions Ltd.	8,500,000	25.66
2.	IL&FS	16,389,000	49.47
3.	IL&FS Trust Co. Ltd A/c IL&FS Infrastructure Equity Fund	8,238,992	24.87
4.	Individuals	8	0.00
	<b>Total</b>	<b>33,128,000</b>	<b>100.00</b>

### Board of Directors

As on December 31, 2004 the Board of Directors of CTNL comprised :

Name	Designation
Mr. Gopi Arora	Chairman
Mr. Ravi Parthasarthy	Director
Mr. Hari Sankaran	Director
Mr. Arun K Saha	Director
Mr. R C Sinha	Director
Dr. Jairam Ramesh	Director
Mr. H P Jamdar	Director
Mr. Pradeep Puri	Director
Mr. Rohit Modi	Director
Mr. Shahzaad Dalal	Director
Mr. Vibhav Kapoor	Director

### Financial Performance

The brief financial details of CTNL for the last three years are as under:

(Rs. in Lacs)

Particulars	For the Year/ Period ended/ As at March 31		
	2002	2003	2004
Total Income	367.23	601.94	847.89
Profit After Tax (PAT)	(4.68)	11.17	56.46
<b>Shareholders Funds</b>			
Equity Share Capital	750.00	1737.80	3312.80
Share Application Money	701.50	1256.11	869.51
Reserves (excluding revaluation reserve)	(6.67)	4.50	60.96
Net Worth	729.61	1742.30	4237.05
Earning Per Share (EPS) (Rs.)	(0.02)	0.06	0.17
Net Asset Value (NAV) per share (Rs.)	2.92	17.20	12.79
Dividend (Equity)	NIL	NIL	NIL

*Networth = Paid up Equity Capital + Reserves (excluding revaluation reserves)-Accumulated Losses - Deferred Expenditure to the extent not written off*

*EPS = PAT/ No. of equity shares outstanding at the end of the year*

*NAV = Networth/ No. of equity shares outstanding at the end of the year*

### Intergroup transactions

IIL has no transactions with CTNL for sales or purchases exceeding in value in aggregate of 10% of total sales or purchases of IIL.

## 8) IL&FS Education and Technology Services Limited (IETS)

IL&FS Education and Technology Services Limited was incorporated on December 18, 1997 as a Private Limited Company i.e. Schoolnet India Private Limited. On August 03, 1998 the name was changed to Schoolnet India Limited. IETS has been named as "IL&FS Education and Technology Services Limited" with effect from May 29, 2003. IL&FS along with IL&FS Trust Company Limited holds 71.73% in IETS.

IETS is building the framework for technology enabled learning in India, which involves formulating a number of learning programmes to expand reach of education, enhance the learning process through usage of multimedia technologies. Areas include the development of technology-enabled learning and teaching solutions, content creation, technology and training integration.

### Shareholding Pattern

Shareholding pattern of IETS as on March 18, 2005 is as follows

Sr. No	Name of the Shareholders	No. of shares	% of holding
1.	IL&FS	9,362,748	27.03
2.	IL&FS Trust Company Limited (Trustee: IL&FS Infrastructure Equity Fund)	15,480,945	44.70
3.	ORIX Corporation, Japan	5,460,000	15.76
4.	IETS Employees Welfare Trust	6,26,200	1.81
5.	Housing Development Finance Corporation Limited	2,400,000	6.93
6.	Sara Fund Trustee Company Limited	1,176,470	3.40
	Others	130,107	0.37
	<b>Total</b>	<b>34636470</b>	<b>100.00</b>

### Board of Directors

As on February 28, 2005 the Board of Directors of IETS comprised of:

Name	Designation
Mr. Ravi Parthasarathy	Chairman
Mr. Arvind I. Malhotra	Director
Mr. Yoshitaka Matsuno	Director
Mr. Arun K. Saha	Director
Mr. Shahzaad Dalal	Director
Mr. Guilherme Vaz	Director
Mr. Chosei Azuma	Alternate to Mr. Matsuno
Mr. Hari Sankaran	Managing Director
Mr. Alok Bhargava	Executive Director

### Financial Performance

The brief financials of IETS for the last three years are as under:

(Rs. in Lacs)

Particulars	For the Year/ Period ended/ As at March 31		
	2002	2003	2004
Sales and Services	1563.50	3858.86	1511.78
Total Income	1717.79	4038.95	1599.48
Profit After Tax (PAT)	(1956.07)	(1325.26)	(64.57)
<b>Shareholders Funds</b>			
Equity Share Capital	3391.88	3437.76	3463.64
Reserves (excluding revaluation reserve)	(171.66)	(1152.80)	(1023.26)
Net Worth	3009.86	2075.36	2330.79
Earning Per Share (EPS) (Rs.)	(5.77)	(3.86)	(0.19)
Net Asset Value (NAV) per share (Rs.)	8.87	6.04	6.73
Dividend (Equity)	NIL	NIL	Nil

## IL&FS INVESTSMART LIMITED

*Networth = Paid up Equity Capital + Reserves (excluding revaluation reserves)-Accumulated Losses - Deferred Expenditure to the extent not written off*

*NAV = Networth/ No. of equity shares outstanding at the end of the year*

*Even though IETS has incurred loss in all 3 years from 2001-02 onwards, but since the IETS has positive Net worth, it does not fall within the meaning of Sick Industrial Companies (Special Provisions) Act, 1995.*

### Intergroup transactions

IL has purchased 1,999,920 shares of SAIFA Training Academy Limited valued at Rs. 125,000,000 during financial year 2003-04.

### 9) Tamil Nadu Road Development Company Ltd. (TNRDC)

TNRDC was incorporated in May 28, 1998. TNRDC is a 50:50 initiative of Tamil Nadu Industrial Development Corporation Limited (TIDCO) and IL&FS. The main activities of TNRDC involves engaging in Infrastructure, Road Development, Operations, Maintenance and Project Management / Advisory Services.

The Company has entered into Concession Agreement for 31 years with Government of Tamil Nadu for handling the improvement and maintenance of East Coast Road (ECR) under the "Rehabilitate, Improve, Maintain, Operate and Transfer" (RIMOT) basis. However, Government of Tamil Nadu can extend concession period for 2 years at a time subject to maximum of 5 years if total project cost and the returns are not recovered. Agreement has conferred the right to recover 20% rate of return to be determined in accordance with Concession Agreement. The first project of TNRDC commenced commercial operations and toll collections started on March 24, 2002.

### Shareholding Pattern

Shareholding pattern of TNRDC is as follows:

Sr. No	Name of the Shareholders	NO. OF SHARES	% of holding
1.	IL&FS	50,00,000	49.99
2.	Tamil Nadu Industrial Development Corpn Ltd. (TIDCO)	50,00,000*	49.99
3.	Others	120	0.0012
	<b>Total</b>	<b>10,000,120</b>	<b>100.00</b>

\* Represents amount received towards Advance for Subscription for Zero Coupon Compulsory Convertible Preference Shares.

### Board of Directors

Board of Directors of TNRDC comprised :

Sr. No.	Name of Director	Designation
1.	Mr. Ravi Parthasarthy	Chairman
2.	Mr. N Narayanan, IAS	Director
3.	Mr. Pradeep Yadav, IAS	Director
4.	Mr. P Rama Mohan Rao, IAS	Director
5.	Mr. Hari Sankaran	Director
6.	Mr. K Ramchand	Director
7.	Mr. L Krishnan, IAS	Director
8.	Mr. N R Krishnan, IAS (Retd.)	Director
9.	Mr. V Janakiraman	Director



## Financial Performance

The brief financial details of TNRDC for the last three years are as under:

	(Rs. in Lacs)		
Year Ended / As on 31st March,	2001-02	2002-03	2003-04
Total Income	15.46	810.94	1687.30
Profit After Tax (PAT)	(35.90)	(342.52)	111.95
<b>Shareholders Funds</b>			
- Equity Share Capital	1000.01	1000.01	1000.01
- Advance towards Share Capital	NIL	***500.00	NIL
Reserves & Surplus	(35.90)	(362.13)	250.18
Net Worth *	958.66	596.87	721.14
Earnings per Share (Rs.)**	(0.359)	(3.43)	1.12
Net Assets Value per share (Rs.)	9.58	5.97	7.21
Dividend (Equity)	NIL	NIL	NIL

Adjusted PAT = PAT – Preference Dividend

\* Net Worth = Paid up Equity Capital + Free Reserves (excluding Reservation Reserves) – Accumulated losses – Deferred Expenditure (to the extent not written off)

\*\* EPS = Adjusted PAT / No. of equity shares outstanding at the end of the year

\*\*\* The Company, has during the year, received a sum of Rs. 50,000,000 from Tamil Nadu Industrial Development Corporation Limited (TIDCO), one of the Promoters, towards advance for subscription of Zero Coupon Compulsorily Convertible Preference shares. The allotment of the foregoing shares would be completed during FY : 2003-04 as part of the restructuring package approved by the Board of Directors.

## Changes in Accounting Policy

In 2002-03, Company has reclassified and clubbed “Building and Structures and Electrical Installations” into East Coast Road as against disclosed separately in previous years. As a result of this change, depreciation for 2002-03 is lower by Rs.21.95 lakhs and consequently loss for the year is lower to that extent.

No change in its accounting policies were made by the Company during accounting period 2001-02 and 2003-04.

## Intergroup Transaction

IIL has no transactions with TNRDC for sales or purchases exceeding in value in aggregate of 10% of total sales or purchases of IIL.

## 10) ORIX Auto and Business Solutions Limited (OABSL)

ORIX Auto and Business Solutions Limited was incorporated on March 2, 1995 as Orix Auto Finance (India) Limited (OAFI). On October 31, 2002, pursuant to fresh certificate of incorporation consequent to change of name, OAFI changed its name to ORIX Auto and Business Solutions Limited (OABSL). OABSL has also altered its object of issue by obtaining fresh certificate of registration dated September 30, 2002. It has been promoted by IL&FS and ORIX. OABSL is engaged in financing inter-alia by the way of Leasing, Hire Purchase, Car Rentals, other related business in the automobile service industry, and providing back office support to Corporates. Additionally, it has also started providing transport solutions to corporates.

OABSL has been active in major metros where it provides transport solutions to corporates. With the growth in the transport solutions sector, the Company happens to be the largest player in the organized segment. OABSL has made investments totaling 8.5 crores in Consolidated Transportation Networks Limited (erstwhile Consolidated Toll Network Pvt Ltd) (CTNL), an infrastructure company engaged in developing and building pan-India surface transport business.

## Shareholding Pattern

Shareholding pattern of ORIX Auto and Business Solutions Limited as on March 08, 2005 is as follows

Sr. No	Name of the Shareholders	NO. OF SHARES	% of holding
1.	IL&FS	9,499,993	47.50
2	ORIX Corporation, Japan	9,500,000	47.50
3	ORIX Employees' Welfare Trust and Others	1,000,007	5.00
	<b>Total</b>	<b>20,000,000</b>	<b>100</b>

## IL&FS INVESTSMART LIMITED

### Board of Directors

As on 31<sup>st</sup> March, 2004, ORIX Auto and Business Solutions Limited is managed by following Board of Directors.

Sr. No.	Name of Director	Designation
1.	Shri. Yoshitaka Matsuno	Chairman
2.	Mr. Ravi Parthasarathy	Director
3.	Mr. Junichi Hayashi	Director
4.	Mr. Vibhav Kapoor	Director
5.	Mr. Arun K Saha	Director
6.	Mr. Chosei Azuma	Director
7.	Mr. Haruhiko Umetani	Director
8.	Mr. Manu Kochhar	Director

### Financial Performance

The brief financials of ORIX Auto and Business Solutions Limited for the last three years are as under:

(Rs. in Lacs)

Year Ended / As on 31st March,	2001-02	2002-03	2003-04
Total Income	4313.99	5455.91	6167.76
Profit After Tax (PAT)	63.16	74.60	150.83
<b>Shareholders Funds</b>			
- Equity Share Capital	1000.00	2000.00	2000.00
- Preference Share Capital	1000.00	NIL	NIL
Reserves & Surplus	614.60	681.75	832.59
Net Worth *	1583.29	2653.48	2815.41
Earnings per Share (Rs.)			
Basic	0.36	0.37	0.75
Diluted	0.315	-	-
Net Assets Value per share (Rs.)	15.83	13.26	14.07
Dividend (Equity)	NIL	NIL	NIL

Adjusted PAT = PAT – Preference Dividend

\* Net Worth = Paid up Equity Capital + Free Reserves (excluding Reservation Reserves) –

Accumulated losses – Deferred Expenditure (to the extent not written off)

\*\* EPS = Adjusted PAT / No. of equity shares outstanding at the end of the year

### Changes in Accounting Policy

#### 2003-2004

OABSL has changed disclosed following in Notes to the Accounts.

#### Income:

##### Lease Income

In respect of maintenance linked leases, composite rentals, inclusive of recovery towards maintenance costs to be borne by the OABCL, are recognised as income. The maintenance cost are recognised and accounted for as and when incurred. For assets capitalised from April 01, 2003, lease rentals are segregated between finance and maintenance. The finance component is recognised as income as per applicable accounting standards and maintenance portion is further broken between insurance and maintenance. The insurance component is recognised on equated basis and the maintenance portion is recognised as income on the sum of digit method. The maintenance costs are recognised and accounted for as and when incurred. As a result, the net profit for the year is lower by Rs. 3,451,322.

#### 2002-2003

OABSL has changed disclosed following in Notes to the Accounts.

## **Income:**

### **Hire Purchase Income**

Incentive received on vehicles provided on hire purchase was recognized over contract period on sum of digit method till March 31, 2002. From April 1, 2002 the incentive received is recognized as income in the year of receipt. As a result, the net profit in the year is higher by Rs.33,124. This change has been made as there has been significant drop in hire purchase portfolio.

### **Depreciation and Lease Equalisation charge :**

#### **Own Assets :**

Depreciation on assets bought back by OABSL has been provided based on remaining useful life of asset. The useful life of asset has been calculated based on the tenor available as per Schedule XIV of the Companies Act, 1956 and the differential tenor between sale date and the original purchase date. As a result the depreciation for year is higher by Rs. 4,071,967.

#### **2001-2002**

OABSL has changed disclosed following in Notes to the Accounts.

## **Income:**

### **Profit on sale of maintenance linked Lease Assets :**

OABSL has accrued 15% of the profit on sale of leased assets during the year and the balance is accrued over the lease tenure as against the earlier policy of accruing 25% of the profit and amortising the balance amount. Had OABSL not changed the accounting policy, the profit before tax would have been higher by Rs.2,665,436.

### **Depreciation and Lease Equalisation charge :**

#### **Own Assets :**

During the year, the OABSL has depreciated the assets @25% p.a. on straight line method from the date of purchase of assets such that all existing and new assets are written off over a period of 4 years against the earlier policy of depreciating at the rates prescribed under Schedule XIV of the Companies Act, 1956. Had OABSL not changed the accounting policy, the profit before tax would have been higher by Rs.809,197.

## **Intergroup transaction**

Following are the transactions between OABSL and IIL during the year 2003-04:

- a) Lease rentals paid by IIL to OABSL towards lease of vehicles Rs. 7,22,563.
- b) Total amount towards Rent and other expenses paid to IIL is Rs. 15,09,938 (sharing of office premises of IIL by OABSL at various locations)
- c) Payment of deputation charges amounting to Rs. 56,21,160 to IIL in respect of deputation of one of its employees Mr. S. Rengarajan at OABSL as its Chief Operating Officer.

### **11) Vadodara Halol Toll Road Company Limited (VHTRL)**

VHTRL was incorporated on April 30, 1997 as "Gujarat Toll Road Company Limited" and obtained Certificate for Commencement of Business on December 24, 1997. Pursuant to change of name, fresh certificate of incorporation was obtained on October 06, 1999.

VHTRL is a Special Purpose Vehicle promoted by Government of Gujarat and IL&FS to design, finance, develop, construct, operate and maintain a 31.7 km stretch of the Vadodara Halol road. The project involved strengthening and improving of 31.7 kms (SH-87) linking Vadodara and Halol, construction of two additional lanes and service roads on either side of the main carriageway. VHTRL commenced commercial operations from October 24, 2000.

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### Shareholding Pattern

As on March 31, 2005, the shareholding pattern of VHTRL was as follows:

Sr. No	Name of the Shareholders	NO. OF SHARES	% of holding
<b>Equity :</b>			
1.	Government of Gujarat	50,00,000	14.93%
2.	IL&FS	2,85,00,000	85.07%
3.	Others	7	0.00%
	<b>Total</b>	<b>3,35,00,007</b>	<b>100.00%</b>

### Cumulative Convertible Preference Shares:

4.	Government of Gujarat	1,00,00,000	100.00%
	<b>Total</b>	<b>1,00,00,000</b>	<b>100.00%</b>

The above table excludes advance towards share capital

### Board of Directors

As on March 31, 2005, the board of directors of VHTRL comprised of:.

Sr. No.	Name of Director	Designation
1.	Mr. S.S.Rathore	Chairman
2.	Mr. R.B.Pandit	Director
3.	Mr. P.P.Vakharia	Director
4.	Mr. P.K.Pujari	Director
5.	Mr. Ashok Totlani	Director
6.	Mr. Arun K.Saha	Director
7.	Mr. Hari Sankaran	Director
8.	Mr. K.Ramchand	Director
9.	Mrs. Vasanthi Mohanram	Director
10.	Mr. Moosa Raza	Director

### Financial Performance

The brief financial detail of VHTRL for the last three years are as under:

(Rs. in Lacs)

Year ended / As on 31 <sup>st</sup> March	2001-02	2002-03	2003-04
Total Income	914.79	814.85	1055.19
Profit After Tax (PAT)	(1849.81)	(1822.21)	(1885.30)
<b>Shareholders Funds</b>			
- Equity Share Capital	3350.00	3350.00	3350.00
- Cumulative Convertible Preference Share Capital	1000.00	1000.00	1000.00
- Advance towards Equity Share Capital	1150.00	1150.00	1150.00
Reserves & Surplus	(2433.85)	(4256.06)	(6141.36)
Net Worth*	915.90	(906.23)	(2791.44)
Earnings per Share (Rs.)			
- Basic	(5.55)	(5.44)	(5.63)
- Diluted	(4.25)	(4.18)	(4.33)
Net Assets Value per share (Rs.)	2.73	(2.70)	(8.33)
Dividend (Equity)	NIL	NIL	NIL

Adjusted PAT = PAT – Preference Dividend

\* Net Worth = Paid up Equity Capital + Free Reserves (excluding Reservation Reserves) – Accumulated losses – Deferred Expenditure (to the extent not written off)

\*\* EPS = Adjusted PAT / No. of equity shares outstanding at the end of the year

Vadodara Halol Toll Road Company Limited has incurred loss in all 3 years from 2001-02 onwards and its entire networth has been eroded.

## Changes in Accounting Policy

### 2003-04

There has been no change in accounting policy of VHTRL.

### 2002-03

"In 2002-03, there has been change in Accounting policy during the current year with respect to Provision for future Road Overlay and Renewal expenses. Company was providing for future Overlay and Renewal expenses on an estimated basis based on competitive bidding parameters used for selection of the operator. Since Operation and maintenance expenses incurred to maintain the standards of riding quality are charged off to revenue, no provision is considered necessary towards Road Overlay and Renewal expenses. Accordingly, the cumulative provision up to March 31, 2002 amounting to Rs. 19,422,760/- has been written back to the Profit and Loss Account and no provision is made in the current year. Had the Company followed earlier accounting policy for Road Overlay and Renewal expenses, the loss for the year would have been higher by Rs.17,257,042."

### 2001-02

The Company has changed the method of providing depreciation in respect of Vadodara Halol Road from the Sinking Fund Method to Straight Line Method in accordance with the Companies Act, 1956. Upto the previous year, Company has charged depreciation on the Vadodara Halol Toll Road on the Sinking Fund Method for which the Company had obtained the approval of the Department of Company Affairs, Government of India vide their letter No. 6/2/99-CL V dated 8<sup>th</sup> March, 1999. Accordingly, depreciation has been recalculated in accordance with the new method from the date of the asset coming into use.

As a result, cumulative short amount of depreciation of Rs.10,254,993 provided upto 31<sup>st</sup> March, 2001 has been charged to the Profit and Loss account. Had the Company followed earlier method of charging depreciation, the loss for the year would have been lower by Rs.34,763,924.

The Company has changed the basis of providing leave encashment from accrual basis to actuarial basis. As a result, loss for the year is higher by Rs.19,872.

### Intergroup transaction

IIL has no transactions with Vadodara Halol Toll Road Company Limited for sales or purchases exceeding in value in aggregate of 10% of total sales or purchases of IIL.

### 12) Gujarat Toll Road Investment Company Limited (GTRIL)

GTRIL was incorporated on June 02, 1999 and received certificate of commencement of business on August 04, 2002. GTRIL is promoted by Government of Gujarat (GoG) and IL&FS and incorporated with the object to carry on the business of an Investment Company. GTRIL obtained certificate from Reserve Bank of India as Non-Banking Finance Company vide Registration No. N.01.00423 dated August 05, 2002. The Company has made investment in Vadodara Halol Toll Road Company Limited and Ahmedabad Mehsana Toll Road Company Limited for two road projects developed in the State of Gujarat.

GTRIL has been promoted with the objective to buy, invest in, subscribe to, acquire and hold, sell and exchange and deal in shares, preference shares, stocks, debentures and other related securities.

### Shareholding Pattern

The shareholding pattern of GTRIL as on March 31, 2005 is as follows:

Sr. No	Name of the Shareholders	No. of Shares	% of holding
1.	IL&FS	2,00,00,000	66.67
2.	Government of Gujarat	1,00,00,000	33.33
3.	Others	7	0.00
	<b>Total</b>	<b>3,00,00,000</b>	<b>100</b>

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### Board of Directors

As on March 31, 2004, GTRIL is managed by following Board of Directors.

Sr. No.	Name of Director	Designation
1.	Mr. S.S.Rathore	Chairman
2.	Mr. P.K. Pujari, IAS	Director
3.	Mr. P.P.Vakharia	Director
4.	Mr. Arun K.Saha	Director
5.	Mr. Hari Sankaran	Director
6.	Mr. Ashok Totlani	Director
7.	Mr. K. Ramchand	Director
8.	Mr. Jayant Parimal - IAS	Director

### Financial Performance

The brief financials of GTRIL for the last three years are as under:

(Rs. in Lacs)			
Year ended / As on 31 <sup>st</sup> March	2001-02	2002-03	2003-04
Total Income	40.04	9.26	0.05
Profit After Tax (PAT)	16.34	(28.77)	(9.71)
<b>Shareholders Funds</b>			
- Equity Share Capital	400.00	3000.00	3000.00
- Advance towards Share Capital	800.00	10.00	153.00
Reserves & Surplus	13.76	(15.01)	(24.72)
Net Worth *	402.52	2984.99	2971.53
Earnings per Share (Rs.)	0.408	(0.096)	(0.032)
Net Assets Value per share (Rs.)	10.06	9.92	9.90
Dividend (Equity)	Nil	Nil	Nil

Adjusted PAT = PAT – Preference Dividend

\* Net Worth = Paid up Equity Capital + Free Reserves (excluding Reservation Reserves) – Accumulated losses – Deferred Expenditure (to the extent not written off)

\*\* EPS = Adjusted PAT / No. of equity shares outstanding at the end of the year

### Intergroup transaction

IIL has no transactions with GTRIL for sales or purchases exceeding in value in aggregate of 10% of total sales or purchases of IIL.

### 13) Noida Toll Bridge Co. Ltd. (NTBCL)

NTBCL, a special purpose company was promoted on April 8, 1996 by Infrastructure Leasing & Financial Services Ltd (IL&FS) for the purpose of development, construction, operation and maintenance of a bridge across the river Yamuna connecting Delhi and Noida on a Build-Own-Operate-Transfer (BOOT) basis. Delhi Noida Toll Bridge was opened for vehicle traffic on February 7, 2001, four months ahead of scheduled commissioning date. Delhi-Noida Toll Bridge provides connectivity between Maharani Bag at South Delhi and Sector 14 A at Noida. The major components of the Delhi Noida Toll Bridge comprises 552.5 Meters long, eight lane, short span box, continuous girder based bridge across the Yamuna river, approach ways to the bridge with cloverleaf interchange points at both ends to interface with the existing road network, three minor bridges over existing watercourses, 28 lane toll collection plaza at the Noida end and a flyover with interchanges at the Ashram crossing in South Delhi. Delhi Noida Toll Bridge was successfully commissioned on February 7, 2001 across the river Yamuna connecting Noida to South Delhi, sans the Ashram Flyover. Ashram Flyover was commissioned on October 30, 2001. A "Concession Agreement" was entered into between the Company, IL&FS and New Okhla Industrial Development Authority, Government of Uttar Pradesh, conferring the right to the Company to implement the project and recover the project cost (through the levy of fees / toll revenue) with a designated rate of return over the 30-year concession period commencing December 30, 1998 the date of Certificate of Commencement, or till such time the designated return is recovered, whichever is earlier. The Concession Agreement also provides that in the event the project cost with the designated return is not recovered at the end of 30 years, the concession period shall be extended by 2 years at a time until the project cost and return thereon is recovered.

### Shareholding Pattern

The shareholding pattern of NTBCL as on March 15, 2005 is as follows:

Sr. No	Names	No. of Shares	% of holding
1.	Promoter Group (IL&FS)	3,60,00,007	29.41
2.	Banks, Financial Institutions	3,18,950	00.26
3.	Insurance Companies	1,47,07,500	12.02
4.	Central / State Govt. / Non-government Institutions	7,100	0.01
5.	IFCI	49,50,364	4.04
6.	FII's	2,14,77,060	17.55
7.	Private corporate Bodies	8,45,068	0.70
8.	Indian Public	49,06,018	4.01
9.	NRIs / OCBs	45,000	0.03
10.	New Okhla Industrial Development Authority	1,00,00,000	8.17
11.	IL&FS Trust Company Limited	2,00,00,000	16.34
12.	Intertoll India Consultants Private Limited	91,42,940	7.47
	<b>Total</b>	<b>12,24,00,007</b>	<b>100.00</b>

### Board of Directors

As on March 15, 2005, Noida Toll Bridge Co. Ltd. is managed by following Board of Directors.

Sr. No.	Name of Director	Designation
1.	Shri. Gopi Arora	Director
2.	Mr. R.K.Bhargava	Director
3.	Mr. Ravi Mathur	Director
4.	Mr. Deo Datta	
5.	Mr. P K Sethi	Director
6.	Mr. Ravi Parthasarthy	Director
7.	Mr. Hari Sankaran	Director
8.	Mr. Arun Saha	
9.	Mr. K. Ramchand	Director
10.	Mr. Stephen Temple	Director
11.	Mr. Shahzaad Dalal	Director
12.	Mr. Santosh Senapati	Director
13.	Mr. Timothy Woodhead	Director

### Financial Performance

The brief financials of Noida Toll Bridge Co. Ltd. for the last three years are as under:

	(Rs. in Lacs)		
Year ended / As on 31 <sup>st</sup> March	2001-02	2002-03	2003-04
Total Income	1180.80	1873.46	2586.38
Profit After Tax (PAT)	(4562.43)	(2859.81)	(2110.65)
<b>Shareholders Funds</b>			
- Equity Share Capital	10162.00	12240.00	12240.00
Reserves & Surplus	(5055.95)	(7915.76)	3424.03
Net Worth *	4521.26	3891.15	12231.71
Earnings per Share (Rs.)			
- Basic	(4.49)	(2.59)	(1.72)

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(Rs. in Lacs)

Year ended / As on 31 <sup>st</sup> March	2001-02	2002-03	2003-04
- Diluted	(3.49)	(2.59)	(1.72)
Net Assets Value per share (Rs.)	4.45	3.18	9.99
Dividend (Equity)	NIL	NIL	NIL

Adjusted PAT = PAT – Preference Dividend

\* Net Worth = Paid up Equity Capital + Free Reserves (excluding Reservation Reserves) – Accumulated losses – Deferred Expenditure (to the extent not written off)

\*\* EPS = Adjusted PAT / No. of equity shares outstanding at the end of the year

Even though Noida Toll Bridge Co. Ltd. has incurred loss in all 3 years from 2001-02 onwards, but since the Company has positive Net worth, it does not fall within the meaning of Sick Industrial Companies (Special Provisions) Act, 1995.

NTBCL makes investment in Mutual Funds through IL&FS Investsmart Limited.

### Changes in Accounting Policy

#### 2001-02

During the year the Company has changed the method of providing depreciation in respect of Delhi-Noida Link Bridge from the Sinking Fund Method to Straight Line Method in accordance with the Companies Act, 1956. Upto the previous year, the Company had charged depreciation on the Delhi Noida Link Bridge using the Sinking Fund Method for which the Company had obtained the approval of the DCA vide their letter 6/18/98 – CL.V dated 11 August, 1998. Accordingly depreciation has been recalculated in accordance with the new method from the date of the asset coming into use.

As a result of this change, the cumulative short amount of depreciation of Rs. 6,483,325 provided upto 31 March, 2001 has been charged to the Profit & Loss account. Had the Company followed earlier method of charging depreciation, the loss for the year would have been lower by Rs. 44,277,372.

Apart from mentioned above, no other change in accounting policies are made during preceeding 3 years from date of filing the RHP.

#### Share Quotation :

Highest and lowest price in the last six months:

Month	High (Rs.)	Low (Rs.)
May 2004	9.25	6.00
June 2004	8.40	6.05
July 2004	8.31	6.30
August 2004	7.50	6.41
September 2004	9.81	7.20
October 2004	11.52	7.61
November 2004	15.00	9.12
December 2004	16.75	10.65
January 2005	17.75	12.60
February 2005	21.80	15.00
March 2005	21.05	15.50
April 2005	23.00	18.00
May 2005	32.30	17.55

1. Closing Price as on 22nd June, 2005 on NSE Rs. 24.30.

2. Market Capitalization on NSE based on closing price of 22nd june, 2005 is Rs. 2974.32 million.

Source: www.nseindia.com



NTBCL has not made any public issue or rights issue in preceding 3 years commencing from 2000-01.

#### Investor Grievances and Redressal System

- During the Financial Year 2003 - 2004, the Company received 61 investor Complaints (Non Receipt of Refund/ Interest Warrant/ Debenture/ Share Certificates). All complaints have been resolved.
- The Investor Grievances are being handled by the Company and the Registrars, Karvy Consultants Limited under the supervision of an Investor Grievance Committee of Directors, which has been constituted in accordance with the provisions of the Listing Agreement. The Committee looks into redressal of Debentureholders and Shareholders complaints and suggests measures to improve investor relations.

#### Changes in Capital Structure in past 6 months

There has been no change in the Capital Structure of the Company in the last 6 months. However, ESOP has been granted but vesting period is on.

#### Promise vis-à-vis Performance – Last one issue

NTBCL had gone for fully convertible debentures (FCD) and deep discount bonds (DDB) issue amounting to Rs.2078 and Rs 5000 lakhs respectively in 1999. The FCD had a face value of Rs 1000 each to be fully converted into 100 equity shares of Rs. 10/- each at par at the end of 36 months from deemed date of allotment, i.e November 20, 1999. The object of the issue was to develop, construct, operate, maintain bridge across Yamuna river connecting Delhi and Noida on a Build-Own-Operate-Transfer (BOOT) basis. However, the performance was not as per the Offer document.

#### Profitability projections given in the prospectus

The comparative figures for projected profit as per the public issue prospectus dated September 27, 1999 and the actual profit after tax for the year 2003-04 are as under :

Projected PAT Rs. 212 million

Actual PAT Rs. (211) million

The variation from the projections is mainly due to the actual traffic on the Bridge being lower than the projections.

(Rs. in lacs)

Year ending March 31	2000-01		2001-02		2002-03		2003-04	
	Promise	Performance	Promise	Performance	Promise	Performance	Promise	Performance
Total Income	Nil	129.76	4666	1180.79	6467	1873.45	7595	2586.38
PBT	Nil	(493.52)	(26.6)	(4562.42)	754	(2859.81)	2121	(2110.64)
PAT	Nil	(493.52)	(26.6)	(4562.42)	754	(2859.81)	2121	(2110.64)
Share Capital	Nil	10162	10169	10162	12240	12240	12240	12240
Reserves	Nil	(1230.02)	(26.6)	(5640.74)	49	(8348.85)	261	3424.02
Net Worth	Nil	8931.98	10142.40	4521.26	12289	3891.15	12501	122371.71
EPS (Rs.)	Nil	(0.49)	(0.26)	(4.49)	0.61	(2.59)	1.73	(1.72)
Book Value (Rs.)	Nil	8.79	9.74	4.45	10.04	3.18	10.21	9.99

#### Intergroup transaction

NTBCL has purchased and sold Mutual Fund units of IL&FS Liquid and Bond Fund of Rs. 6,84,73,149 and of Rs. 8,66,71,609 during the year end March 31, 2004.

#### 14) North Karnataka Expressway Limited (NKEL)

North Karnataka Expressway Limited was incorporated on October 15, 2001 as North Karnataka Expressway Private Limited (NKEPL). On September 25, 2002, pursuant to fresh certificate of incorporation consequent to change of name, NKEPL changed its name to North Karnataka Expressway Limited (NKEL). NKEL was formed to undertake the business of design, finance, develop, construct, operate and maintain a 77 km stretch of the National Highway connecting Belgaum-Maharashtra Border Road. The project also entails strengthening

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and widening of the said road.

### Shareholding Pattern

Shareholding pattern of NKEL as on December 31, 2004 is as follows

Sr. No	Names	No. of Equity Shares	% of Shares
1.	Punj Lloyd Limited	24,936,000	42.00
2.	Consolidated Toll Network India Ltd.	17,525,050	29.50
3.	IL&FS	16,930,000	28.50
4.	Others	50	0
	<b>Total</b>	<b>59,391,100</b>	<b>100.00</b>

### Board of Directors

As on December 31, 2004, the Board of Directors of NKEL comprised:

Name	Designation
Mr. Hari Sankaran	Chairman
Mr. Arun K Saha	Director
Mr. Uday Punj	Director
Mr. Luv Chhabra	Director
Mr. V K Kaushik	Director
Mr. Subhash C Sachdeva	Director
Mr. R C Bawa	Director
Mr. Pradeep Puri	Director
Mr. Rohit Modi	Director
Mr. K Ramchand	Managing Director

### Financial Performance

The brief financials of NKEL for the last two years are as under:

(Rs. in Lacs)

Particulars	For the Year/ Period ended/ As at December 31, 2002	For the Year/ Period ended/ As at December 31, 2003
Total Income	Nil	Nil
Profit After Tax (PAT)	Nil	Nil
Shareholders Funds		
Share Capital	4025.26	8327.33
Unallocated Pre Operative expenses	3218.07	6146.15
Net Worth	4023.46	8325.50
Earning Per Share (EPS) (Rs.)	Nil	Nil
Dividend (Equity)	Nil	Nil

Share capital includes advance towards Share Application money. NKEL has not yet commenced its commercial operations and is still in pre-operative stage.

Networth = Share Capital + Reserves (excluding revaluation reserves)-Accumulated Losses - Deferred Expenditure to the extent not written off  
Unallocated Pre Operative expenses have not been reduced while arriving at the Net Worth.

Note 1 : NKEL was incorporated on October 15, 2001 and the year end is December 31. 1<sup>st</sup> Audited accounts are drawn from October 15, 2001 to December 31, 2002.

Note 2 : The financials for 2003-04 has been extended upto March 31, 2005 and hence no information is provided in respect thereof.

#### Intergroup transaction

IL has no transactions with NKEL for sales or purchases exceeding in value in aggregate of 10% of total sales or purchases of IL.

#### 15) Colliers International (India) Property Services Pvt. Ltd (CIPSPL)

CIPSPL was incorporated on May 01, 1995 as "Colliers Jardine India Property Services Pvt. Ltd.". Subsequently, with effect from June 27, 2002, the name was changed to "Colliers International (India) Property Services Pvt. Ltd. (CIPSPL)". CIPSPL is a Joint venture with Colliers International Mauritius Limited, HDFC and IL&FS. CIPSPL is the first to enter real estate business in India in 1995. CIPSPL provides range of real estate services in licensing, leasing, valuation, property management, research and consultancy.

#### Shareholding Pattern

Shareholding pattern of CIPSPL is as follows

Sr. No	Name of the Shareholders	No. of Equity Shares	% of holding
1.	Colliers International Mauritius Limited	700000	70%
2.	HDFC	150000	15%
3.	IL&FS	150000	15%
	<b>Total</b>	<b>1000000</b>	<b>100.00%</b>

#### Board of Directors

The Board of Directors of CIPSPL

Sr. No.	Name of Director
1.	Mr. James Horne
2.	Mr. Douglas Morrison
3.	Mr. Alan Liu
4.	Mr. V.S.Rangan
5.	Mr. Manu Kochar

#### Financial Performance

The brief financials of CIPSPL for the last three years are as under:

(Rs. in Lacs)

Particulars	For the Year/ Period ended/ As at March 31		
	2002	2003	2004
Total Income	630.38	608.27	672.20
Profit After Tax (PAT)	(38.83)	9.71	3.19
<b>Shareholders Funds</b>			
Equity Share Capital	100.00	100.00	100.00
Reserves (excluding revaluation reserve)	(138.23)	(90.06)	(86.87)
Net Worth	(38.23)	9.94	13.13
Earning Per Share (EPS) (Rs.)	(3.88)	0.97	0.32
Net Asset Value (NAV) per share (Rs.)	(3.82)	0.99	1.31
Dividend (Equity)	-	-	-

Networth = Paid up Equity Capital + Reserves (excluding revaluation reserves)-Accumulated Losses - Deferred Expenditure to the extent not written off

EPS = (PAT -Preference Dividend if any)/ No. of equity shares outstanding at the end of the year

NAV = Networth/ No. of equity shares outstanding at the end of the year

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### Intergroup transactions

IIL has no transactions with CIPSPL for sales or purchases exceeding in value in aggregate of 10% of total sales or purchases of IIL.

### 16) Rewas Port Development Co. Ltd. (RPDCL)

RPDCL was incorporated on September 08, 2004 and obtained certificate of commencement on September 16, 2004. RPDCL is in the business of development and implementation of Rewas-Avare port project.

### Shareholding Pattern

Shareholding pattern of RPDCL as on March 31, 2005 is as follows

Sr. No	Name of the Shareholders	No. of Equity Shares	% of holding
1.	IL&FS Trust Company Limited A/c India Project Development Fund	1,00,00,000	33.28%
2.	IL&FS	50,00,000	16.64%
3.	Amma Lines Limited	1,50,00,000	49.91%
4.	Others	50,500	0.17%
	<b>Total</b>	<b>1000000</b>	<b>100.00%</b>

### Board of Directors

As on March 31, 2005, the Board of Directors of RPDCL

Sr. No.	Name of Director	Designation
1.	Dr. Meka Papa Rao	Chairman
2.	Mr. Meka Hemanth Rao	Director
3.	Mrs. M. Rajyalakshmi Rao	Director
4.	Ms. Archana Hingorani	Director
5.	Mr. K Ramchand	Director

### Financial Performance

Not available because RPDCL is incorporated on September 08, 2004.

### Intergroup transactions

During the period ended March 31, 2005, we have paid Rs. 85,41,550 to Infrastructure Leasing and Financial Services Ltd. as retainership fees.

### 17) Road Infrastructure Development Company of Rajasthan Limited (RIDCOR)

RIDCOR was incorporated on October 29, 2004 and obtained Certificate of Commencement of Business on February 28, 2005. RIDCOR is mandated to undertake the business of development, establishment, strengthening of all infrastructure facilities on commercially viable formats in the State of Rajasthan.

### Shareholding Pattern

Shareholding pattern of RIDCOR as on January 31, 2005 is as follows

Sr. No	Name of the Shareholders	No. of Equity Shares	% of holding
1.	Infrastructure Leasing and Financial Services Limited	5,000,000	50.00
2.	Government of Rajasthan	5,000,000	50.00
3.	Individual	6	0.00
	<b>Total</b>	<b>10,000,006</b>	<b>100.00%</b>

### Board of Directors

As on March 09, 2005, the Board of Directors of RPDCL comprised :

Sr. No.	Name of Director	
1.	Mr. R K Nair	Chairman
2.	Mr. Rajiv Mehrishi	Director
3.	Mr. C S Rajan	Director
4.	Mr. Hari Sankaran	Director
5.	Mr. K Ramchand	Director
6.	Mr. Rohit Modi	Director

### Financial Performance

Not available because RIDCOR is incorporated on October 29, 2004.

### Intergroup transactions

Nil.

### 18) TVC India Private Limited (TIPL)

TIPL was incorporated on May 26, 1993 as "Amadeus Investments and Finance Private Limited". Pursuant to fresh certificate of incorporation dated April 01, 1997 name was changed to "Telstra Vishesh Communication Limited". It again changed the name by obtaining fresh certificate of incorporation for change of name to "TVC India Private Limited". TIPL is mandated to undertake the business of providing VSAT service in closed user group under license from Department of Telecommunication, Government of India.

### Shareholding Pattern

Shareholding pattern of TIPL is as follows:

Sr. No	Name of the Shareholders	No. of Equity Shares	% of holding
1.	Telstra Holding Pty Ltd.	14,800,000	47.13%
2.	IL&FS	7,400,000	23.57%
3.	Videsh Sanchar Nigam Ltd.	9,200,000	29.30%
	Total	31,400,000	100.00%

### Board of Directors

The Board of Directors of TIPL is as follows -

Sr. No.	Name of Director	Nominee
1.	Mr. Satish Ranade	VSNL
2.	Mr. Sachin Gupta	IL&FS
3.	Mr. Amitabh Khanna	VSNL
4.	Mr. Lalit Jain	ESCL
5.	Mr. M.N. Vyas	ESCL
6.	Mr. Deepak Jain	Independent

## IL&FS INVESTSMART LIMITED

### Financial Performance

The brief financials of TIPL for the last three years are as under:

(Rs. in Lacs)

Particulars	For the Year/ Period ended/ As at March 31		
	2002	2003	2004
Total Income	1249.06	778.17	497.57
Profit After Tax (PAT)	(1591.26)	(794.97)	(780.83)
Shareholders Funds			
Equity Share Capital	3140.00	3140.00	3140.00
Non convertible Preference shares	-	3000.00	3000.00
Reserves (excluding revaluation reserve)	(5584.09)	(6379.06)	(7159.90)
Net Worth	(2452.32)	(3381.46)	(4021.70)
Earning Per Share (EPS) (Rs.)	(5.07)	(2.63)	(2.58)
Net Asset Value (NAV) per share (Rs.)	(7.80)	(10.77)	(12.80)
Dividend (Equity)	-	-	-

*Networth = Paid up Equity Capital + Reserves (excluding revaluation reserves)-Accumulated Losses - Deferred Expenditure to the extent not written off*

*EPS = (PAT –Preference Dividend if any)/ No. of equity shares outstanding at the end of the year*

*NAV = Networth/ No. of equity shares outstanding at the end of the year*

### Intergroup transactions

IIL has no transactions with TIPL for sales or purchases exceeding in value in aggregate of 10% of total sales or purchases of IIL.

### 19) Dronagiri Infrastructure Private Limited (DIPL)

DIPL was incorporated on March 11, 2004 as “Dronagiri Infrastructure Private Limited”. TIPL is mandated to undertake the business of developing infrastructure project.

### Shareholding Pattern

Shareholding pattern of TIPL is as follows:

Sr. No	Name of the Shareholders	No. of Equity Shares	% of holding
1.	SKIL Infrastructure Limited	7000	51.75%
2.	Makarand Patwardhan	2000	14.79%
3.	Prabhat Goel	1000	7.39%
4.	Infrastructure Leasing & Financial Services Limited	3525	26.06%
	<b>Total</b>	<b>13,525</b>	<b>100.00%</b>

### Board of Directors

The Board of Directors of TIPL is as follows -

Sr. No.	Name of Director
1.	Shri. N. Ravichandran
2.	Shri Pranab Ray
3.	Shri. Prabhat Goel
4	Shri.Makarand Patwardhan

### Financial Performance

DIPL is yet to commence its commercial operation.

### Intergroup transactions

IIL has no transactions with DIPL for sales or purchases exceeding in value in aggregate of 10% of total sales or purchases of IIL.

**DISASSOCIATED VENTURES**

Name of the Company	Date of Acquisition	Date of Disassociation	Quantity Holding	% of Holding	Reasons	Sold to
Healthcare & Wellness Foundation Ltd.	25/03/00	28/03/02	150000	49.99	As a matter for policy all strategic investments in infrastructure projects were to be based in IIDCL, hence this investment was transferred to IIDCL	IIDCL
Integrated Property Mgmt. & Services Ltd.	31/03/00	28/03/02	269018	49.00	As a matter for policy all strategic investments in infrastructure projects were to be based in IIDCL, hence this investment was transferred to IIDCL	IIDCL
Kampsax India Ltd.	01/03/96	22/03/02	1029000	49.00	As a matter for policy all strategic investments in infrastructure projects were to be based in IIDCL, hence this investment was transferred to IIDCL	IIDCL
Urban Mass Transit Co. Ltd.	31/03/95	28/03/02	15000	25.00	As a matter for policy all strategic investments in infrastructure projects were to be based in IIDCL, hence this investment was transferred to IIDCL	IIDCL
ABN Amro Asia Equities (India) Ltd.	31/07/95	31/03/02	6175000	23.13	To reduce IL&FS exposure in unquoted equity of unrelated business, this investment was sold off to IL&FS EWT	IL&FS EWT
Petronet India Ltd.	30/09/97	05/02/02	10,000,000	10.00	Policy of IL&FS to domicile all infrastructure in an equity fund. This investment was domiciled in the fund.	IIEF
Intime Spectrum Registry Limited	25/06/01	31/03/03	112,368	40.00	Policy of IL&FS to domicile unrelated business outside its investment. The investment was sold to IIEF	IIEF
Personal Hygiene & Healthcare Products Ltd.	12/09/96	31/03/03	85,000	17.00	Policy of IL&FS to domicile unrelated business outside its investment. The investment was sold to IIEF	IIEF
Feminine Hygiene Products Pvt. Ltd.	12/09/96	31/03/03	85,000	17.00	Policy of IL&FS to domicile unrelated business outside its investment. The investment was sold to IIEF	IIEF
Microland Ltd.	13/09/95	31/07/03	2,000,000	31.30	Policy of IL&FS to domicile unrelated business outside its investment. The investment was sold to IIEF	IIEF
PDCOR Ltd.	30/09/98	31/12/03	259997	26.00	Divestment by IL&FS	CTNL
Learnet India Ltd.	25/03/03	31/12/03	499,993	20.00	Divestment by IL&FS	CTNL and IIDCL
Investment Information and Credit Rating Agency of India Ltd.	30/09/92	16/02/04	70,000	0.90	Divestment by IL&FS	Moody's Investment Co. Ltd.
Mahindra Industrial Park Ltd.	17/09/99	30/03/04	7628572	38.14	Part of buy back as per the agreement	Mahindra GESCO

IIDCL : IL&FS Infrastructure Development Corporation Limited

IL&FS EWT : IL&FS Employee Welfare Trust

CTNL : Consolidated Toll Network India Limited

IIEF : IL&FS Infrastructure Equity Fund

**LEGAL AND OTHER INFORMATION****OUTSTANDING LITIGATIONS AND MATERIAL DEVELOPMENTS**

Save as stated herein under, based on records available, there are no outstanding/ pending litigations, suits, criminal/civil prosecutions, proceedings initiated for offences (including past cases, economic offences etc) irrespective of whether specified in paragraph (1) of part 1 of Schedule XIII of the Companies Act and litigations for tax liabilities against the Company, its subsidiaries, the Promoter and group companies and its Directors and there are no defaults/non payment/overdues of statutory dues, institutional/bank dues and dues towards holders of debentures, bonds and fixed deposits and arrears of Preference Shares etc, other than unclaimed liabilities of the Company, the Promoter, the Directors and other group companies.

**Against the Company**

Except as described below, there are no outstanding litigation, suits or criminal or civil prosecutions, proceedings or tax liabilities against the Company, and there are no defaults, non-payment of statutory dues, overdues to banks/financial institutions, defaults against banks/financial institutions, defaults in dues payable to holders of any debentures, bonds or fixed deposits, and arrears on preference shares issued by the Company specified under paragraph (i) of part 1 of Schedule XIII of the Companies Act that would result in a material adverse effect on the consolidated business taken as a whole:

***i) Penalties imposed by SEBI***

During the inspection of the books of accounts, documents and other records of the Company by SEBI in October 2002, certain irregularities were alleged to have been committed by the Company. SEBI by the order of its adjudication officer dated November 18, 2004, imposed a penalty of Rs. 2,00,000 on the Company for these irregularities. SEBI had found that the Company had not maintained a complete database of the client agreement and client registration form and various details / documents relating to the identity of certain clients were not found with the Company. This was rectified at a later date by the Company. However, SEBI came to the conclusion that there was failure to exercise due diligence by the Company. SEBI also found that the Company had not collected 10% margin upfront from one of its clients on a few occasions in violation of the SEBI circular dated May 17, 2002 and was in violation of the code of conduct regarding exercise of due diligence, skill and care. SEBI also found that certain unauthorised terminals were granted by the Company to its clients and in the process there was a violation of various circulars issued by SEBI.

***ii) SEBI Show Cause Notice and Inspection Report***

SEBI has issued a show cause notice (no. IVD/ID2/AEL/2649/2004) dated November 24, 2004, to the Company for associating with the entities who had allegedly manipulated the share price of Adani Exports Ltd. around December 2000 onwards and for violation of the provisions of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets) Regulations, 1995 and the SEBI (Stock Brokers and Sub Brokers) Rules and Regulations, 1992. The Company has replied to the said show cause notice by its letter dated January 10, 2005 stating interalia that these entities were duly registered as its clients and that the Company had executed transactions for them in good faith in the usual course of business and only for a period of 86 days. Further, although the share price of Adani Exports Limited moved from Rs.580 to Rs.869 during December 2000 to February 2001, The Company executed the said sale transactions only in December 2000, at prevailing market prices, and in the price range of Rs.596 to Rs.618 (i.e. price went up only by Rs.22/-). The Company, on becoming aware of the possible involvement of the 5 companies mentioned in SEBI's notice, immediately stopped all further dealings with the said entities from March 7, 2001.

Hearing on the enquiry report was held on February 14, 2005. Response from SEBI is awaited.

SEBI had also made certain observations in relation to the margin trading business of the Company in its inspection report in November 2003, including that the Company had exposure to clients with negative networth, there were deviations from the internal norms set by the Company for margin trading and the Company had granted additional exposures to the client based on unrealised marked to market gains on stocks which were acquired under the margin trading facility. The Company has replied to these comments from SEBI.

SEBI had by its order dated May 7, 2002 issued a warning to IMBSL, which was a Co-BRLM to the public issue of Balaji Telefilms Limited, for violation of Regulation 13 of the SEBI (Merchant Bankers) Regulations, 1992 read with clauses 2, 7(a) and 9 of the Code of Conduct, due to the failure on the part of IMBSL, to exercise due diligence, exercise independent professional judgment and for not informing the regulatory authorities.



SEBI vide its letter PMIMD/AKD/23154/2001 dated February 9, 2001, had sought an explanation from IMBSL in relation to the alleged violation of clause 9.1.14 of the Guidelines in relation to an advertisement published in the Indian Express while acting as the BRLM in the public issue of Mid Day Multimedia Ltd. IMBSL replied vide its letter dated February 12, 2001, stating that the said advertisement had been published inadvertently and that such an incident would not occur in future.

SEBI had issued a show cause notice PMD/SU/37963/2001 dated October 3, 2001, to IMBSL in relation to non disclosure of certain pledged shares forming part of the one year lock in securities in the Prospectus filed by IMBSL on behalf of Mid-Day Multimedia Limited. IMBSL vide letter dated October 23, 2001 stated that the said shares were not part of the promoter contribution and that neither IMBSL nor the company could in any way ascertain whether the said shares were pledged as there is no requirement in law for such disclosure.

### iii) Penalties imposed by the NSE and the BSE

1. The NSE has vide letter NSE/INVG/BADII-20/ACT/2005/13716-7 dated May 31, 2005 imposed a penalty Rs. 50,000 on the Company in respect of trades executed in Various Options Contracts in violation of Regulation 4.6.2.1 (b) of the Futures & Options (F&O) Regulations of the NSE. The NSE has also ordered the Company to give in writing that it will not indulge in similar activities and also that it will put in place a mechanism to control such activity by the Company's clients.
2. The NSE had made certain observations in its inspection report in relation to the derivatives trading business of the Company to which the Company had replied. The NSE vide letter NSE/INSP/DABII-19/ACT/F&O/20005/13808-2 dated June 3, 2005 has imposed fines aggregating Rs. 1,90,000 and also issued warnings in respect of the violations inter alia with respect to maintenance of books of accounts, registers and documents, dealings with clients, observed during the course of regular inspection in the F&O segment for the year 2003-2004. The Company has thereafter represented vide its letter dated June 15, 2005 that there was an error in calculation of penalty amounting to Rs. 115,000 out of the penalty of Rs. 190,000 imposed by NSE due to non-consideration of shares available as margin.
3. The BSE has vide letter SURV/INV/MB/SN/MMTC/2005-06/CL dated June 2, 2005 issued a warning to the Company for having contributed to the rise in price of a scrip (Scrip code- 513377) by entering into self-trades during the period February 15, 2005 to March 09, 2005, advising them to exercise caution and due diligence while dealing on behalf of their clients in order to ensure that the Company did not enter into transactions of such nature in future.
4. The NSE has imposed various penalties for technical violations by the Company such as gross exposure violation/terminal disabled, non allocation of institutional trade/non reporting of NCIT trade/ non confirmation of trade, non/partial collection of margin from client, trades in Z category scrips, etc. Such cases number 11 and the penalties imposed amount to Rs. 26,16,699. The penalties were primarily on account of errors, which occurred due to certain drawbacks in the existing trading software. The first intimation on such errors from the Exchange (which is on a quarterly basis) was received after a lapse of time leading to increase in the amount of penalty paid by the Company. The errors in the software have since been rectified.

### iv) Civil Proceedings

Sl. No.	Appeal No./ Case No.	Dated	Complainant/ Applicant/ Plaintiff	Respon- dent/ Defendant	Name & Address of Court/ Arbitration Panel	Amount under conside- ration	Nature of case
1.	Arbitration Petition No. 350/2002	June 14, 2002	Mr. Shaffique Dina	IL&FS Investsmart Limited	High Court of Judicature at Bombay	1,29,170.50 plus interest at 15% per annum.	Mr. Shaffique Dina was a client of the Company. Mr. Dina was liable to pay to the Company a sum of Rs. 9,00,000 on account of trades executed on his behalf. After the sale of shares lying to the credit of Mr. Dina's account a sum of Rs. 1,29,170.50 was still payable by Mr. Dina to the Company. The Company initiated arbitration proceedings and the Company obtained an arbitration award against Mr. Shaffique Dina for an amount of Rs. 1,29,170.52 plus interest at 15% per annum from July 23, 2001. In the course of the proceedings, certain documents were adduced by the Company. It is alleged that the arbitrator passed the award without giving Mr. Dina a chance to make his submissions. The award was challenged by Mr. Dina and the matter is pending before the High Court.

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2.	SC No. 61 / 2004	July 29, 2004	B. Prahalada	IL&FS Investsmart Limited	Civil Judge (Sr. Dn.) Davanagere	Rs. 22,963 at 24% p.a.	Mr. Prahlada had entered into negotiations with the Company in relation to Mr. Prahlada becoming the Company's franchisee. Mr. Prahlada paid a sum of Rs. 2,50,000 by 2 cheques as deposit (the two cheques dated January 6, 2004 and February 19, 2004). The Company returned the cheques stating that the business association was not preferred. Mr. Prahlada claimed interest on the said amount at 24% p.a. The Company paid an amount of Rs. 3,213 p.a. This was disputed and Mr. Prahlada has claimed a sum of Rs. 22,963 at 24% p.a. on the cheques. This matter has been settled and the Company has paid a sum of Rs. 10,000 to Mr. Prahlada by way of settlement. By his letter dated January 15, 2005, Mr. Prahlada has agreed to withdraw the case and not agitate the matter in any other court.
3.	Appeal No. 919/2004	2004	Veena Padmakar	IDBI Bank and IL&FS Investsmart Limited	Karnataka State Consumer Disputes Redressal Forum, Bangalore	Transfer of 400 shares of Maruti Udyog Limited to the appellants or in the alternative a sum of Rs. 3,00,000 as compensation and Rs. 500,000 as mental agony	The appellant had filed a complaint before the district consumer redressal forum in relation to margin money provided by IDBI Bank in relation to investment in the Maruti IPO. In terms of the said investment in the IPO, 40% margin money was to have been paid by the applicant and IDBI Bank was to provide the rest of the monies in respect of the IPO. The application form and the margin monies were submitted by the appellant to IDBI Bank through the Company. On submission of form through the Company, the money was credited, but no shares allotted. IDBI Bank claimed that the application form was missing. However, the appellant claims that the cheques were encashed. A complaint was filed before the district consumer forum which was dismissed. The appellant has preferred an appeal.
4.	416/DFS	March 3, 2005	Santosh Rani	J&K Depository Services and IL&FS Investsmart	Court of the Divisional Consumer Forum, Jammu	Rs. 39,737.73 (plus interest)	In December 2004, the complainant sold 200 shares of Vijaya Bank for a sum of Rs. 14,737.73 and a contract note was issued. The complainant alleges that the respondents have not paid her the said sum despite repeated requests. The complainant has approached the consumer forum and has claimed a sum of 14,737.73 with interest @ 18% p.a. from December 2004, till date of payment and a sum of Rs. 25,000 as compensation for the mental anguish and financial loss.

## By the Company

Except as described below, there are no outstanding litigation, suits or criminal or civil prosecutions or proceedings initiated by the Company.

### i) Civil Cases

Sl. No.	Appeal No./ Case No.	Dated	Complainant/ Applicant/ Plaintiff	Respondent/ Defendant	Name & Address of Court/ Arbitration Panel	Amount under consideration	Nature of case
1.	Company Petition No. 53 of 2004	February, 2004	IL&FS Investsmart Limited	Modern Gears Private Limited	High Court of Calcutta	Rs. 7,64,423.15 plus interest	<p>The Company had raised 3 contract notes on Modern Gears Private Limited for a total of Rs. 10,68,934.25 in respect of certain trades executed by it. There was a credit in the books of the Company of an amount of Rs. 3,94,511.1, which was adjusted.</p> <p>As Modern Gears Private Limited failed to pay the amounts due, a winding up petition under Section 434 of the Companies Act, 1956 was instituted for winding up of Modern Gears Private Limited, and / or directions for payment of the amounts due.</p> <p>The High Court passed an order dated May 19, 2004 stating that the amount due be paid in 12 monthly installments commencing from July 1, 2004, failing which winding up may be continued with and advertisements may be issued in the relevant news papers.</p>
2.	Civil Suit No. 20 of 2004	February, 2004	IL&FS Investsmart Limited	Modern Gears Private Limited	High Court of Calcutta	Rs. 7,64,423.15 plus interest	<p>The Company had raised 3 contract notes on Modern Gears Private Limited for a total of Rs. 10,68,934.25 in respect of certain trades executed by it. There was a credit in the books of the Company of an amount of Rs. 3,94,511.1, which was adjusted.</p> <p>Accordingly, as Modern Gears Private Limited failed to pay the amounts due, the Company filed a suit for recovery of the amounts due. The matter is currently pending before the Court, and is yet to be called for hearing.</p>
3.	A.M No. CH005/2005	March 2, 2005	IL&FS Investsmart Limited	Padmashree	Regional Arbitration Centre, NSE, Chennai	Rs. 318,459 (plus interest)	<p>In March 2004, the respondent approached the applicant requesting it to carry out securities sale / purchase transactions on her behalf on the NSE. Accordingly, the parties entered into a member-client agreement on the basis of which the applicant acted on behalf of the respondent in relation to the sale/purchase of securities. During the period between April 2004 and January 2005, the applicant carried out a large number of transactions on behalf of the respondent and contract notes for the same were issued to the respondent in a timely manner. As on January 31, 2005, the respondent owed the applicant the said sum of money on account of the transactions carried out on her behalf. Despite repeated requests from the applicant the respondent failed to pay the dues. The applicant has, therefore, approached the regional arbitration centre of the NSE claiming the said sum with interest @18.5 % p.a.</p>

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### ii) Criminal Cases

The Company has filed 14 criminal complaints before various courts in relation to dishonoured cheques issued to the Company in relation to payment for services rendered to / securities bought by the Company on behalf of its customers. The total amount due in all the cases is Rs. 22,06,981.52. In most of the cases, the value of the cheques does not exceed Rs. 200,000. Details of cases in which the value exceeds Rs. 200,000 are as set out below :

Sl. No.	Appeal No./ Case No.	Dated	Complainant/ Applicant/ Plaintiff	Respondent/ Defendant	Name & Address of Court/ Arbitration Panel	Amount under consideration	Nature of case
1.	Complaint No. 1265 / S / 2002	November 27, 2000	IL&FS Investsmart Limited	Mr. Ranjan M Lala	Addl Chief Metropolitan Magistrate, 9 <sup>th</sup> Court, Bandra, Mumbai	Rs. 3,32,985/- plus interest	Mr. Lala issued to the Company a cheque for Rs. 3,32,985/- drawn on UTI Bank, Mumbai which was dishonoured. The Company accordingly filed a complaint under Section 138 read with Section 142 of the Negotiable Instruments Act, 1881. Summons have been issued to Mr. Lala for recording of his plea at the next date of hearing.
2.	Complaint No. 257 / S / 2002	February 11, 2003	IL&FS Investsmart Limited	Mr. Uday Mahatme	Addl Chief metropolitan magistrate, 9 <sup>th</sup> Court, Bandra, Mumbai	Rs. 2,00,000/- plus interest	Mr. Mahatme issued to the Company a cheque for Rs. 2,00,000/- drawn on HDFC Bank, Goa which was dishonoured. The Company accordingly filed a complaint under Section 138 read with Section 142 of the Negotiable Instruments Act, 1881. Summons have been served on Mr. Mahatme. The matter is currently pending.
3.	Complaint No. 533 / S / 2002	April 2002	IL&FS Investmart Limited	Mr. Sinhal Patel	Addl Chief metropolitan magistrate, 9 <sup>th</sup> Court, Bandra, Mumbai	Rs. 2,00,000/- plus interest	Mr. Patel issued to the Company a cheque for Rs. 2,00,000/- drawn on ICICI Bank, Ahmedabad which was dishonoured. The Company accordingly filed a complaint under Section 138 read with Section 142 of the Negotiable Instruments Act, 1881. Summons have yet to be served on Mr. Patel. The matter is currently pending.
4.	Complaint No. 2771/Misc/ Misc/2004	2004	IL&FS Investsmart Limited	Maqsood Ahmed Jethwa	Addl Chief metropolitan magistrate, 9 <sup>th</sup> Court, Bandra, Mumbai	10,00,000 plus interest	The Company had taken property on leave and license from accused by an agreement dated August 1, 2001. The Company gave back possession of the flat to the accused on May 1, 2003. Accordingly the security deposit of Rs. 10,00,000 which was paid by the Company to the accused was to be refunded by the accused. The accused gave a cheque drawn on Maharashtra Co-op bank for Rs. 10,00,000 which was dishonored. The accused has since made a part payment of Rs. 4 lakhs.

## Against the Directors

There are no outstanding litigation, suits or criminal or civil prosecutions, proceedings or tax liabilities against the Directors of the Company except as follows:

### Mr. Girish Dave

#### i) Criminal Proceedings

Sl. No.	Appeal No./ Case No.	Dated	Complainant/ Applicant/ Plaintiff	Respondent/ Defendant	Name & Address of Court/ Arbitration Panel	Amount under consideration	Nature of case
1.	469/S/02	December 14, 1995	Sunita Gopalani	1. Atash Industries 2. Girish Dave and others	Criminal Court, Esplanade, Mumbai	Rs. 10,00,000	The complainant has filed a case under section 138 of the Negotiable Instruments Act, 1881, for dishonour of a cheque issued by Atash Industries. Proceedings were initiated against Atash Industries, and all the directors, including, Mr. Dave, in his capacity as the Director of the company, at the time of the issuance of the said cheque. Mr. Dave has filed an application for discharge.
2.	1440/S/ 02	February 20, 1997	Sreelekha Global Finance Ltd.	1. Atash Industries 2. Girish Dave and others	Criminal Court, Esplanade, Mumbai	Rs. 2,50,000	The complainant has filed a case under section 138 of the Negotiable Instruments Act, 1881, for dishonour of a cheque issued by Atash Industries. Proceedings were initiated against Atash Industries, and all the directors, including, Mr. Dave, in his capacity as the Director of the company, although he had resigned from the directorship of the company prior to the issue of the cheque.
3.	1439/S/02	February 20, 1997	Sreelekha Global Finance Ltd.	1. Atash Industries 2. Girish Dave and others	Criminal Court, Esplanade, Mumbai	Rs. 7,50,000	The complainant has filed a case under section 138 of the Negotiable Instruments Act, 1881, for dishonour of three separate cheques each of equal amount, issued by Atash Industries. Proceedings were initiated against Atash Industries, and all the directors, including, Mr. Dave, in his capacity as the Director of the company, although he had resigned from the directorship of the company prior to the issue of the cheque.
4.	1457/S/02	February 28, 1997	Sreelekha Global Finance Ltd.	1. Atash Industries 2. Girish Dave and others	Criminal Court, Esplanade, Mumbai	Rs. 5,00,000	The complainant has filed a case under section 138 of the Negotiable Instruments Act, 1881, for dishonour of three separate cheques each of equal amount, issued by Atash Industries. Proceedings were initiated against Atash Industries, and all the directors, including, Mr. Dave, in his capacity as the Director of the company, although he had resigned from the directorship of the company prior to the issue of the cheque.

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### ii) Civil Proceedings

Sl. No.	Appeal No./ Case No.	Dated	Complainant/ Applicant/ Plaintiff	Respondent/ Defendant	Name & Address of Court/ Arbitration Panel	Amount under consideration	Nature of case
1.	O.A No. 667/2003	October, 15, 2001	Oriental Bank of Commerce	1. Apple Credit Corporation 2. Mr. Girish Dave and others	Debt Recovery Tribunal, Chennai	Rs. 100,611,350	The plaintiff has filed a case in the Debt Recovery Tribunal at Chennai, for recovery of dues, against Apple Credit Corporation. And all its directors including Mr. Dave was impleaded in the matter in his capacity as the Director of Apple Credit Corporation., although at the relevant time he was not a director. The matter is being contested.

### Mr. Neel C. Raheja

#### i) Tax Proceedings

The income tax authorities have by their notices of demand dated November 20, 2000, March 31, 1999 and August 23, 1993 raised 3 demands on Mr. Raheja, aggregating to Rs. 40,868.

In addition, the wealth tax authorities have raised 9 demands on Mr. Raheja aggregating to Rs. 12,166.

#### ii) Civil Proceedings

Sl. No.	Appeal No./ Case No.	Dated	Complainant/ Applicant/ Plaintiff	Respondent/ Defendant	Name & Address of Court/ Arbitration Panel	Amount under consideration	Nature of case
1.	Company Petition No. 64 of 2002	October, 2002.	Gopal Raheja and others	1. Asiatic Properties 2. Neel Raheja and others	Company Law Board, Principal Bench, New Delhi	Not Applicable	The petitioner has filed a petition under section 397 and 398 of the Companies Act, alleging oppression and mismanagement by the respondents in the affairs of Asiatic Properties Limited (APL). A number of interim application have been filed in the matter by the parties inter alia seeking to sell the properties of APL, and other properties and applications seeking to restrain such sale, including an application by the Menda group seeking the sale of Raheja Palm Springs, as it had received a notice under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002. In addition an interim application has been filed seeking to punish the promoters of APL including Mr. Neel Raheja for perjury and contempt of court. The parties are attempting an out of court settlement.
2.	Company Petition No. 43 of 2004	July, 2004	1. Tresorie Traders Private Limited	1. Club Cabana Recreations Pvt. Ltd. 2. Sai Park Estate Developers (India) Pvt. Ltd. 3. Neel Raheja and others	Company Law Board, Principal Bench, New Delhi	Not Applicable	The petitioner has filed a petition under sections 247(1A) and 250 of the Companies Act, 1956 for an investigation with respect to the persons in control of respondents 1 and 2. They also seek inter alia to restrict the transfer of shares as envisaged under section 250 of the Companies Act, 1956. The petitioners have also filed two interim applications seeking an investigation as provided for section 247(A) of the Companies Act requesting that the respondents be restrained inter alia from transferring existing issued shares or issuing any fresh shares. Mr. Neel Raheja is only a formal party in the matter.

3.	Suit No. 2135 of 2001	June 18, 2001	Sandeep Raheja	1. Chandru Raheja 2. Neel Raheja 3. IL&FS and others	High Court of Judicature at Mumbai	Amount to be determined upon the accounts of the trust being settled.	The suit was initially filed seeking the removal of Chandru Raheja and Arjun Menda as trustees of Raj Trust, a private family trust and for the accounts of the trust to be disclosed. Subsequently, the plaint was amended to include distribution of the trusts properties as on the date of distribution, since the said date had passed. Several interim applications have been filed in the matter. One of the ad-interim applications sought to restrain the sale by IL&FS of certain mortgaged property to a certain Aman Spices Private Limited.
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#### Promoter

Except as described below, there are no outstanding litigation, suits or criminal or civil prosecutions, proceedings or tax liabilities by or against the Promoter, and there are no defaults, non-payment of statutory dues, overdues to banks/financial institutions, defaults against banks/financial institutions, defaults in dues payable to holders of any debentures, bonds or fixed deposits, and arrears on preference shares issued by subsidiaries of the Promoter specified under paragraph (i) of part 1 of Schedule XIII of the Companies Act that would result in a material adverse effect on the consolidated business taken as a whole:

#### i) SEBI Show Cause Notices

SEBI has issued 2 show cause notices to the Promoter.

- SEBI, upon an inspection, has issued a show cause notice no. MIRSD/DPS/-2/8138/2004 dated May 6, 2004, for alleged violation of certain requirements stipulated by the SEBI (Depositories and Participants) Regulation, 1996, including opening beneficiary accounts without obtaining proof of, or verifying the, identity, or address, and thereby violating the provisions of SEBI Circular No. SMDRP/Policy/Cir-36/2000 dated August 04, 2000, opening of accounts without proper documentation, delay in closure of beneficiary accounts, non-mention of ISIN, incorrect ISIN, mention of extra account holders and absence of beneficiary on the dematerialized request form. The notice also alleges that certain investor complaints were not recorded, the complaints register was not maintained and correspondence regarding complaints was not maintained for the period prior to June 2000. This was also in violation of Regulation 20 (2)(e) of the SEBI (Depositories and Participants) Regulations, 1996, which mandates grievance redressal, for which proper inwarding system, proper records are essential. The matter is yet to be heard by SEBI.
- SEBI, upon an inspection, has issued a show cause notice no. A&E/GBR/227652004 dated October 6, 2004, alleging that agreements with the beneficial owners were not entered into, that beneficiary owner accounts were opened without following the procedure mandated by circular no. SMDRP/POLICY/CIT-36/2000 issued by SEBI and that there was co-mingling and mixing of the securities of the beneficial owners thereby violating regulation 42(1) of the SEBI (Depositories and Participants) Regulations, 1996. The matter is yet to be heard by SEBI.

#### ii) Tax Proceedings

There are 11 income tax appeals, relating to assessment years 1990-1992 and 1993-2002 filed by the Income Tax Department, pending before the Income Tax Appellate Tribunal and the High Court of Judicature at Bombay. The aggregate disputed income is approximately Rs. 42,970 lakhs. There are also 7 appeals relating to interest tax, for the assessment years 1992-1993 and 1994-2001 filed by the Income Tax Department, pending before the Income Tax Appellate Tribunal and the High Court of Judicature at Bombay. The aggregate disputed income is approximately Rs. 41,700 lakhs. The cases had been decided in favour of IL&FS by the Commissioner of Income Tax (Appeals) and the Income Tax Department has appealed the said orders before the Income Tax Appellate Tribunal and the High Court of Judicature at Bombay. There are no financial implications on the Company.

## IL&FS INVESTSMART LIMITED

### iii) Civil Proceedings

Sl. No.	Appeal No./ Case No.	Dated	Complainant/ Applicant/ Plaintiff	Respondent/ Defendant	Name & Address of Court/ Arbitration Panel	Amount under consideration	Nature of case
1.	140/ 2003	2003	Hemantkumar A. Patel	Satyam Computer Services Limited, IL&FS and Pankaj Thakkar	Civil Judge, Nadiad, Gujarat	Not Applicable	The plaintiff has sought an injunction against the transfer of 100 shares in Satyam Computers to IL&FS. The plaintiff claims that the shares purchased by IL&FS are shares which he had lost and therefore cannot be transferred. It is alleged that the said shares were replaced by the broker. No specific relief has been claimed against IL&FS. The court has rejected the plea for interim injunction against IL&FS.
2.	142/ 2003	2003	Legal representative of Vinaykant	Satyam Computer Services Limited and IL&FS.	Civil Judge, Nadiad, Gujarat	Not Applicable	The plaintiff has sought an injunction against the transfer of 300 shares in Satyam Computers to IL&FS. The plaintiff claims that the shares purchased by IL&FS are shares which he had lost and therefore cannot be transferred. It is further alleged that the said shares were replaced by the broker. No specific relief has been claimed against IL&FS.
3.	3883/96	1996	Annamalai Finance Ltd.	1. IFCI 2. MCS Ltd 3. Datamatics Financial Services Ltd. 4. V Sailappan 5. IL&FS 6. Reliance Share and Stok Brokers Ltd. 7. Vinoo Joy 8. Kailash Gupta 9. HSBC 10. Chase Manhattan Trustees Ltd.	Principal District Judge, Coimbatore, Tamil Nadu.	Not Applicable	IL&FS purchased 10,000 shares of IFCI through broker in Delhi, in normal course of business. The plaintiff claims ownership over 1000 shares of the said 10,000 shares. The shares have been converted into dematerialised form and have been added to the pool of shares of IFCI that IL&FS owns. The plaintiff has sought an injunction.
4.	1111/2003	2003	Santosh Samuel	Satyam Computer Services Limited and IL&FS (DP services)	Karnataka State Consumer Disputes Redressal Commission, Bangalore	Rs. 14,25,130	Mr. Samuel, the appellant, is a registered holder of 280 equity shares of Satyam Computer Services Ltd. The said shares were given for dematerialisation to IL&FS DP services, but could not be dematerialised due to a signature mismatch and the same were returned to the appellant. Thereafter, on due completion of all the procedural requirements the shares were dematerialised. The appellant claims the said sum of money as compensation for loss in profits due to the delay. The District forum dismissed the complaint.

See also serial No. 3 under litigation against Mr. Neel Raheja, Director of the Company.



## Group Companies

Except as described below, there are no outstanding litigation, suits or criminal or civil prosecutions, proceedings or tax liabilities by or against the group companies, and there are no defaults, non-payment of statutory dues, overdues to banks/financial institutions, defaults against banks/financial institutions, defaults in dues payable to holders of any debentures, bonds or fixed deposits, and arrears on preference shares issued by subsidiaries of the group companies specified under paragraph (i) of part 1 of Schedule XIII of the Companies Act that would result in a material adverse effect on the consolidated business taken as a whole:

### IL&FS Education & Technology Services (IETS)

IETS has defaulted on the following payments amounting to a total of Rs. 16,344,614.

Sl. No.	Lender	Nature of default	Pending since	Amount (in Rs.)
1.	IL&FS	Lease Rentals	December 2004	11,05,635
2.	IL&FS	Interest	January 2005	52,38,979
3.	IL&FS	Principal	January 2005	1,00,00,000

### i) Civil Proceedings

Sl. No.	Appeal No./ Case No.	Dated	Complainant/ Applicant/ Plaintiff	Respondent/ Defendant	Name & Address of Court/ Arbitration Panel	Amount under consideration	Nature of case
1.	O.S. No. 181 of 2003	September 1, 2003	IETS	Sri Ramakrishna Vidyapeeth and Swami Srikanthandji	City Civil Judge, Sr. Division, Kolar District, Kolar	Rs. 84,000 (plus interest)	A suit has been filed by IETS for recovery of outstanding dues. The matter is currently pending.
2.	O.S. No. 152 of 2003	September 2001	IETS	K.M. Siddhique	High Court of Judicature at Ernakulam	Rs.2,93,250 (plus interest)	A suit for recovery of security deposit paid to the landlord of certain office premises taken at Kochi. The suit has been decreed in favour of IETS and the formal order is awaited.
3.	Lodgment No. 122 of 2004	8 January, 2004	IETS	Bloom Public School	High Court of Judicature at Delhi	Rs. 1,17,650 (plus interest)	A suit has been filed for recovery of moneys due to non payment of fees. Summons have been served on Bloom Public School. The defendant has not entered a defence and a motion for an ex-parte decree has been moved.
4.	Company Petition No. 433 of 2003	June, 2001	IETS	Tulsient Technologies	High Court of Judicature at Bombay	Rs. 30,00,000	A winding up petition was filed as the amount due to IETS was not paid for more than 6 months. On February 10, 2005 IETS and Tulsient signed consent terms to refer the dispute to arbitration. The company proposes to withdraw the suit after the court instructs the arbitrator about fees.

### IL&FS Infrastructure Development Corporation Limited (IIDCL)

IIDCL has rolled over the following loans.

- Short-term loan of Rs. 90 lakhs from IL&FS due in August 2004 has been rolled over.
- Short-term loan of Rs. 50 lakhs from IL&FS due in August 2004 has been rolled over to Rs. 54 lakhs.

## IL&FS INVESTSMART LIMITED

### i) Labour Proceedings

Sl. No.	Appeal No./ Case No.	Dated	Complainant/ Applicant/ Plaintiff	Respondent/ Defedant	Name & Address of Court/ Arbitration Panel	Amount under consideration	Nature of case
1.	O.S. No. 181 of 2003	September 1, 2003	IETS	Sri Ramakrishna Vidyapeeth and Swami Srikanthandji	City Civil Judge, Sr. Division, Kolar District, Kolar	Rs. 84,000 (plus interest)	A suit has been filed by IETS for recovery of outstanding dues. The matter is currently pending.

### ORIX Auto and Business Solutions Ltd. (OABS)

### i) Criminal Proceedings

Sl. No.	Dated	Complainant/ Applicant/ Plaintiff	Respondent/ Defedant	Name & Address of Court/ Arbitration Panel	Amount under consideration (in Rs.)	Nature of case
1.	June 2003	OABS and Mr. Venkatraman	Omvati / Govind Kaushik	High Court of Punjab & Haryana, Chandigarh	Not Applicable	There is a criminal case pending in the Faridabad court, against OABS and its employee, for wrongful repossession and for the sale of the vehicle. Though, the lower court and the Sessions Court at Faridabad ruled in favour of the complainant, the High Court of Punjab and Haryana at Chandigarh on an application by OABS stayed the matter. OABS has also filed an application under section 482 of the Criminal Procedure Code, 1873, for quashing the First Information Report against its employee.
2.	May 2001	Ran Singh	OABS and Mr. Munish Sharma	Judicial Magistrate First Class, Sonapat	Not Applicable	The complainant filed a complaint under section 379 and section 120B of the Indian Penal Code for repossession of the complainant's vehicle for which OABS provided finance by way of hire purchase. The case is currently pending.
3.	June 2004	Satpal Thakran	OABS, Mr.Venkatraman, Deepak Jain, Jagdamba Thapliyal and others	Additional Sessions Judge, Gurgaon	Not Applicable	A complaint was filed under section 504 and 506 of the Arms Act against the company and its employees for repossession of trucks of the complainant. Non bailable warrants were issued against such employees, by the court in Nuh. A revision application has been filed by the company and the sessions court has ordered a stay of the proceedings at Nuh.
4.	May 2004	Tejinder Bandhu	OABS, Mr.R.Venkatraman and Deepak Jain	Panchkula	N.A	A criminal case was filed against the company and its employees for repossession of a vehicle for which finance by way of hire purchase was given by the company.

In addition to the above, OABS has filed 51 complaints against various persons before various courts in relation to dishonoured cheques under Section 138 of the Negotiable Instruments Act, 1881. The aggregate value of such dishonoured cheques is approximately Rs. 209.5 lakhs.

## ii) Labour Proceedings

OABS has also been made party to a suit filed by certain employees of OVIRA Logistics Private Limited (OLPL), to whom OABS had transferred certain business. The employees are those of OLPL and the suit has been filed for an injunction restraining OLPL from terminating their employment. No monetary claim has been made against OABS. A reply has been filed in court by OABS.

## iii) Civil Proceedings

Sl. No.	Dated	Complainant/ Applicant/ Plaintiff	Respondent/ Defendant	Name & Address of Court/ Arbitration Panel	Amount under consideration (in Rs.)	Nature of case
1.	December 2004	OABS	Jagminder Singh	Supreme Court of India, Delhi	Not Applicable	OABS provided finance by way of hire purchase for a truck to the respondent. On default OABS took possession of the truck. The respondent approached the Sonepat court, which ruled in his favour. The High Court of Punjab and Haryana also, on appeal, agreed with the lower court. OABS has filed a Special Leave Petition in the Supreme Court of India.
2.	December 2002	Rajesh Kumar	OABS	Civil Judge, Delhi	Not Applicable	OABS provided finance by way of hire purchase for a truck to the petitioner. On default OABS took possession of the truck. The petitioner has approached the Court pleading for an injunction against the sale of the vehicle.
3.	July 2004	Prahlad	OABS	Civil Judge, Delhi	6,00,000	OABS provided finance by way of hire purchase for a truck to the respondent. On default OABS took possession of the truck. The petitioner has approached the Court pleading for an injunction against the sale of the vehicle and claiming compensation for the loss.
4.	June 2003	Omvati / Govind Kaushik	OABS	Faridabad	Not Applicable	OABS provided finance by way of hire purchase for a truck to the respondent. On default OABS took possession of the truck. The petitioner has approached the Court pleading for an injunction against the sale of the vehicle.
5.	June 2003	Omvati / Govind Kaushik	OABS	Faridabad	Not Applicable	The plaintiff has filed an application for the grant of a No Objection Certificate. The written statement has been filed. The matter is currently pending
6.	October 2004	M/s R.K. Transport	OABS	Additional Sessions Judge, Delhi	N.A	OABS provided a loan to the plaintiff for purchase of a truck. The plaintiff seeks a permanent injunction, but the truck has already been sold.
7.	September 2004	M/s Sterling Automobiles	OABS	Civil Judge, Delhi	1,10,000	The plaintiff, who is a Tata dealer, has filed a recovery suit against OABS for the recovery of the said amount. The plaintiff alleges that OABS had made a short payment to them. OABS has filed a written statement.
8.	November 2004	Nitya Nand	OABS	District Consumer Disputes Redressal Commission, Gurgaon	Not Applicable	The complainant has filed an application for the grant of a No Objection Certificate. The written statement has been filed. The matter is currently pending
9.	January 2004	OABS	Anil Arora	High Court, of Punjab and Haryana, Chandigarh	Not Applicable	A civil suit had been filed against OABS in relation to repossession of the vehicle of Mr. Arora which had been financed by OABS by way of loan.
10.	January 2005	OABS	Arvind Kumar	Mr. S.K. Jain (Arbitrator), New Delhi	Rs. 11,17,354	The company has initiated arbitration proceedings for recovery of amount provided as finance. The proceedings are complete and the award has been passed.
11.	November 2004	OABS	Dharamveer	Mr. S.K. Jain (Arbitrator), New Delhi	Rs. 7,24,737	The company has initiated arbitration proceedings for recovery of amount provided as loan.
12.	May 2004	OABS	KPG India Private Limited	High Court of Judicature at Bombay	Rs. 12,50,000	The company had provided vehicles on a long term hire basis to KPG India Private Limited. A winding up petition has been filed by the company against KPG India Private Limited for non-payment of hire charges.

## IL&FS INVESTSMART LIMITED

OABS had initiated arbitration proceedings against Simrandeep Kaur before Mr. S.K. Jain (arbitrator), New Delhi for recovery of an amount of Rs. 2,27,331. The award has been passed in favour of OABS and the award is to be executed.

### Colliers International (India) Property Services Pvt. Ltd. (Colliers)

#### i) Labour Proceedings

Sl. No.	Appeal No./ Case No.	Dated	Complainant/ Applicant/ Plaintiff	Respondent/ Defendant	Name & Address of Court/ Arbitration Panel	Amount under consideration (in Rs.)	Nature of case
1.	ULP No. 328 of 2000	July 1, 2001	Thapal Subbiyah	Colliers	Labour Court, Bandra, Mumbai	2,20,500	The complainant was the driver of the respondent. The complainant's services were terminated w.e.f March 7, 2000, as he was a surplus driver. The complainant has filed a suit against termination and for reinstatement and has also claimed back wages for the said sum of Rs. 2,20,500 from the period of termination to the date of reinstatement. The matter is pending in Court.
2.	ULP No. 663 of 2000	February 27, 2002	George D'souza	Colliers	Labour Court, Bandra, Mumbai	1,48,522	The complainant was the driver of the respondent. The complainant's services were terminated w.e.f April 26, 2001 on grounds on indecent behaviour. The complainant has filed a suit against termination and for reinstatement and has also claimed back wages for the said sum of Rs. 148,522 from the period of termination to the date of reinstatement. The matter is pending in Court.

### Noida Toll Bridge Co. Ltd. (NTBCL)

#### i) Show cause notice from the Stamp authorities

The Assistant Stamp Commissioner, Gautam Budh Nagar District has issued a notice to NTBCL to appear for a hearing on non-payment of stamp duty on the operations and maintenance contract for the Delhi Noida Bridge Project.

#### ii) Criminal Proceedings

Sl. No.	Appeal No./ Case No.	Dated	Complainant/ Applicant/ Plaintiff	Respondent/ Defendant	Name & Address of Court/ Arbitration Panel	Amount under consideration (in Rs.)	Nature of case
1.	CM 571 of 1999	1999	NTBCL	NCR Land Developers and Ors.	Metropolitan Magistrate, Patiala House Court	Not Applicable	NTBCL has filed a criminal defamation case against the defendant. The Court ruled in favour of the defendant. NTBCL has filed a revision petition.

#### iii) Civil Proceedings

Sl. No.	Appeal No./ Case No.	Dated	Complainant/ Applicant/ Plaintiff	Respondent/ Defendant	Name & Address of Court/ Arbitration Panel	Amount under consideration (in Rs.)	Nature of case
1.	CW 4582/98	1998	Inderjeet	Union of India and NTBCL.	High Court of Judicature, at Mumbai	Not Applicable	The petitioner has challenged the notification and acquisition proceedings with respect to certain properties in village Kilokari.

2.	CW 3/91	1991	Chet Ram	Union of India and NTBCL	High Court of Judicature at Delhi	Not Applicable	The petitioner has approached the court for quashing the notification with respect to the acquisition of certain properties.
3.	CMP 7261 in CWP 882/2001	2001	Razia Sultana and Ors.	NTBCL and Ors.	High Court of Judicature at Delhi	Not Applicable	A writ petition has been filed seeking to declare the land acquisition proceedings with respect to certain properties null and void.
4.	Suit No. 819 of 2001	January 2002	Dr. Moenuddin	NTBCL and Ors.	Addl. Sessions Judge Tis Hazari	Not Applicable	The plaintiff has filed a suit for injunction and thereafter a revised suit.
5.	Suit No. 1352/2003 and 1536 of 2003	2003	NTBCL	Klassic Ad Mod	High Court of Judicature at Delhi	Not Applicable	NTBCL filed a suit of injunction against the defendants for encroaching onto its lands. The Court has granted an ad-interim injunction.
6.	FAO (OS) 132 of 2004 and 133 of 2004	2004	NTBCL	Klassic Ad Mod	High Court of Judicature at Delhi	Not Applicable	NTBCL has preferred an appeal before the Division Bench against the order of the Single judge with respect to the territorial jurisdiction of the Court. The operation of the order has been stayed by the Court.
7.	AA 143 of 2004	2004	Prime Communications	Department of Irrigation and NTBCL	High Court of Judicature at Delhi	Not Applicable	The petitioner has filed an arbitration application in the Court to enforce a clause in the agreement between the parties. NTBCL has been impleaded as a respondent. NTBCL has approached the Court for deletion of its name from the matter as it is not a party to the agreement providing for arbitration.
8.	CWP 28645 of 204	2004	NTBCL	Department of Irrigation and Ors.	High Court of Judicature at Allahabad	Not Applicable	NTBCL filed a writ petition against the Department of Irrigation for quashing notices and to restrain the officials of the department from entering upon NTBCL's land and destroying property. The Court disposed the matter by quashing the notices. It also required the department to issue fresh notices specifying the issue. An application seeking rectification has been moved.

Klassic Ad Mod had filed a suit in 2003 against NTBCL seeking to restrain NTBCL from issuing notices to advertisers. No stay has been granted in the matter. Arbitration proceedings are also pending between NTBCL and the EPC Contractor for the Delhi Noida Bridge Project.

#### **Tamil Nadu Road Development Company Ltd. (TNRDC)**

##### **i) Tax Proceedings**

TNRDC has filed an appeal with the CEGAT against the orders of the Commissioner (Appeals) disallowing the benefit of duty exemption for the import of Boom Barriers. In addition, TNRDC has also appealed against the order of the commissioner of income tax with respect to the assessment years 2000-2001 and 2001-2002.

##### **ii) Civil Proceedings**

Sl. No.	Appeal No./ Case No.	Dated	Complainant/ Applicant/ Plaintiff	Respondent/ Defendant	Name & Address of Court/ Arbitration Panel	Amount under consideration (in Rs.)	Nature of case
1.	WP No.18772/04	June 28, 2004	V.K. Maheshwaran	Secretary, Highways, TNRDC and Ors	High Court of Judicature at Chennai	Not Applicable	The petitioner has approached the High Court seeking a writ of mandamus restraining the respondents from taking possession of land in Uthandi village.
2.	WP No.25603/04	August 30, 2004	K. Subramanian (Yogeswari Transports)	1. National Highway Authority of India (NHAI) and 2.TNRDC	High Court of Judicature at Chennai	Not Applicable	The petitioner seeks a writ of mandamus directing the NHAI to fix the toll fee at Rs.30/- for single trip users.

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3.	WP No. 6043/04	February 21, 2005	V.K. Maheshwaran	1. Secretary, Highways, 2.TNRDC and Anr.	High Court of Judicature at Chennai	Not Applicable	The petitioner seeks a certiorari to quash government orders relating to the acquisition of the petitioner's property. There has been a stay of dispossession in the matter.
4.	OS. No. 139/94	September 6, 2004	Tirukalikundram Bar Association	CEO TNRDC	District Munsiff cum Judicial Magistrate, Tirukalikundram	Not Applicable	The plaintiff is seeking a permanent injunction restraining the defendant from collecting toll from plaintiff's members while using the East Coast Road.

A writ petition No. 32889/04 has been filed against Chief Engineer Highways (Road Sector), the Project Director TNRDC and others before the High Court of Judicature at Chennai. The petitioner seeks a writ of mandamus directing the Chief Engineer to take steps to widen the East Coast Road using land already acquired for the purpose.

### TVC India Private Limited (TVC)

#### i) Civil Proceedings

Sl. No.	Dated	Complainant/ Applicant/ Plaintiff	Respondent/ Defendant	Name & Address of Court/ Arbitration Panel	Amount under consideration (in Rs.)	Nature of case
1.	May 28, 2001	RPG Telephones Ltd.	TVC	Additional District Judge, Tis Hazari, New Delhi	Not Applicable	TVC had entered into a non-binding Memorandum of Understanding (MoU) with the plaintiff and RPG Satellite for the acquisition of 100% equity of the plaintiff, in accordance with which TVC had paid an amount of Rs. 1,22,59,603 to the Department of Telephones (DoT) on behalf of RPG Satellite. The said amount was to be set off from the monthly payment to be paid by TVC to RPG Satellite for the use of RPG Satellite's space segment and the plaintiff had provided a corporate guarantee for the said amount. RPG terminated the agreement leaving a sum of Rs. 42,06,103 unadjusted. The said acquisition also was not completed. The plaintiff has filed a suit seeking a declaration that the corporate guarantee provided by it is null, void-ab-initio, unenforceable and inoperative.
2.	July 26, 2001	TVC	RPG Telephones Ltd.	High Court of Judicature at New Delhi	47,50,592 along with interest @ 21% up till the date of institution of proceedings. Further interest @ 21% has been claimed till date of realization.	TVC had entered into a non-binding Memorandum of Understanding (MoU) with the defendant and RPG Satellite for the acquisition of 100 % equity of the defendant, in accordance with which TVC had paid an amount of Rs. 1,22,59,603 to the Department of Telephones (DoT) on behalf of RPG Satellite. The said amount was to be set off from the monthly payment to be paid by TVC to RPG Satellite for the use of RPG Satellite's space segment and the applicant had provided a corporate guarantee for the said amount. RPG terminated the agreement leaving a sum of Rs. 42,06,103 unadjusted. The said acquisition also was not completed. TVC has filed a summary suit claiming the said amount.
3.	September 17, 2001	Santokh Singh Chawla	TVC	Additional District Judge, Tis Hazari, New Delhi	13,91,118	The landlord of the premises occupied by TVC has filed a suit claiming the said sum of money towards rent for 30 months. The plaintiff has further, sought to restrain TVC from vacating the premises until payment.
4.	March 3, 2004	TVC	Supreme Telecommunication Ltd	Civil Judge, Tis Hazari, New Delhi	1,84,000 including interest.	TVC and the defendant had executed a contract for Oil and Natural Gas Commission (ONGC). Post the completion of the project a sum of Rs. 84,000 was pending from the defendant. The defendant has also not furnished the TDS certificate amounting to Rs. 42,900. TVC has filed a suit to recover the amount.

5.	March 28, 2005	TVC	Mahandi Coal	Tis Hazari, New Delhi	14,10,122 including interest	The defendant failed to pay dues amounting to Rs. 12,08,538 payable to TVC. TVC has filed a recovery suit
6.	May 1, 2004	TVC	Rupam Setia	Civil Court, Tis Hazari, New Delhi	51,840	TVC had provided security deposit of Rs. 51,480, towards the lease of premises from the defendant. The premises were vacated on termination of the agreement. However, the defendant did not return the deposit amount. The plaintiff filed a recovery suit. The parties have entered into a compromise.
7.	May 1, 2004	TVC	Gaurav Setia	Civil Court, Tis Hazari, New Delhi	1,14,840	TVC had provided a security deposit of Rs. 1,14,840 towards the lease of premises from the defendant. The premises were vacated on termination of the agreement. However, the defendant did not return the deposit amount. The plaintiff filed a recovery suit. The parties have entered into a compromise.
8.	July 7, 2004	TVC	IBM / Birla 3M	Civil Court, Tis Hazari, New Delhi	2,64,468 including interest	The said amount as outstanding from the defendants towards one time installation, programme management charges and octroi. On default, TVC filed a recovery suit.
9.	September 18, 18, 2004	TVC	Sahara India and Others	High Court of Judicature at New Delhi	47,86,392	TVC had provided various equipments/installations/ services to Sahara. The said sum was outstanding with respect to the services rendered. On default TVC filed a recovery suit.

TVC has filed a recovery suit on August 5, 2004 against Loctite India Private Limited for recovery of Rs. 2,80,000 along with interest. An amount of Rs. 1,93,174 was outstanding from the Loctite India Private Limited towards DoT/ WPC charges, Network Monitoring Charges etc. Loctite India Private Limited defaulted on payment inspite of a legal notice from TVC. Hence a suit has been filed by TVC.

#### Material Developments

In the opinion of the Board of Directors, there have not arisen, since the date of the last financial statements disclosed in the Prospectus, any circumstance that materially or adversely affect or are likely to affect the profitability of the Company and its subsidiaries taken as a whole or the value of their consolidated assets or their ability to pay their material liabilities within the next twelve months.

**REGULATORY APPROVALS**

The Company has received all the necessary consents, licences, permissions and approvals from the Government and various Government agencies / private certification bodies required for its present business and no further approvals are required for carrying on the present as well as the proposed business of the Company except as stated in this Prospectus. It must, however, be distinctly understood that in granting the above consents/ licences/ permissions/ approvals, the government does not take any responsibility for the financial soundness of the Company or for the correctness of any of the statements or any commitments made or opinions expressed.

The Company has received the following approvals/licenses/permissions:

- Permanent Account Number AAACI3364A dated September 1, 1997.
- Service Tax Code Number AAACI3364AST001 dated January 14, 2003.
- Tax deduction Account Number MUMI03154E.
- Registration (No. INB231020833) with SEBI under the SEBI (Stock Brokers and Sub Brokers Regulations), 1992, as Trading Member on the National Stock Exchange, dated February 20, 1998.
- Registration (No. INF231020833) with SEBI under the SEBI (Stock Brokers and Sub Brokers Regulations), 1992, as F&O Trading Member on the National Stock Exchange, dated June 2, 2000.
- Registration (No. INB011020832) with SEBI under the SEBI (Stock Brokers and Sub Brokers Regulations), 1992, as Trading Member on the Stock Exchange, Mumbai dated August 13, 1999.
- Registration (No. INF011020832) with SEBI under the SEBI (Stock Brokers and Sub Brokers Regulations), 1992, as F&O Trading Member on the Stock Exchange, Mumbai dated March 12, 2001. \*
- Registration (No. INB051020833) with SEBI under the SEBI (Stock Brokers and Sub Brokers Regulations), 1992, as a Stock Broker on the Delhi Stock Exchange, dated April 3, 1998.
- Registration (No. MB/INM000002475) with SEBI under the SEBI (Merchant Banker Regulations) 1992 as a Merchant Banker, dated August 30, 2002.
- Registration (No. UND/INU000000779) with SEBI under the SEBI (Underwriters Regulations) 1993 as an Underwriter, dated May 19, 2003.
- Registration (No. PM/INP000000498) with SEBI under the SEBI (Portfolio Managers) Regulations, 1993 as a Portfolio Manager.
- FIPB Approval (No. FC II 160 (2000)/98(2000)) dated March 27, 2000 to the Company for foreign equity participation of 30.77 % by foreign collaborator M/s ORIX Corporation, Japan.
- General permission by the RBI, dated July 28, 2000, under the Foreign Exchange (Regulation) Act, 1973 for foreign direct investment by ORIX Corporation, Japan and allotting Registration No. FC 00 BYG 0012.
- Registration (No. MH/PF/APP/G3111/20NEY/CSC/1414) under the Employees' Provident Funds and Miscellaneous Provision Act, 1952 dated March 9, 1998
- Provisional registration under the Employees State Insurance Act, 1948 and allotment of factory code no 31-42802-102 for Bangalore branch by the Regional Office, Karnataka of the Employees' State Insurance Corporation dated June 7, 2001.
- Certificate of Enrolment (No. PJT/03/1/PP/PT/628/2000-01) under the Andhra Pradesh State Tax on Professions, Trades, Callings and Employments Act, 1987 dated December 6, 2000.
- Certificate of Enrolment (No. PT/E/1/1/27/18/3055) under the Maharashtra State Tax on Professions, Trades, Callings and Employments Act, 1975 dated September 14, 2001.
- Certificate of Enrolment (No. 2305116-4) under the Karnataka State Tax on Professions, Trades, Callings and Employments Act, 1976 dated November 6, 2001.
- Certificate of Enrolment (No. 0939000034) under the Gujarat State Tax on Professions, Trades, Callings and Employments Act, 1976 dated May 22, 2004.
- Certificate of Enrolment (No. ECW 2084767) under the West Bengal State Tax on Professions, Trades, Callings and Employments Act, 1979 dated September 3, 1999.
- License (No. 28-61748) for industries, factories, trades and business from Municipal Corporation Vishakapatnam.



- Registration (No. Cal/Park/P-11/35236/99) under the West Bengal Shops and Establishments Act, 1963, for the Kolkata branch situated at 11, U.N. Brahmachari Street, Kolkata 17.
- Registration (No. PII/40561) under the West Bengal Shops and Establishments Act, 1963 dated August 17, 2004, for the Kolkata branch situated at 43, Jawaharlal Nehru Road, Kolkata – 71.
- Registration (No. CH-I/9/2000-2001/66) under the Punjab Shops and Commercial Establishments Act, 1958, for the Chandigarh branch situated at Sector 9D, Chandigarh, valid till March 31, 2005.
- Registration (No. HE-II/002984) under the Bombay Shops and Establishments Act, 1948, dated July 24, 2001, for the Mumbai branch situated at Bandra Kurla Complex, Bandra East, Mumbai 51.
- Registration (No. HW-II/004394) under the Bombay Shops and Establishments Act, 1948, dated February 1, 2002, for the Mumbai branch situated at Kanaiya Buiding, 250- B Linking Road, Mumbai 50.
- Registration (No. A-II/023349) under the Bombay Shops and Establishments Act, 1948, dated February 16, 2002, for the Mumbai branch situated at Seskaria Chambers, ground Floor, N. Master Road, Mumbai 23.
- Registration (No. C/II/P/2K/52) under the Goa, Daman and Diu Shops and Establishment Rules, 1975 dated January 21, 2002, for the branch situated at No. 3,4,5 Sandeep Apartments, Next to Hotel Samrat, Dr. Dada Vaidya Road, Panaji, Goa.
- Registration under the Karnataka Shops and Establishments Act, dated September 3, 1999 for the premises situated at HDFC House, Ground Floor, 51, Kasturba Raod, Bangalore – 560 001.
- Registration under the Karnataka Shops and Establishments Act, dated February 21, 2000 for the premises situated at 650, 17<sup>th</sup> Main, VI Block, 80 Foot Road, Koramangala, 560 095.
- Registration under the Karnataka Shops and Establishments Act, dated September 23, 2000 for the premises situated at International Technology Park, No. G-03, Mall Area, Whitefield, Bangalore, 560 066.
- Registration under the Karnataka Shops and Establishments Act, dated November 18, 2003 for the premises situated at 7/24, Above Global Trust Bank, 1<sup>st</sup> Floor, 11<sup>th</sup> Main, 4<sup>th</sup> Block, Jayanagar, Banaglore
- Registration under the Karnataka Shops and Establishments Act, dated November 18, 2003 for the premises situated at 3 & 3A, Ground Floor, Copper Arch, Infantry Road, Bangalore.
- Registration under Rajasthan Shops and Establishments Act, dated January 1, 2001, in respect of the premises situated at 3rd Floor, O-19A, Ashok Marg, C Scheme, Jaipur - 302 001.
- Registration (No. 2004/39023682) from the Indore Municipal Corporation in relation to the Shops and Establishments Act, for the Indore branch situated at 6, Mahatma Gandhi Marg, 221-222, Indraprastha Tower, Indore.
- Registration (No. R 5045/ispIV) under the Andhra Pradesh Shops and Establishments Act, 1988, for the Vishakapatnam branch situated at 303, T-C2 Block, III Floor, Dwarakanagar, Vishakapatnam.
- Registration (No. C10-2129/2000) under the Andhra Pradesh Shops and Establishments Act, 1988, for Hyderabad branch situated at Rajbhavan Road, Somajiguda, Hyderabad.
- Registration (No. 1519/2000) under the Madras Industrial and Labour Act for the branch in Coimbatore.
- Registration (No. S.G. – 31072/28862/2682 (Bistupur)) under the Jharkhand Shops and Establishments Act, for the Jamshedpur branch situated at bungalow No. 1, E Road, Northern Town, Bistupur, Jamshedpur.
- Registration (No. 0239647) under the Bombay Shops and Establishments Act, 1948, for the Pune branch, situated at 33/15 Prashant Bungalow, Opp. Garware College, Karve Road, Pune.
- Registration (No. 0239277) under the Bombay Shops and Establishments Act, 1948, for the Pune branch, situated at Construction House, 2<sup>nd</sup> Floor, Shivaji Nagar, Pune.
- Registration (No. 0082745) under the Bombay Shops and Establishments Act, 1948, for the Ahmedabad branch, situated at 204, Aaditya Building, Opp. Sardar Patel Seva Samaj, Near Mithikali Six Roads, Navrangpura, Ahmedabad – 380 009.

The Company has applied for but is yet to receive the following renewal:

- Renewal of registration under the Andhra Pradesh Shops and Establishments Act, 1988.

The Company is yet to apply for registration for their offices situated in Gurgaon and Ludhiana.

\* The registration is in the name of “Investsmart India Limited”, the previous name of the Company.

## IL&FS INVESTSMART LIMITED

### OTHER REGULATORY AND STATUTORY DISCLOSURES

#### Authority for the Offer

The Fresh Issue has been authorized by a special resolution adopted pursuant to Section 81(1A) of the Companies Act, 1956, at the extraordinary general meeting of the shareholders of the Company held on March 28, 2005. ETM vide its letter dated March 27, 2005 has waived its right to attend the extraordinary general meeting of the Company held on March 28, 2005 through their representative. The Committee of Directors of IL&FS on March 28, 2005 approved the offer for sale of upto 26,00,000 Equity Shares of Rs. 10 each held by it in the Company through this Offer. The Offer for sale by Promoters has been authorised by the resolution of the Committee of Directors of the Company dated April 5, 2005.

#### Regulatory Approvals for the Offer

The Company has received approval from GOI, Ministry of Finance & Company Affairs, Foreign Investment Promotion Board by its letter no. FC.II.160 (2005)/157(2005) dated June 21, 2005 for the transfer of shares pursuant to the Offer for Sale by Selling Shareholder of Equity Shares in this Offer to eligible non-resident investors including NRIs and FIIs.

The Company has also received approval from the RBI by its letter no. FE.CO.FID/8855/10.1.07.02.200 (654)/2004-05 dated June 22, 2005 for the transfer of shares pursuant to the Offer for Sale of Equity Shares in this Offer from the Promoter to eligible non-resident investors including NRIs and FIIs.

The Company has also received approval from BSE and NSE vide their letter no. mem/arc/cs/4996/2005 dated May 25, 2005 and no. NSE/MEM/4C/1270/12822-D dated May 02, 2005 respectively for change in the shareholding pattern pursuant to the Offer.

#### Prohibition by SEBI

The Company, its Directors, its Promoter, other companies / entities promoted by its Promoter, and companies/entities with which its Directors are associated with as directors, have not been prohibited from accessing the capital markets under any order or direction passed by SEBI. None of the Directors of the Company or the persons in control of the Promoter Company have been prohibited from accessing the capital markets or restrained from buying/selling/dealing in securities under any order or direction passed by SEBI.

#### Eligibility for the Offer

The Company is eligible to make the Offer under Clause 2.2.1 (read with Clause 2.2.3) of the SEBI Guidelines since, based on the unconsolidated financial statements of the Company under Indian GAAP:

- The Company has net tangible assets of at least Rs. 3 crores in each of the preceding three full years of which not more than 50% is held in monetary assets;
- The Company has a track record of distributable profits in terms of Section 205 of Companies Act, for at least three of the immediately preceding five years;
- The Company has a net worth of at least Rs.1 crore in each of the three preceding full years; and
- The proposed Offer size, including all previous public issues in the same financial year, is not expected to exceed five times the pre-Offer net worth of the Company.

The net profit, dividend, net worth, net tangible assets and monetary assets derived from the auditor's report included in this Prospectus under the section "Unconsolidated Financial Statements under Indian GAAP (Including Subsidiaries)", as at and for the last five years ended March 31, 2005 is set forth below:

	Rs. in Lakhs				
	As at and for year ended March 31, 2001	As at and for year ended March 31, 2002	As at and for year ended March 31, 2003	As at and for year ended March 31, 2004	As at and for year ended March 31, 2005
Net Tangible Assets <sup>(1)</sup>	3287.78	9149.74	9074.54	5012.43	9221.12
Monetary Assets <sup>(2)</sup>	2611.63	3275.30	2010.46	2593.55	5531.14
Net Profits, as restated	307.00	33.10	38.12	2194.60	3311.43
Net Worth	4301.92	4563.13	4818.67	6235.94	8663.35

(1) Net tangible assets is defined as the sum of fixed assets (including capital work in progress and excluding revaluation reserves), trade investments, current assets (excluding deferred tax assets) less current liabilities (excluding deferred tax liabilities and long term liabilities)

*(2) Monetary assets include cash on hand and bank and quoted investments including units in open ended mutual fund schemes at cost, net of provisions for diminution in value*

For the year ended March 31, 2001, more than 50% of the Net tangible assets were held in the form of Monetary Assets. The Company has already deployed monetary assets in excess of 50% of the Net Tangible Assets in the business of the Company.

There has been no change in the name of the Company in last one year. However, the Company has changed its name from "Investsmart India Limited" to "IL&FS Investsmart Limited" in 2002-03. However, it does not represent any change in business line or activity.

The Company undertakes that the number of transferees and allottees in the Offer shall be at least 1000. Otherwise, the entire application money shall be refunded forthwith. In case of delay, if any, in refund, the Company shall pay interest on the application money at the rate of 15% per annum for the period of delay.

Further, since the Net Offer to the public is less than 25% of the post-issue capital, the Company shall be subject to the fulfillment of the following conditions as required by the Rule 19(2)(b) of Securities Contracts (Regulations) Rules, 1957:

- A minimum of 2,000,000 Equity Shares (excluding reservations, firm allotments and promoters contribution) are offered to the public;
- The Net Offer size, which is the Offer Price multiplied by the number of Equity Shares offered to the public, is a minimum of Rs. 100 crore; and
- The Net Offer is made through the Book Building Method with allocation of 60% of the Net Offer to Qualified Institutional Buyers, as defined under DIP Guidelines.

Further, if at least 60% of the Net Offer cannot be allotted to QIBs, then the entire application money shall be refunded forthwith. In case of delay, if any, in refund, the Company shall pay interest on the application money at the rate of 15% per annum for the period of delay.

Company had earlier planned to enter the capital markets and had filed the offer document on April 30, 2004 with SEBI. However, the Company did not proceed with the offer and decided to postpone the offering. The Company has postponed the offering due to induction of strategic investors acquiring a stake in the Company. For more details on strategic investors, please refer page 51 of this Prospectus.

#### **Disclaimer Clause**

**AS REQUIRED, A COPY OF THE DRAFT RED HERRING PROSPECTUS HAS BEEN SUBMITTED TO SEBI. IT IS TO BE DISTINCTLY UNDERSTOOD THAT SUBMISSION OF THE DRAFT RED HERRING PROSPECTUS TO SEBI SHOULD NOT, IN ANY WAY, BE DEEMED OR CONSTRUED THAT THE SAME HAS BEEN CLEARED OR APPROVED BY SEBI. SEBI DOES NOT TAKE ANY RESPONSIBILITY EITHER FOR THE FINANCIAL SOUNDNESS OF ANY SCHEME OR THE PROJECT FOR WHICH THE OFFER IS PROPOSED TO BE MADE OR FOR THE CORRECTNESS OF THE STATEMENTS MADE OR OPINIONS EXPRESSED IN THE RED HERRING PROSPECTUS. THE BOOK RUNNING LEAD MANAGER, SBI CAPITAL MARKETS LIMITED HAVE CERTIFIED THAT THE DISCLOSURES MADE IN THE DRAFT RED HERRING PROSPECTUS ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH SEBI GUIDELINES FOR DISCLOSURES AND INVESTOR PROTECTION AS FOR THE TIME BEING IN FORCE. THIS REQUIREMENT IS TO FACILITATE INVESTORS TO TAKE AN INFORMED DECISION FOR MAKING AN INVESTMENT IN THE PROPOSED OFFER. IT SHOULD ALSO BE CLEARLY UNDERSTOOD THAT WHILE THE COMPANY IS PRIMARILY RESPONSIBLE FOR THE CORRECTNESS, ADEQUACY AND DISCLOSURE OF ALL RELEVANT INFORMATION IN THE DRAFT RED HERRING PROSPECTUS, THE BOOK RUNNING LEAD MANAGER ARE EXPECTED TO EXERCISE DUE DILIGENCE TO ENSURE THAT THE COMPANY DISCHARGES ITS RESPONSIBILITY ADEQUATELY IN THIS BEHALF AND TOWARDS THIS PURPOSE, THE BOOK RUNNING LEAD MANAGER, SBI CAPITAL MARKETS LIMITED HAVE FURNISHED TO SEBI, A DUE DILIGENCE CERTIFICATE DATED April 26, 2005 IN ACCORDANCE WITH THE SEBI (MERCHANT BANKERS) REGULATIONS, 1992 WHICH READS AS FOLLOWS:**

- "1. We have examined various documents including those relating to litigation like commercial disputes, patent disputes, disputes with collaborators etc. And other materials in connection with the finalisation of THE DRAFT RED HERRING PROSPECTUS pertaining to the said Offer.**
- 2. On the basis of such examination and the discussions with the Company, IT'S directors and other officers, other agencies, independent verification of the statements concerning the objects of the Offer, projected profitability, price justification and the contents of the documents mentioned in the annexure and other papers furnished by the Company.**

**WE CONFIRM that:**

- (A) The DRAFT RED HERRING PROSPECTUS forwarded to SEBI is in conformity with the documents, materials and papers relevant to the Offer;**
- (B) ALL THE LEGAL REQUIREMENTS CONNECTED WITH THE SAID OFFER AS ALSO THE GUIDELINES, INSTRUCTIONS,**

## **IL&FS INVESTSMART LIMITED**

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ETC. OFFERED BY SEBI, THE GOVERNMENT AND ANY OTHER COMPETENT AUTHORITY IN THIS BEHALF HAVE BEEN DULY COMPLIED WITH; AND

- (C) THE DISCLOSURES MADE IN THE DRAFT RED HERRING PROSPECTUS ARE TRUE, FAIR AND ADEQUATE TO ENABLE THE INVESTORS TO MAKE A WELL-INFORMED DECISION AS TO THE INVESTMENT IN THE PROPOSED OFFER.
3. WE CONFIRM THAT BESIDES OURSELVES, ALL THE INTERMEDIARIES NAMED IN THE DRAFT RED HERRING PROSPECTUS ARE REGISTERED WITH SEBI AND THAT TILL DATE SUCH REGISTRATIONS ARE VALID
4. WHEN UNDERWRITTEN, WE SHALL SATISFY OURSELVES ABOUT THE WORTH OF THE UNDERWRITERS TO FULFIL THEIR UNDERWRITING COMMITMENTS.
5. WE CERTIFY THAT WRITTEN CONSENT FROM SHAREHOLDERS HAS BEEN OBTAINED FOR INCLUSION OF THEIR SECURITIES AS PART OF PROMOTERS' CONTRIBUTION SUBJECT TO LOCK-IN, WILL NOT BE DISPOSED / SOLD / TRANSFERRED BY THE PROMOTERS DURING THE PERIOD STARTING FROM THE DATE OF FILING THE DRAFT PROSPECTUS WITH THE BOARD TILL THE DATE OF COMMENCEMENT OF LOCK-IN PERIOD AS STATED IN THE DRAFT PROSPECTUS."

ALL LEGAL REQUIREMENTS PERTAINING TO THE OFFER WILL BE COMPLIED WITH AT THE TIME OF FILING OF THE RED HERRING PROSPECTUS WITH THE ROC IN TERMS OF SECTION 60B OF THE ACT. ALL LEGAL REQUIREMENTS PERTAINING TO THE OFFER WILL BE COMPLIED WITH AT THE TIME OF REGISTRATION OF THE PROSPECTUS WITH THE ROC IN TERMS OF SECTION 56, SECTION 60 AND SECTION 60B OF THE COMPANIES ACT."

THE FILING OF THE RED HERRING PROSPECTUS DOES NOT, HOWEVER, ABSOLVE THE COMPANY FROM ANY LIABILITIES UNDER SECTION 63 AND SECTION 68 OF THE ACT OR FROM THE REQUIREMENT OF OBTAINING SUCH STATUTORY AND OTHER CLEARANCES AS MAY BE REQUIRED FOR THE PURPOSE OF THE PROPOSED OFFER. SEBI FURTHER RESERVES THE RIGHT TO TAKE UP AT ANY POINT OF TIME, WITH THE BOOK RUNNING LEAD MANAGER, ANY IRREGULARITIES OR LAPSES IN THE RED HERRING PROSPECTUS.

### **General Disclaimer**

The Company, the Selling Shareholder and the BRLMs accept no responsibility for statements made otherwise than in the Draft Red Herring Prospectus, Red Herring Prospectus, Prospectus or in the advertisements or any other material offered by or at instance of the above mentioned entities and anyone placing reliance on any other source of information, including the Company's website, [www.investsmartindia.com](http://www.investsmartindia.com), would be doing so at his or her own risk.

The BRLMs accept no responsibility, save to the limited extent as provided in the Underwriting Agreement to be entered into between the Underwriters, Selling Shareholders and the Company and the Memorandum of Understanding among the BRLMs, the Selling Shareholder and the Company.

The Company and the BRLMs shall make all information available to the public and investors at large and no selective or additional information would be available for a section of the investors in any manner whatsoever including at road show presentations, in research or sales reports or at bidding centres etc.

Company is obliged to update the Prospectus and keep the public informed of any material changes till the listing and trading of the Equity Shares offered in this Offer are commenced.

The BRLM have issued a fresh due diligence certificate dated June 24, 2005 that reiterates the statements made in the above referred certificate and states that all observations made by SEBI vide letter no. CFD/DIL/ISSUES/PB/EB/42891/2005 dated June 17, 2005, have been incorporated in the Prospectus.

### **Selling Shareholder Disclaimer**

IL&FS takes responsibility for only those statements with respect to IL&FS as a Selling Shareholder. IL&FS assumes no responsibility for any of the statements made by the Company in this Prospectus including without limitation all information clauses relating to the Company, its businesses, its affairs and its disclosures.

### **Disclaimer in Respect of Jurisdiction**

This Offer is being made in India to persons resident in India (including Indian nationals resident in India who are majors, HUFs, companies, corporate bodies and societies registered under the applicable laws in India and authorised to invest in shares, Indian mutual funds registered with SEBI, Indian financial institutions, commercial banks, regional rural banks, co-operative banks (subject to RBI permission), Trusts registered under the Societies Registration Act, 1860, as amended from time to time, or any other Trust law and who are authorised under their constitution to hold and invest in shares) and to NRIs, FIIs, Venture Capital Funds registered with SEBI and Foreign Venture

Capital Funds registered with SEBI. This Prospectus does not, however, constitute an invitation to subscribe to shares offered hereby in any other jurisdiction to any person to whom it is unlawful to make an offer or invitation in such jurisdiction. Any person into whose possession this Prospectus comes is required to inform him or her self about and to observe any such restrictions. Any dispute arising out of this Offer will be subject to the jurisdiction of appropriate court(s) in Mumbai only.

No action has been or will be taken to permit a public offering in any jurisdiction where action would be required for that purpose, except that this Draft Red Herring Prospectus has been filed with SEBI for observations and SEBI has given its observations and the Red Herring Prospectus has been filed with RoC as per the provisions of the Companies Act. Accordingly, the Equity Shares, represented thereby may not be offered or sold, directly or indirectly, and this Red Herring Prospectus may not be distributed, in any jurisdiction, except in accordance with the legal requirements applicable in such jurisdiction. Neither the delivery of this Draft Red Herring Prospectus, Red Herring Prospectus, Prospectus nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company from the date hereof or that the information contained herein is correct as of any time subsequent to this date.

#### **Disclaimer Clause of the National Stock Exchange of India Limited**

"As required, a copy of this prospectus has been submitted to National Stock Exchange of India Limited (hereunder referred to as NSE). NSE has given vide its letter Ref. No. NSE/LIST/14039-H dated June 10, 2005 permission to the Issuer to use the Exchange's name in this Red Herring Prospectus as one of the stock exchanges on which the Issuer's securities are proposed to be listed subject to the issuer fulfilling the various criteria for listing including the one related to paid up capital and market capitalisation (i.e. the paid up capital shall not be less than Rs.10 crores and market capitalisation shall not be less than Rs. 25 crores at the time of listing). The Exchange has scrutinized this Red Herring Prospectus for its limited internal purpose of deciding in the matter of granting the aforesaid permission to the Issuer. It is to be distinctly understood that the aforesaid permission given by NSE should not in any way be deemed or construed that the Red Herring Prospectus has been cleared or approved by NSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the contents of this Red Herring Prospectus; nor does it warrant that this Issuer's securities will be listed or will continue to be listed on the Exchange; nor does it take any responsibility for the financial or other soundness of the Issuer, its promoters, its management or any scheme or project of this Issuer.

Every person who desires to apply for or otherwise acquire any securities of this Issuer may do so pursuant to independent enquiry, investigation and analysis and shall not have any claim against the Exchange whatsoever by reason of any loss, which may be suffered by such person consequent to or in connection with such subscription/ acquisition whether by reason of anything stated or omitted to be stated herein or any other reason whatsoever."

#### **Disclaimer Clause of The Stock Exchange, Mumbai**

"BSE-The Stock Exchange, Mumbai ("the Exchange") has given vide its letter dated May 24, 2005 permission to this Company to use the Exchange's name in this offer document as one of the stock exchanges on which this company's securities are proposed to be listed. The Exchange has scrutinized this offer document for its limited internal purpose of deciding on the matter of granting the aforesaid permission to this Company. The Exchange does not in any manner: -

- i. warrant, certify or endorse the correctness or completeness of any of the contents of this offer document; or
- ii. warrant that this Company's securities will be listed or will continue to be listed on the Exchange; or
- iii. take any responsibility for the financial or other soundness of this Company, its promoters, its management or any scheme or project of this company;

any it should not for any reason be deemed or construed that this offer document has been cleared or approved by the Exchange. Every person who desires to apply for or otherwise acquires any securities of this Company may do so pursuant to independent enquiry, investigation and analysis and shall not have any claim against the Exchange whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription/acquisition whether by reason of anything stated or omitted to be stated herein or for any other reason whatsoever."

#### **Filing**

A copy of the Draft Red Herring Prospectus has been filed with SEBI at Corporation Finance Department, Ground Floor, Mittal Court, "A" Wing, Nariman Point, Mumbai 400 021

A copy of the Red Herring Prospectus, along with the documents required to be filed under Section 60B of the Companies Act, will be delivered to the ROC and a copy of the Prospectus required to be filed under Section 60 of the Companies Act would be delivered for registration with The Registrar of Companies, Maharashtra, 100, Everest, Marine Lines, Mumbai - 400 002 where the Company is registered.

## IL&FS INVESTSMART LIMITED

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### Listing

Applications have been made to the National Stock Exchange of India Limited and The Stock Exchange, Mumbai for permission to deal in and for an official quotation of the Equity Shares of the Company. National Stock Exchange of India Limited will be the Designated Stock Exchange.

If the permission to deal in and for an official quotation of the Equity Shares is not granted by any of the Stock Exchanges mentioned above, the Company should forthwith repay, without interest, all monies received from the applicants in pursuance of this Prospectus. If such money is not repaid within eight days after the date on which the Company become liable to repay it (i.e. from the date of refusal or within 70 days from the date of Offer Closing Date, whichever is earlier), then the Company and every director of the Company who is an officer in default shall, on and from expiry of eight days, be jointly and severally liable to repay the money, with interest at the rate of 15% per annum on application money, as prescribed under Section 73 of the Companies Act.

The Company shall ensure that all steps for the completion of the necessary formalities for listing and commencement of trading at both the Stock Exchanges mentioned above are taken within seven working days of finalisation and adoption of the basis of allocation for the Offer.

### Impersonation

**Attention of the applicants is specifically drawn to the provisions of sub-section (1) of Section 68 A of the Companies Act, which is reproduced below:**

**“Any person who:**

- (a) makes in a fictitious name, an application to a company for acquiring or subscribing for, any shares therein, or**
- (b) otherwise induces a company to allot, or register any transfer of shares therein to him, or any other person in a fictitious name, shall be punishable with imprisonment for a term which may extend to five years.”**

### Minimum Subscription

If Company does not receive the minimum subscription of 90% of the Fresh Issue amount including devolvement of Underwriters, if any, within 60 days from the Bid Closing Date, the Company shall forthwith refund the entire subscription amount received. If there is a delay beyond eight days after the company becomes liable to pay the amount, the Company shall pay interest prescribed under section 73 of Companies Act.

In case of under-subscription in the Offer, the Equity Shares in the Fresh Issue will be issued prior to the sale of Equity Shares in the Offer for Sale.

### Withdrawal of the Offer

The Company and Selling Shareholders, in consultation with the BRLMs, reserve the right not to proceed with the Offer any time after the Bid/Offer Opening Date but before Allotment, without assigning any reason thereof.

### Consents

Consents in writing of: (a) the Directors, the Company Secretary, the Auditors, Legal Advisor, Tax Auditor, Bankers to the Company, Escrow Collection Banks and Bankers to the Offer; and (b) Book Running Lead Managers to the Offer, Syndicate Members and Registrars to the Offer, to act in their respective capacities, have been obtained and filed along with a copy of the Red Herring Prospectus with the Registrar of Companies Maharashtra, Mumbai as required under Section 60 and 60B of the Companies Act and such consents have not been withdrawn up to the time of delivery of the Prospectus for registration.

M/s S. B. Billimoria & Co., Chartered Accountants, the statutory auditors of the Company have given their written consent to the inclusion of their report in the form and context in which it appears in the Draft Red Herring Prospectus and such consent and report has not been withdrawn up to the time of delivery of the Prospectus for registration to the Registrar of Companies, Maharashtra, Mumbai.

M/s Lakhani & Co., Chartered Accountants, have given their written consent to the tax benefits accruing to the Company and its members in the form and context in which it appears in the Draft Red Herring Prospectus and has not withdrawn the same up to the time of delivery of the Prospectus for registration to the Registrar of Companies Maharashtra, Mumbai.

### Expert Opinion

Save as stated otherwise in the Prospectus, the Company has not obtained any expert opinions.

### Expenses of the Offer

The expenses of the Offer payable by the Company inclusive of brokerage, fees payable to the BRLMs, Syndicate Members, other advisors to the Offer, fees of Legal Advisors, stamp duty, printing, publication, advertising and distribution expenses, bank charges, fees payable to the Registrars to the Offer, listing fees and other miscellaneous expenses is estimated to be approximately 5.92% of the Offer size.

The details of fees payable to BRLMs, Registrar etc is as follows:

Particulars	Rs. in Lacs
Lead Management	330.73
Underwriting & Selling Commission	142.50
Fees payable to Registrar, Legal Advisors & Auditors	70.00
Printing, Stationery & Postage	160.00
Advertisement and Marketing	120.00
Other expenses	20.00
<b>TOTAL</b>	<b>843.23</b>

#### **Fees Payable to the Book Running Lead Managers**

The total fees payable to the BRLMs will be as per the Terms of Engagement Letter, offered by the Company. A copy of the Engagement letter and the Memorandum of Understanding signed amongst the Company, Selling Shareholder and the BRLMs, is available for inspection at the Registered Office of the Company.

#### **Fees Payable to the Registrar to the Offer**

The fees payable to the Registrar to the Offer will be as per the Memorandum of Understanding signed with the Company, a copy of which is available for inspection at the Registered Office of the Company.

The Registrar will be reimbursed for all relevant out-of-pocket expenses including such as cost of stationery, postage, stamp duty, communication expenses. Adequate funds will be provided to the Registrar to the Offer to enable them to send refund orders or allocation advice by registered post/ Speed Post. Refund Orders up to Rs. 1500/- would be sent under certificate of posting.

#### **Underwriting Commission, Brokerage and Selling Commission**

The underwriting commission and selling commission for the Offer is as set out in the Syndicate Agreement amongst the Company, Selling Shareholder, the BRLMs and Syndicate Members.

The underwriting commission shall be paid as set out in the Syndicate Agreement based on the Offer Price and amount underwritten in the manner mentioned on the page 10 of the Prospectus.

#### **Previous rights and public issues during the last 5 years**

The Company has not made any previous public or rights issues except as stated in the section entitled "Capital Structure of the Company" on page 11 of this Prospectus.

#### **Offers otherwise than for Cash**

The Company has not issued any shares for consideration other than for cash except for shares issued to IL&FS pursuant to amalgamation of IL&FS Merchant Banking Services Limited and DebonNet Limited with company from January 1, 2002. Kindly refer to the section titled "Capital Structure" on page 11 of this Prospectus.

#### **Commission and Brokerage on Previous Offers**

Except as stated in the Prospectus, no sum has been paid or is payable as commission or brokerage for subscribing to or procuring or agreeing to procure subscription for any of the Equity Shares of the Company since its inception.

#### **Companies under the Same Management**

There are no companies under the same management within the meaning of Section 370 (1B) of the Companies Act, 1956 other than subsidiaries of the Company and group companies of the Company as disclosed under para "Subsidiaries of IIL" and "Promoter and Group Companies"

#### **Outstanding Debenture or Bond offers**

As of date, the Company does not have any outstanding debenture or bond offers.

#### **Outstanding Preference Shares**

As of date, the Company does not have any outstanding preference shares.

#### **Stock Market Data for the Equity Shares of the Company**

This being the initial public offering of the Company, the Equity Shares of the Company are not listed on any stock exchanges.

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### **Investor Grievance**

#### **Mechanism Evolved for Redressal of Investor Grievances**

The Company will settle investor grievances expeditiously and satisfactorily. The agreement between the Company and the Registrar to the Offer, Karvy Computershare Private Limited, will provide for retention of records with the Registrar to the Offer, for a period of at least six months from the last date of dispatch of letters of allotment, demat credit, and refund orders to enable the investors to approach the Registrar to the Offer for redressal of their grievances.

All grievances relating to this Offer may be addressed to the Registrar to the Offer, M/s. Karvy Computershare Private Limited, giving full details such as name, address of the applicant, number of Equity Shares applied for, amount paid on application and the bank branch or collection centre where the application was submitted.

#### **Disposal of Investor Grievances**

The Company estimates that the average time required by them or the Registrar to the Offer for the redressal of routine investor grievances shall be fifteen working days from the date of receipt of the complaint. In case of non-routine complaints and where external agencies are involved, the Company or the Registrars will seek to redress these complaints as expeditiously as possible. The Company has appointed Mr. Shekhar Deshpande, Company Secretary, IL&FS Investsmart Limited as the Compliance Officer and he may be contacted in case of any pre-issue or post-issue related problems. He can be contacted at: IL&FS Investsmart Limited The IL&FS Financial Centre, Plot C-22, G Block, Bandra-Kurla Complex, Bandra (E), Mumbai 400 051 Tel: +91-22-2659 3469 Fax +91-22-2653 3075 e-mail: shekhar.deshpande@investsmartindia.com

#### **Investor Grievance – Companies under same management**

Kindly refer to the section titled “Group Companies” on page 143 of this Prospectus.

#### **Changes in Auditors during the last three years and reasons thereof**

There has been no change in the statutory auditors of the Company in the last three years.

#### **Capitalisation of Reserves or Profits**

The Company has not capitalised its reserves or profits at any time since its inception.

#### **Revaluation of Assets**

The Company has not revalued any of its assets since its inception.

#### **Classes of Shares**

The Company's authorised capital is Rs. 5000 lacs, which is divided into 500 lakhs Equity Shares of Rs. 10 each.

#### **Payment or Benefit to Promoters or Officers of the Company**

Except as stated otherwise in this Prospectus, no amount or benefit has been paid or given within the two preceding years or is intended to be paid or given to any of the promoter or officers except the normal remuneration for services rendered as Directors, officers or employees.



## OFFERING INFORMATION

### TERMS OF THE OFFER

The Equity Shares being offered are subject to the provisions of the Companies Act, the Memorandum and Articles of the Company, RBI approvals, the terms of this Draft Red Herring Prospectus/ Red Herring Prospectus/ Prospectus, Bid-cum-Application Form, the Revision Form, the Confirmation of Allocation Note ("CAN") and other terms and conditions as may be incorporated in the documents/certificates that may be executed in respect of the Offer. The Equity Shares shall also be subject to laws as applicable, guidelines, notifications and regulations relating to the issue of capital and listing and trading of securities issues from time to time by SEBI, Government of India, Stock Exchanges, RBI, RoC and/or other authorities, as in force on the date of the Offer and to the extent applicable.

### Ranking of Equity Shares

The Equity Shares being offered shall be subject to the provisions of the Memorandum and Articles and shall rank *pari passu* in all respects with the other existing shares of the Company including rights in respect of dividend. The allottees will be entitled to dividend or any other corporate benefits (including dividend), if any, declared by the Company after the date of Allotment. In respect of the Equity shares sold under Offer for Sale, the dividend, if any, for the entire year shall be payable to the transferees.

### Face Value and Offer Price

The Equity Shares with a face value of Rs. 10/- each are being offered in terms of this Prospectus at an Offer Price of Rs. 125 per share. The Floor Price is 110 and the Price Band is between Rs. 110 and Rs.125. At any given point of time, there shall be only one denomination for the Equity Shares of the Company, subject to applicable laws.

### Compliance with SEBI Guidelines

The Company shall comply with all disclosure and accounting norms as specified by SEBI from time to time.

### Rights of the Equity Shareholder

Subject to applicable laws, the equity shareholders shall have the following rights, including the following:

- Right to receive dividend, if declared;
- Right to attend general meetings and exercise voting powers, unless prohibited by law;
- Right to vote on a poll either in person or by proxy;
- Right to receive offers for rights shares and be allotted bonus shares, if announced;
- Right to receive surplus on liquidation;
- Right of free transferability; and
- Such other rights, as may be available to a shareholder of a listed public company under the Companies Act and Memorandum and Articles of Association of the Company.

For a detailed description of the main provisions of the Company's Articles of Association dealing with voting rights, dividend, forfeiture and lien, transfer and transmission and/or consolidation/splitting, refer to the section on "Main Provisions of Articles of Association of the Company" on page 214 in this Prospectus.

### Market Lot

In terms of Section 68B of the Companies Act, the Equity Shares of the Company shall be allotted only in dematerialised form. In terms of existing SEBI Guidelines, the trading in the Equity Shares of the Company shall only be in dematerialised form for all investors.

Since trading of Equity Shares of the Company is in dematerialised mode, the tradable lot is one equity share. Allocation and allotment of Equity Shares through this Offer will be done only in electronic form in multiples of 1 Equity Share subject to a minimum allotment of 50 equity shares to the successful bidders. For details of allocation and allotment, see "Offer procedure – Basis of Allotment and Allocation".

### Jurisdiction

Exclusive jurisdiction for the purpose of this Offer is with competent courts/authorities in Mumbai, India.

### Nomination Facility to the Investor

In accordance with Section 109A of the Companies Act, the sole or first bidder, along with other joint bidder, may nominate any one person in whom, in the event of the death of sole bidder or in case of joint bidders, death of all the bidders, as the case may be, the Equity Shares transferred, if any, shall vest. A person, being a nominee, entitled to the Equity Shares by reason of the death of the original holder(s), shall

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in accordance with Section 109A of the Companies Act, be entitled to the same advantages to which he or she would be entitled if he or she were the registered holder of the equity share(s). Where the nominee is a minor, the holder(s) may make a nomination to appoint, in the prescribed manner, any person to become entitled to equity share(s) in the event of his or her death during the minority. A nomination shall stand rescinded upon a sale/ transfer/ alienation of equity share(s) by the person nominating.

In accordance with Section 109B of the Companies Act, any person who becomes a nominee by virtue of the provisions of Section 109A of the Companies Act, shall upon the production of such evidence as may be required by the Board, elect either:

- a. to register himself or herself as the holder of the equity shares; or
- b. to make such transfer of the equity shares, as the deceased holder could have made.

Further, the Board may at any time give notice requiring any nominee to choose either to be registered himself or herself or to transfer the equity shares, and if the notice is not complied with within a period of ninety days, the Board may thereafter withhold payment of all dividends, bonuses or other monies payable in respect of the equity shares, until the requirements of the notice have been complied with.

**Since the allotment of Equity Shares in the Offer will be made only in dematerialised mode, there is no need to make a separate nomination with us. Nominations registered with the respective depository participants of the applicant would be applicable. If the investors require to change the nomination, they are requested to inform their respective depository participants.**

### **Subscription by NRIs and FIIs registered with SEBI**

**As per the extant policy of the Government of India, OCBs cannot participate in this Offer.** The Company has received approval from the Ministry of Finance and Company Affairs (Department of Economic Affairs) and the Reserve Bank of India for the transfer of the Equity Shares being offered for sale by the Selling Shareholders in this Offer to eligible non-resident investors including NRIs, FIIs and Foreign Venture Capital Investors. Subject to such approval, it is not necessary for the investors to seek separate permission from the FIPB/RBI for this specific purpose. However, it is to be distinctly understood that there is no reservation for Non Residents including NRIs, FIIs and Foreign Venture Capital Investors and all Non Residents including NRI, FII and Foreign Venture Capital Investors applicants will be treated on the same basis with other categories for the purpose of allocation. The transfer of the Equity Shares being offered for sale by the Selling Shareholders in this Offer to Non Residents including NRIs, FIIs and Foreign Venture Capital Investors shall be subject to the conditions as may be prescribed by GoI or RBI while granting such approvals. There are also restrictions in the laws of other jurisdictions for the offer for sale of Equity Shares to Non Residents including NRIs and FIIs.

## OFFER PROCEDURE

### Book Building Procedure

The Offer is being made through the 100% Book Building Process under clause 2.2.2 of SEBI(DIP) Guidelines, 2000, subject to Rule 19(2)(b) of SCRR wherein at least 60% of the net offer to the public shall be available for allocation on a discretionary basis to QIBs. Further, not less than 30% of the net offer to the public shall be available for allocation on a proportionate basis to the Retail Individual Bidders and not less than 10% of the net offer to the public shall be available for allocation on a proportionate basis to Non-Institutional Bidders, subject to valid Bids being received at or above the Offer Price.

Bidders are required to submit their Bids through the members of the Syndicate. The Company, in consultation with the BRLMs reserve the right to reject any Bid procured by any or all members of the Syndicate without assigning any reason therefore from QIBs. In case of Non-Institutional Bidders and Retail Individual Bidders, the Company would have a right to reject the Bids only on technical grounds.

**Investors should note that Equity Shares would be transferred to all successful allottees only in the dematerialised form. Bidders will not have the option of Allotment of Equity Shares in physical form. The Equity Shares, on allotment, shall be traded only in the dematerialised segment of the Stock Exchanges.**

### Bid-cum-Application Form

Bidders shall only use the specified Bid-cum-Application Form bearing the stamp of a member of the Syndicate for the purpose of making a Bid in terms of this Prospectus. The Bidder shall have the option to make a maximum of three Bids in the Bid-cum-Application Form and such options shall not be considered as multiple bids. Upon the allocation of Equity Shares, dispatch of the Confirmation of Allocation Note, ("CAN"), and filing of the Prospectus with the RoC, the Bid-cum-Application Form shall be considered as the Application Form. Upon completing and submitting the Bid-cum-Application Form to a member of the Syndicate, the Bidder is deemed to have authorised the Company to make the necessary changes in this Prospectus and the Bid-cum-Application Form as would be required for filing the Prospectus with the RoC and as would be required by RoC after such filing, without prior or subsequent notice of such changes to the Bidder.

The prescribed colour of the Bid cum Application Form for various categories is as follows:

Catogery	Colour of Bid-cum-Application Form
Indian Public, NRIs applying on a non-repatriation basis	White
Eligible non residents, NRIs or FIIs applying on a repatriation basis	Blue
Reservations for Employees	Pink

### Who can Bid

1. Indian nationals resident in India who are majors, in single or joint names (not more than three);
2. Hindu undivided families or HUFs in the individual name of the Karta. The Bidder should specify that the Bid is being made in the name of the HUF in the Bid cum Application Form as follows: "Name of Sole or First bidder: XYZ Hindu Undivided Family applying through XYZ, where XYZ is the name of the Karta". Bids by HUFs would be considered at par with those from individuals;
3. Companies and corporate bodies not having majority ownership and control of persons resident outside India and societies registered under the applicable laws in India and authorised to invest in the Equity Shares;
4. Indian mutual funds registered with SEBI;
5. Indian financial institutions, commercial banks (excluding foreign banks), regional rural banks, co-operative banks (subject to RBI regulations, as applicable);
6. Venture Capital Funds registered with SEBI;
7. Foreign venture capital investors registered with SEBI;
8. State industrial development corporations;
9. Insurance companies registered with the Insurance Regulatory and Development Authority;
10. Multilateral and bilateral development financial institutions,
11. Provident funds with minimum corpus of Rs. 25 crore and who are authorised under their constitution to hold and invest in equity shares;

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12. Pension funds with minimum corpus of Rs. 25 crore and who are authorised under their constitution to hold and invest in equity shares;
13. Eligible NRIs and FIIs on a repatriation basis or a non-repatriation basis subject to applicable laws;
14. Trust/ society registered under the Societies Registration Act, 1860, as amended, or under any other law relating to trusts/ societies and who are authorised under their constitution to hold and invest in equity shares; and
15. Scientific and/ or industrial research organisations authorised to invest in equity shares.
16. Employees

**Note:** The BRLMs, Syndicate Members and any associate of the BRLMs, and Syndicate Members (except asset management companies on behalf of mutual funds, Indian financial institutions and public sector banks) cannot participate in that portion of the Offer where allocation is discretionary, unless specifically exempted by SEBI. Further, the BRLMs and Syndicate Members shall not be entitled to subscribe to this Offer in any manner except towards fulfilling their underwriting obligation. **OCBs are not eligible to apply in this Offer. Persons against whom there are prevailing restraint orders on buying, selling or dealing in securities are not entitled to apply in this issue.**

**Bidders are advised to ensure that any single Bid from them does not exceed the investment limits or maximum number of Equity Shares that can be held by them under the relevant regulations or statutory guidelines.**

**As per the current regulations, the following restrictions are applicable for investments by mutual funds:**

1. No mutual fund scheme shall invest more than 10% of its net asset value in the equity shares or equity related instruments of any company provided that the limit of 10% shall not be applicable for investments in index funds or sector or industry specific funds.
2. No mutual fund under its scheme should own more than 10% of any company's paid-up capital carrying voting rights.

**As per the current regulations, the following restrictions are applicable for investments by FIIs:**

The offer of Equity Shares to a single FII should not exceed 10% of the post-Offer issued capital of the Company (i.e. 10% of 4,37,99,716 Equity Shares). In respect of an FII investing in the Equity Shares of the Company on behalf of its sub-accounts, the investment on behalf of each sub-account shall not exceed 10% of the total issued capital of the Company or 5% of the total issued capital of the Company in case such sub-account is a foreign corporate or an individual. As of now, the aggregate FII holding in the Company cannot exceed 24% of the total issued capital. With approval of the Board of Directors and that of the shareholders by way of a special resolution, the aggregate FII holding can go up to 100%; however, till date, no such resolution has been recommended to the shareholders for adoption.

**As per the current regulations, the following restrictions are applicable for investments by SEBI registered venture capital funds and foreign venture capital investors.**

The SEBI (Venture Capital) Regulations, 1996 and the SEBI (Foreign Venture Capital Investor) Regulations, 2000 prescribe investment restrictions on venture capital funds and foreign venture capital investors registered with SEBI. Accordingly, the investment by any individual venture capital fund or foreign venture capital investor registered with SEBI should not exceed 33.33% of the corpus of such venture capital fund or foreign venture capital investor. The aggregate holdings of venture capital funds and foreign venture capital investors registered with SEBI could, however, go upto 100% of the Company's paid-up equity capital.

The above information is given for the benefit of the Bidders. The Company and the BRLMs are not liable for any amendments or modification or changes in applicable laws or regulations, which may happen after the date of this Prospectus. Bidders are advised to make their independent investigations and ensure that the number of Equity Shares bid for do not exceed the applicable limits under applicable laws or regulations.

### **Maximum and Minimum Bid Size**

- (a) **For Retail Individual Bidders:** The Bid must be for a minimum of 50 Equity Shares and in multiples of 50 Equity Share thereafter, so as to ensure that the Bid Amount payable by the Bidder does not exceed Rs. 1,00,000. In case of revision of Bids, the Retail Individual Bidders have to ensure that the Bid Amount does not exceed Rs. 1,00,000. In case the Bid Amount is over Rs. 1,00,000 due to revision of the Bid or revision of the Price Band or on exercise of the option, the Bid would be considered for allocation under the Non-Institutional Bidders portion. The option to Bid at Cut-off Price is an option given only to the Retail Individual Bidders indicating their agreement to Bid and purchase at the final Offer Price as determined at the end of the Book Building Process.
- (b) **For Non-Institutional Bidders and QIB Bidders:** The Bid must be for a minimum of such number of Equity Shares such that the Bid Amount exceeds Rs. 1,00,000 and in multiples of 50 Equity Shares. A Bid cannot be submitted for more than the Net Offer to the public. However, the maximum Bid by a QIB Bidder should not exceed the investment limits prescribed for them by applicable laws. Under existing SEBI guidelines, a QIB Bidder cannot withdraw its Bid after the Bid Closing Date/Offer Closing Date.

In case of revision in Bids, the Non-Institutional Bidders, who are individuals, have to ensure that the Bid Amount is greater than Rs. 1,00,000 for being considered for allocation in the Non-Institutional Portion. In case the Bid Amount reduces to Rs. 1,00,000 or less due to a revision in Bids or revision of the Price Band, Bids by Non-Institutional Bidders who are eligible for allocation in the Retail Portion would be considered for allocation under the Retail Portion. Non-Institutional Bidders and QIB Bidders are not allowed to Bid at Cut-Off Price.

**(c) For Employees:** The Bid must be for a minimum of 50 Equity Shares and in multiples of 50 Equity Share thereafter

A QIB Bidder cannot withdraw its Bid after the Bid/Offer Closing Date.

#### **Information for the Bidders:**

- (a) The Company will file the Red Herring Prospectus with the ROC at least three days before the Bid Opening Date/ Offer Opening Date.
- (b) The members of the Syndicate will circulate copies of the Red Herring Prospectus along with the Bid cum Application Form to potential investors.
- (c) Any investor (who is eligible to invest in the Equity Shares according to the terms of this Red Herring Prospectus and applicable law) who would like to obtain the Red Herring Prospectus and/ or the Bid cum Application Form can obtain the same from the Company's Registered Office or from any of the members of the Syndicate.
- (d) The Bids should be submitted on the prescribed Bid cum Application Form only. Bid cum Application Forms should bear the stamp of the members of the Syndicate. Bid cum Application Forms which do not bear the stamp of the members of the Syndicate will be rejected.

#### **Method and Process of Bidding**

- (a) The Company and the BRLMs shall declare the Bid Opening Date/ Offer Opening Date, Bid Closing Date/Offer Closing Date and Price Band at the time of filing the Red Herring Prospectus with the ROC and also publish the same in two widely circulated newspapers (one each in English and Hindi) and a regional language newspaper circulated at the place where the registered office of the Company is situate. This advertisement shall be in the format and contain the disclosures specified in Part A of Schedule XX-A of the SEBI Guidelines. The Syndicate Members shall accept Bids from the Bidders during the Offer Period in accordance with the terms of the Syndicate Agreement.
- (b) Investors who are interested in subscribing for the Equity Shares should approach any of the members of the Syndicate or their authorised agent(s) to register their Bid.
- (c) The Bidding Period shall be a minimum of three days and shall not exceed seven days. In case the Price Band is revised, the revised Price Band and Bidding Period will be published in two national newspapers (one each in English and Hindi) and a regional language newspaper circulated at the place where the registered office of the Company is situate and the Bidding Period may be extended, if required, by an additional three days, subject to the total Bidding Period not exceeding 10 days.
- (d) Each Bid cum Application Form will give the Bidder the choice to bid for up to three optional prices (for details refer to the section titled "Offer Procedure - Bids at Different Price Levels") within the Price Band and specify the demand (i.e., the number of Equity Shares Bid for) in each option. The price and demand options submitted by the Bidder in the Bid cum Application Form will be treated as optional demands from the Bidder and will not be cumulated. After determination of the Offer Price, the maximum number of Equity Shares Bid for by a Bidder at or above the Offer Price will be considered for allocation and the rest of the Bid(s), irrespective of the Bid Price, will become automatically invalid.
- (e) The Bidder cannot bid on another Bid cum Application Form after Bids on one Bid cum Application Form have been submitted to any member of the Syndicate. Submission of a second Bid cum Application Form to either the same or to another member of the Syndicate will be treated as multiple Bids and is liable to be rejected either before entering the Bid into the electronic bidding system, or at any point of time prior to the allocation or allotment of Equity Shares in this Offer. However, the Bidder can revise the Bid through the Revision Form, the procedure for which is detailed under the section titled "Build up of the Book and Revision of Bids" on page 200.
- (f) The Syndicate Members will enter each Bid option into the electronic bidding system as a separate Bid and generate a Transaction Registration Slip, ("TRS"), for each price and demand option and give the same to the Bidder. Therefore, a Bidder can receive up to three TRSs for each Bid cum Application Form.
- (g) During the Bidding Period, Bidders may approach the members of the Syndicate to submit their Bid. Every member of the Syndicate shall accept Bids from all clients / investors who place orders through them and shall have the right to vet the Bids.

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- (h) Along with the Bid cum Application Form, all Bidders will make payment in the manner described under the section titled "Offer Procedure - Terms of Payment and Payment into the Escrow Accounts" on page 199].

### Bids at Different Price Levels

- (a) The Price Band has been fixed at Rs. 110 to Rs. 125 per Equity Share of Rs. 10 each, Rs. 110 being the Floor Price and Rs. 125 being the Cap Price. The Bidders can bid at any price within the Price Band, in multiples of Rs. 1.
- (b) In accordance with SEBI Guidelines, the Company reserves the right to revise the Price Band during the Bidding Period. The cap on the Price Band should not be more than 20% of the floor of the Price Band. Subject to compliance with the immediately preceding sentence, the floor of the Price Band can move up or down to the extent of 20% of the floor of the Price Band disclosed in the Red Herring Prospectus.
- (c) In case of revision in the Price Band, the Offer period will be extended for three additional days after revision of Price Band subject to a maximum of 10 days. Any revision in the Price Band and the revised Bidding Period/Offer Period, if applicable, will be widely disseminated by notification to BSE and NSE, by issuing a public notice in two national newspapers (one each in English and Hindi) and in a regional language newspaper circulated at the place where the registered office of the Company is situate, and also by indicating the change on the websites of the BRLMs and at the terminals of the members of the Syndicate.
- (d) The Company and Selling shareholder, in consultation with the BRLMs, can finalise the Offer Price within the Price Band in accordance with this clause, without the prior approval of, or intimation, to the Bidders.
- (e) Bidders can bid at any price within the Price Band. Bidders have to bid for the desired number of Equity Shares at a specific price. Retail Individual Bidders applying for a maximum Bid in any of the bidding options not exceeding Rs. 1,00,000 may bid at Cut-off Price. However, bidding at Cut-off Price is prohibited for QIB Bidders and Non-Institutional Bidders and such Bids from QIB Bidders and Non-Institutional Bidders shall be rejected.
- (f) Retail Individual Bidders who bid at the Cut-off Price agree that they shall purchase the Equity Shares at any price within the Price Band. Retail Individual Bidders or bidding at Cut-off Price shall deposit the Bid Amount based on the Cap Price in the respective Escrow Accounts. In the event the Bid Amount is higher than the subscription amount payable by the Retail Individual Bidders including Bid at Cut-off Price (i.e., the total number of Equity Shares allocated in the Offer multiplied by the Offer Price), the Retail Individual Bidders who Bid at Cut-off Price, shall receive the refund of the excess amounts from the respective Escrow Accounts/ refund account(s).
- (g) In case of an upward revision in the Price Band announced as above, Retail Individual Bidders, who had bid at Cut-off Price could either (i) revise their Bid or (ii) make additional payment based on the cap of the revised Price Band (such that the total amount i.e. original Bid Amount plus additional payment does not exceed Rs. 1,00,000 if the Bidder wants to continue to bid at Cut-off Price), with the Syndicate Member to whom the original Bid was submitted. In case the total amount (i.e. original Bid Amount plus additional payment) exceeds Rs. 1,00,000, the Bid will be considered for allocation under the Non-Institutional Portion in terms of this Prospectus. If, however, the Bidder does not either revise the Bid or make additional payment and the Offer Price is higher than the cap of the Price Band prior to the revision, the number of Equity Shares Bid for shall be adjusted downwards for the purpose of allotment, such that no additional payment would be required from the Bidder and the Bidder is deemed to have approved such revised Bid at Cut-off Price.
- (h) In case of a downward revision in the Price Band, announced as above, Retail Individual Bidders, who have bid at Cut-off Price could either revise their Bid or the excess amount paid at the time of bidding would be refunded from the respective Escrow Accounts/refund account(s).
- (i) In the event of any revision in the Price Band, whether upwards or downwards, the Bid Amount payable on such minimum application has to be in the range of Rs. 5,000 to Rs. 7,000.

### Option to Subscribe

**Equity shares being offered through this Prospectus can be applied for in dematerialised form only. Bidders will not have the option of getting Allotment in physical form. The Equity Shares, on Allotment, shall be traded only in the dematerialised segment of the Stock Exchanges.**

### HOW TO APPLY

#### Escrow Mechanism

The Company shall open Escrow Accounts with one or more Escrow Collection Bank(s) in whose favour the Bidders shall make out the cheque or demand draft in respect of his or her Bid and/or revision of the Bid. Cheques or demand drafts received for the full Bid Amount from Bidders in a certain category would be deposited in the respective Escrow Account. The Escrow Collection Bank(s) will act in terms

of this Prospectus and the Escrow Agreement. The monies in the Escrow Accounts shall be maintained by the Escrow Collection Bank(s) for and on behalf of the Bidders. The Escrow Collection Bank(s) shall not exercise any lien whatsoever over the monies deposited therein and shall hold the monies therein in trust for the Bidders. On the Designated Date, the Escrow Collection Bank(s) shall transfer the monies from the Escrow Accounts to the Offer Account as per the terms of the Escrow Agreement. Payments of refund to the Bidders shall also be made from the Escrow Accounts/refund account(s) as per the terms of the Escrow Agreement and this Prospectus.

The Bidders should note that the escrow mechanism is not prescribed by SEBI and has been established as an arrangement between the Company, Selling shareholder, the members of the Syndicate, the Escrow Collection Bank(s) and the Registrar to the Offer to facilitate collections from the Bidders.

#### **Terms of Payment and Payment into the Escrow Accounts**

Each Bidder who is required to pay a Margin Amount greater than 0% shall with the submission of the Bid cum Application Form draw a cheque or demand draft for the maximum amount of his/ her Bid in favour of the Escrow Account of the Escrow Collection Bank(s) (for details refer to the section titled "Payment Instructions" on page 205) and submit the same to the member of the Syndicate to whom the Bid is being submitted. Bid cum Application Forms accompanied by cash shall not be accepted. The maximum Bid amount payable on application has to be paid at the time of submission of the Bid cum Application Form based on the highest bidding option of the Bidder.

The members of the Syndicate shall deposit the cheque or demand draft with the Escrow Collection Bank(s), which will hold the monies for the benefit of the Bidders till the Designated Date. On the Designated Date, the Escrow Collection Bank(s) shall transfer the funds equivalent to the size of the Offer from the Escrow Accounts, as per the terms of the Escrow Agreement, into the Offer Account with the Banker(s) to the Offer. The balance amount after transfer to the Public Offer Account shall be held for the benefit of the Bidders who are entitled to refunds on the Designated Date, and not later than 15 days from the Bid Closing Date / Offer Closing Date, the Escrow Collection Bank(s) shall refund all monies to unsuccessful Bidders and also the excess amount paid on bidding, if any, after adjustment for Allotment to the Bidders.

Each category of Bidders, i.e., QIB Bidders, Non-Institutional Bidders and Retail Individual Bidders, would be required to pay their applicable Margin Amount at the time of the submission of the Bid cum Application Form. The Margin Amount payable by each category of Bidders is mentioned in the section titled "Basic Terms of the Issue" on page 23. Where the Margin Amount applicable to the Bidder is less than 100% of the Bid Amount, any difference between the amount payable by the Bidder for Equity Shares allocated at the Offer Price and the Margin Amount paid at the time of Bidding, shall be payable by the Bidder not later than the Pay-in-Date, which shall be a minimum period of two days from the date of communication of the allocation list to the members of the Syndicate by the BRLMs. If the payment is not made favouring the appropriate Escrow Account within the time stipulated above, the Bid of the Bidder is liable to be rejected. However, if the members of the Syndicate do not waive such payment, the full amount of payment has to be made at the time of submission of the Bid-cum-application form.

Where the Bidder has been allocated lesser number of Equity Shares than he or she had Bid for, the excess amount paid on bidding, if any, after adjustment for allocation, will be refunded to such Bidder within 15 days from the Bid Closing Date/Offer Closing Date, failing which and the Company shall pay interest at 15% per annum for any delay beyond the periods as mentioned above.

#### **Electronic Registration of Bids**

- (a) The Syndicate Members will register the Bids using the on-line facilities of NSE and BSE. There will be at least one on-line connectivity in each city, where a stock exchange is located in India and where Bids are being accepted.
- (b) NSE and BSE will offer a screen-based facility for registering Bids for the Offer. This facility will be available on the terminals of the Syndicate Members and their authorised agents during the Bidding Period/Offer Period. Syndicate Members can also set up facilities for off-line electronic registration of Bids subject to the condition that they will subsequently download the off-line data file into the on-line facilities for book building on an half hourly basis. On the Bid Closing Date/ Offer Closing Date, the Syndicate Members shall upload the Bids till such time as may be permitted by the Stock Exchanges
- (c) The aggregate demand and price for Bids registered on the electronic facilities of NSE and BSE will be downloaded on an half hourly basis, consolidated and displayed on-line at all bidding centers. A graphical representation of the consolidated demand and price would be made available at the bidding centers during the Bidding Period/ Offer Period.
- (d) At the time of registering each Bid, the members of the Syndicate shall enter the following details of the investor in the on-line system:
  - Name of the investor.
  - Investor Category – Employee, Existing Retail Shareholder, Individual, Corporate, FII, NRI or mutual fund, etc.
  - Numbers of Equity Shares Bid for.

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- Bid price.
  - Bid cum Application Form number.
  - Whether payment is made upon submission of Bid cum Application Form.
  - Depository Participant identification no. and client identification no. of the demat account of the Bidder.
- (e) A system generated TRS will be given to the Bidder as a proof of the registration of each of the bidding options. **It is the Bidder's responsibility to obtain the TRS from the members of the Syndicate.** The registration of the Bid by the member of the Syndicate does not guarantee that the Equity Shares shall be allocated either by the members of the Syndicate or the Company.
- (f) Such TRS will be non-negotiable and by itself will not create any obligation of any kind.
- (g) In case of QIB Bidders, the members of the Syndicate also have the right to accept the Bid or reject it without assigning any reason. In case of Bids under the Non-Institutional Portion, Bids under the Retail Portion, Bids would not be rejected except on the technical grounds listed in this Prospectus.
- (h) It is to be distinctly understood that the permission given by NSE and BSE to use their network and software of the Online IPO system should not in any way be deemed or construed to mean that the compliance with various statutory and other requirements by the Company or the BRLMs are cleared or approved by NSE and BSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the compliance with the statutory and other requirements nor does it take any responsibility for the financial or other soundness of the Company, the Promoter, the management or any scheme or project of the Company.
- (i) It is also to be distinctly understood that the approval given by NSE and BSE should not in any way be deemed or construed that this Prospectus has been cleared or approved by the NSE and BSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the contents of this Prospectus; nor does it warrant that the Equity Shares will be listed or will continue to be listed on the NSE and BSE.

### Build Up of the Book and Revision of Bids

- (a) Bids registered by various Bidders through the Syndicate Members shall be electronically transmitted to the NSE or BSE mainframe on a half hourly basis.
- (b) The book gets built up at various price levels. This information will be available with the BRLMs on a half hourly basis.
- (c) During the Bidding Period, any Bidder who has registered his or her interest in the Equity Shares at a particular price level is free to revise his or her Bid within the Price Band using the printed Revision Form, which is a part of the Bid cum Application Form.
- (d) Revisions can be made in both the desired number of Equity Shares and the Bid price by using the Revision Form. Apart from mentioning the revised options in the Revision Form, the Bidder must also mention the details of all the options in his or her Bid cum Application Form or earlier Revision Form. For example, if a Bidder has Bid for three options in the Bid cum Application Form and he is changing only one of the options in the Revision Form, he must still fill the details of the other two options that are not being changed, in the Revision Form unchanged. Incomplete or inaccurate Revision Forms will not be accepted by the members of the Syndicate. It is the responsibility of bidder to ensure completeness, correctness and accuracy of bid-cum-application form.
- (e) The Bidder can make this revision any number of times during the Bidding Period. However, for any revision(s) in the Bid, the Bidders will have to use the services of the same member of the Syndicate through whom he or she had placed the original Bid. Bidders are advised to retain copies of the blank Revision Form and the revised Bid must be made only in such Revision Form or copies thereof.
- (f) Any revision of the Bid shall be accompanied by payment in the form of cheque or demand draft for the incremental amount, if any, to be paid on account of the upward revision of the Bid. The excess amount, if any, resulting from downward revision of the Bid would be returned to the Bidder at the time of refund in accordance with the terms of this Prospectus. In case of QIB Bidders, the members of the Syndicate may at their sole discretion waive the payment requirement at the time of one or more revisions by the QIB Bidders.
- (g) When a Bidder revises his or her Bid, he or she shall surrender the earlier TRS and get a revised TRS from the members of the Syndicate. **It is the responsibility of the Bidder to request for and obtain the revised TRS, which will act as proof of his or her having revised the previous Bid.**
- (h) In case of discrepancy of data between NSE or BSE and the members of the Syndicate, the decision of the BRLMs, based on the physical records of Bid cum Application Forms, shall be final and binding on all concerned.



- (i) The Price Band can be revised during the Bidding Period, in which case the Bidding Period shall be extended further for a period of three days, subject to the total Bidding Period not exceeding ten days. The Company shall comply with SEBI Guidelines in this regard.

#### **Price Discovery and Allocation**

- (a) After the Bid Closing Date /Offer Closing Date, the BRLMs will analyse the demand generated at various price levels and discuss pricing strategy with the Company.
- (b) The Company and the Selling shareholder, in consultation with the BRLMs, shall finalise the Offer Price, the number of Equity Shares to be allotted in each portion and the allocation to successful QIB Bidders. The allocation will be decided based *inter alia*, on the quality of the Bidder, and the size, price and time of the Bid.
- (c) The allocation for QIB Bidders of 60% of the Net Offer would be discretionary. The allocation to Non-Institutional Bidders and Retail Individual Bidders of not less than 10% and 30% respectively of the Net Offer would be on proportionate basis, in the manner specified in the SEBI Guidelines, in consultation with Designated Stock Exchange, subject to valid Bids being received at or above the Offer Price.
- (d) 10% of the issue size i.e 11,40,000 Equity share of Rs. 10 each have been reserved for employees to be allotted on a proportionate basis. Undersubscription if any shall be added to the Net Offer to the Public. In case of oversubscription in the reserved category, excess allotment shall be made from shortfall in any, in the Retail and Non- institutional category (i.e. shortfall in the retail or non-institutional category shall be first adjusted against excess demand in the non-institutional or retail category respectively and the balance shortfall if any, shall be available to the reserved category).
- (e) Any undersubscription in Retail and Non-institutional category would be allowed to be met with spill over from any other categories at the discretion of the Company. QIB shall be allotted a minimum of 60% of the Net offer to the public failing which the entire subscription money shall be refunded.
- (f) Allocation to QIBs, Non-Residents, FIIs and NRIs applying on repatriation basis will be subject to the terms and conditions stipulated by the RBI while granting permission for allotment of Equity Shares to them.
- (g) The BRLMs, in consultation with the Company, shall notify the members of the Syndicate of the Offer Price and allocations to their respective Bidders, where the full Bid Amount has not been collected from the Bidders.
- (h) The Company and the Selling Shareholder reserves the right to cancel the Offer any time after the Bid Opening Date/Offer Opening Date but before allotment without assigning any reasons whatsoever
- (i) In terms of SEBI Guidelines, QIB Bidders shall not be allowed to withdraw their Bid after the Bid Closing Date/ Offer Closing Date.

#### **Signing of Underwriting Agreement and RoC Filing**

- (a) The Company, the Selling Shareholders, the BRLMs and the Syndicate Members shall enter into an Underwriting Agreement on finalisation of the Offer Price and allocation(s) to the Bidders.
- (b) After signing the Underwriting Agreement, the Company shall update and file the updated Prospectus with RoC, which then would be termed 'Prospectus'. The Prospectus would have details of the Offer Price, Offer Size, underwriting arrangements and would be complete in all material respects.

#### **Advertisement regarding Offer Price and Prospectus**

The Company shall at the time of filing the Red Herring Prospectus with the ROC publish in two widely circulated newspapers (one each in English and Hindi) and a regional language newspaper circulated at the place where the registered office of the Company is situated a pre-issue advertisement which shall be in the format and contain the disclosures specified in Part A of Schedule XX-A of the SEBI Guidelines.

#### **Issuance of Confirmation of Allocation Note**

- (a) The BRLM, or Registrar to the Offer shall send to the members of the Syndicate a list of their Bidders who have been allocated Equity Shares in the Offer.
- (b) The BRLM or Syndicate Members would then send the CAN to their Bidders who have been allocated Equity Shares in the Offer. The despatch of a CAN shall be deemed a valid, binding and irrevocable contract for the Bidder to pay the entire Offer Price for all the Equity Shares allocated to such Bidder. Those Bidders who have not paid into the Escrow Account of the Company at the time of bidding shall pay in full the amount payable into the Escrow Account of the Company by the Pay-in Date specified in the CAN.

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- (c) Bidders, who have been allocated Equity Shares and who have already paid into the Escrow Account of the Company at the time of bidding, shall directly receive the CAN from the Registrar to the Offer subject, to realisation of their cheque or demand draft paid into the Escrow Account of the Company. The despatch of a CAN shall be deemed a valid, binding and irrevocable contract for the Bidder to pay the entire Offer Price for all the Equity Shares to be transferred to such Bidder.

### Designated Date and Transfer of Equity Shares

- (a) The Company will ensure that the Allotment of Equity Shares is done within 15 days of the Bid Closing Date/Offer Closing Date. After the funds are transferred from the Escrow Accounts to the Offer Account on the Designated Date, the Company would ensure the credit to the successful Bidders depository account Allotment of the Equity Shares to the allottees within two working days of the date of Allotment.
- (b) All allottees will receive credit for the Equity Shares directly in their depository account. **Equity Shares will be issued/transferred only in the dematerialised form to the allottees.** Allottees will have the option to re-materialise the Equity Shares so transferred, if they so desire, as per the provisions of the Companies Act and the Depositories Act.

**Investors are advised to instruct their Depository Participant to accept the Equity Shares that may be allocated/transferred to them pursuant to this Offer.**

### GENERAL INSTRUCTIONS

#### Do's:

- (a) The investor should check if he is eligible to apply;
- (b) The investor should read all the instructions carefully and complete the Resident Bid cum Application Form (white in colour), Non-Resident Bid cum Application Form (blue in colour) or Employees (Pink in colour) as the case may be;
- (c) The investor should ensure that the details about Depository Participant and Beneficiary Account are correct as Allotment of Equity Shares will be in the dematerialized form only;
- (d) The investor should ensure that the Bids are submitted at the bidding centers only on forms bearing the stamp of a member of the Syndicate;
- (e) The investor should ensure that he/she has been given a TRS for all his/her Bid options;
- (f) The investor should submit revised Bids to the same member of the Syndicate through whom the original Bid was placed and obtain a revised TRS;
- (g) The investor should ensure that he / she mentions his / her Permanent Account Number (PAN) allotted under the I.T. Act where the maximum Bid for Equity Shares by a Bidder is for a total value of Rs. 50,000 or more. Copy of PAN card or PAN allotment letter or Form 60 or Form 61 as the case may be needs to submitted along with Bid-cum-Application form.
- (h) The investor should ensure that the Demographic Details are updated, true and correct in all respects.
- (i) The investor should, wherever applicable, quote his / her Unique Identification Number as allotted under SEBI (Central Database of Market Participants) Regulation, 2003. Kindly refer Unique Identification Number – Mapin on page 207 of this offer document.

#### Don'ts:

- (a) The investor should not Bid for lower than the minimum Bid size;
- (b) The investor should not Bid/ revise Bid price to less than the lower end of the price band or higher than the higher end of the Price Band;
- (c) The investor should not Bid on another Bid cum Application Form after he / she has submitted a Bid to the members of the Syndicate;
- (d) The investor should not pay the Bid Amount in cash;
- (e) The investor should not send Bid cum Application Forms by post; instead the same should be submitted to a member of the Syndicate only;
- (f) The investor should not Bid at Cut-off Price (for QIB Bidders and Non-Institutional Bidders);
- (g) The investor should not fill up the Bid cum Application Form such that the Equity Shares Bid for exceeds the Net Offer size and/

or investment limit or maximum number of Equity Shares that can be held under the applicable laws or regulations or maximum amount permissible under the applicable regulations; and

- (h) The investor should not submit a Bid accompanied with stockinvest.

#### **Instructions for Completing the Bid-cum-Application Form**

Bidders can obtain Bid-cum-Application Forms and / or Revision Forms from the BRLM, or Syndicate Members.

#### **Bids and Revisions of Bids**

Bids and revisions of Bids must be:

- (a) Made only in the prescribed Bid cum Application Form or Revision Form, as applicable (white colour for resident Indians, blue colour for NRIs and FIIs and applying on repatriation basis, pink colour for Employees).
- (b) Completed in full, in BLOCK LETTERS in English and in accordance with the instructions contained herein, in the Bid cum Application Form or in the Revision Form. Incomplete Bid cum Application Forms or Revision Forms are liable to be rejected.
- (c) The Bids from the Retail Individual Bidders must be for a minimum of 50 Equity Shares and in multiples of 50 thereafter subject to a maximum Bid Amount of Rs. 1,00,000.
- (d) For Non-institutional Bidders and QIB Bidders, Bids must be for a minimum of such number of Equity Shares that the Bid Amount exceeds Rs. 1,00,000 and in multiples of 50 Equity Shares. Bids cannot be made for more than the Net Offer size. Bidders are advised to ensure that a single Bid from them should not exceed the investment limits or maximum number of Equity Shares that can be held by them under the applicable laws or regulations.
- (e) The Bids from Employees must be for a minimum of 50 Equity Shares and in multiples of 50 thereafter.
- (f) In single name or in joint names (not more than three, and in the same order as their Depository Participant details).
- (g) Thumb impressions and signatures other than in the languages specified in the Eighth Schedule of the Constitution of India must be attested by a Magistrate or a Notary Public or a Special Executive Magistrate under official seal.

#### **Bidder's Bank Details**

**Bidders should note that on the basis of name of the Bidders, Depository Participant's name, Depository Participant-Identification number and Beneficiary Account Number provided by them in the Bid cum Application Form, the Registrar to the Offer will obtain from the Depository the Bidders bank account details.** These bank account details would be printed on the refund order, if any, to be sent to Bidders. Hence, Bidders are advised to immediately update their bank account details as appearing on the records of the depository participant. **Please note that failure to do so could result in delays in credit of refunds to Bidders at the Bidders sole risk and neither the BRLMs nor the Company shall have any responsibility and undertake any liability for the same.**

#### **Bidder's Depository Account Details**

**IT IS MANDATORY FOR ALL THE BIDDERS TO GET THEIR EQUITY SHARES IN DEMATERIALISED FORM. ALL BIDDERS SHOULD MENTION THEIR DEPOSITORY PARTICIPANT'S NAME, DEPOSITORY PARTICIPANT IDENTIFICATION NUMBER AND BENEFICIARY ACCOUNT NUMBER IN THE BID CUM APPLICATION FORM. INVESTORS MUST ENSURE THAT THE NAME GIVEN IN THE BID CUM APPLICATION FORM IS EXACTLY THE SAME AS THE NAME IN WHICH THE DEPOSITORY ACCOUNT IS HELD. IN CASE THE BID CUM APPLICATION FORM IS SUBMITTED IN JOINT NAMES, IT SHOULD BE ENSURED THAT THE DEPOSITORY ACCOUNT IS ALSO HELD IN THE SAME JOINT NAMES AND ARE IN THE SAME SEQUENCE IN WHICH THEY APPEAR IN THE BID CUM APPLICATION FORM.**

**Bidders should note that on the basis of name of the Bidders, Depository Participant's name, Depository Participant- Identification number and Beneficiary Account Number provided by them in the Bid cum Application Form, the Registrar to the Issue will obtain from the Depository demographic details of the Bidders such as address, bank account details for printing on refund orders and occupation ( "Demographic Details"). Hence, Bidders should carefully fill in their Depository Account details in the Bid cum Application Form.**

**These Demographic Details would be used for all correspondence with the Bidders including mailing of the refund orders/ CANs/allocation advice and printing of bank particulars on the refund order.**

**Hence, Bidders are advised to update their Demographic Details as provided to their Depository Participants and ensure that they are true and correct.**

**By signing the Bid cum Application Form, Bidder would have deemed to authorise the depositories to provide, upon request, to the Registrar to the Offer, the required Demographic Details as available on its records.**

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**Refund Orders/allocation advice/CANs would be mailed at the address of the Bidder as per the Demographic Details received from the Depositories. Bidders may note that delivery of refund orders/allocation advice/CANs may get delayed if the same once sent to the address obtained from the Depositories are returned undelivered. In such an event, the address and other details given by the Bidder in the Bid cum Application Form would be used only to ensure dispatch of refund orders. Please note that any such delay shall be at the Bidders sole risk and neither the Bank nor the BRLMs shall be liable to compensate the Bidder for any losses caused to the Bidder due to any such delay or liable to pay any interest for such delay.**

In case no corresponding record is available with the Depositories that matches three parameters, namely, names of the Bidders (including the order of names of joint holders), the Depository Participant's identity (DP ID) and the beneficiary's identity, then such Bids are liable to be rejected.

### **Bids under Power of Attorney**

In case of Bids made pursuant to a power of attorney or by limited companies, corporate bodies, registered societies, a certified copy of the power of attorney or the relevant resolution or authority, as the case may be, along with a certified copy of the memorandum and articles of association and/or bye laws must be lodged along with the Bid cum Application Form. Failing this, the Company reserves the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason therefor.

In case of Bids made pursuant to a power of attorney by FIIs, a certified copy of the power of attorney or the relevant resolution or authority, as the case may be, along with a certified copy of their SEBI registration certificate must be lodged along with the Bid cum Application Form. Failing this, the Company reserves the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason therefor.

In case of Bids made by insurance companies registered with the Insurance Regulatory and Development Authority, a certified copy of certificate of registration issued by Insurance Regulatory and Development Authority must be lodged along with the Bid cum Application Form. Failing this, the Company reserves the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason therefor.

In case of Bids made by provident funds with minimum corpus of Rs. 25 crores and pension funds with minimum corpus of Rs. 25 crores, a certified copy of certificate from a chartered accountant certifying the corpus of the provident fund/ pension fund must be lodged along with the Bid cum Application Form. Failing this, the Company reserves the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason therefor.

The Company, in its absolute discretion, reserves the right to relax the above condition of simultaneous lodging of the power of attorney, copy of resolution, memorandum and Articles of Association or certificate from bidders regulatory authority as the case may be along with the Bid cum Application Form, subject to such terms and conditions that the Company and the BRLMs may deem fit.

### **Bids by eligible NRIs or FIIs on a repatriation basis**

The Company has received approval from the Foreign Investment Promotion Board, Ministry of Finance, Government of India vide letter dated June 21, 2005 for the transfer of the Equity Shares being offered for sale by the Selling Shareholders in this Offer to eligible non-resident investors including NRIs and FIIs.

1. Eligible NRI / FII Bidders can obtain the Bid-cum-Application Forms from the BRLMs or the Syndicate members or the Registrar to the Offer.
2. Eligible NRI / FII Bidders may please note that only such Bids as are accompanied by payment in free foreign exchange through approved banking channels shall be considered for allocation under the NRI category.
3. The NRIs who intend to make payment through Non-Resident Ordinary (NRO) accounts shall use the Bid-cum-Application form meant for Resident Indians.

### **Bids and revision to Bids must be made:**

- a. on the Bid-cum-Application Form or the Revision Form, as applicable, (blue in colour), and completed in full in BLOCK LETTERS in ENGLISH in accordance with the instructions contained therein.
- b. in a single name or joint names (not more than three).
- c. By FIIs for a minimum of such number of Equity Shares and in multiples of 50 that the Bid Amount exceeds Rs. 1,00,000. For further details see section titled "Maximum and Minimum Bid Size" on page 196.
- d. NRIs - For a minimum of 50 Equity Shares and in multiples of 50 thereafter subject to a maximum Bid amount of Rs 1,00,000 for the Bid to be considered as part of the Retail Portion. Bids for Bid Amount more than Rs 1,00,000 would be considered under Non Institutional Category for the purposes of allocation. For further details see "Maximum and Minimum Bid Size" on page 196.

- e. Refunds, dividends and other distributions, if any, will be payable in Indian Rupees only and net of bank charges and / or commission. In case of Bidders who remit money payable upon submission of the Bid-cum-Application Form or Revision Form through Indian Rupee drafts purchased abroad, such payments in Indian Rupees will be converted into US Dollars or any other freely convertible currency as may be permitted by the RBI at the rate of exchange prevailing at the time of remittance and will be dispatched by registered post or if the Bidders so desire, will be credited to their NRE accounts, details of which should be furnished in the space provided for this purpose in the Bid-cum-Application Form. The Company will not be responsible for loss, if any, incurred by the Bidder on account of conversion of foreign currency.

It is to be distinctly understood that there is no reservation for NRIs and FIIs. All NRIs and FIIs will be treated on the same basis with other categories for the purpose of allocation.

### **Bid by Employees**

Employee of the Company, its Subsidiaries and IL&FS during the period commencing from the Bid/Offer Opening date and the Bid/Offer Closing Date are eligible to apply in the category reserved for employees. Employee shall have the same meaning as defined in SEBI DIP Guidelines 2000.

Bids under Employee Reservation Portion by Permanent Employees shall be

- Made only in the prescribed Bid cum Application Form or Revision Form (i.e. Pink colour Form).
- Employees should mention the name of their Organisation and Employee Number at the relevant place in the Bid cum Application Form.
- The sole/ first bidder should be an Employees as defined above.
- Employees will have to bid like any other Bidder. Only those bids, which are received at or above the Offer Price, would be considered for allocation under this category.
- Employees, who apply or bid for securities of or for a value of not more than Rs. 1,00,000 in any of the bidding options can apply at Cut-Off. This facility is not available to other Employees whose minimum Bid amount exceeds Rs. 1,00,000.
- If the aggregate demand in this category is less than or equal to 11,40,000 Equity Shares at or above the Offer Price, full allocation shall be made to the Employees, to the extent of their demand.
- Undersubscription in this category would be added back to the Net Offer to the Public.
- If the aggregate demand in this category is greater than 11,40,000 equity shares at or above the Offer Price, the allocation shall be made on a proportionate basis. For the method of proportionate basis of allocation, refer to para "Basis of Allotment" on page 210 of this Prospectus.

### **Payment Instructions**

The Company shall open an Escrow Account(s) with the Escrow Collection Bank(s) for the collection of the Bid Amounts payable upon submission of the Bid-cum-Application Form and for amounts payable pursuant to allocation in the Offer.

Each Bidder shall draw a cheque or demand draft for the amount payable on the Bid and/or on allocation as per the following terms:

#### **Payment into Escrow Account:**

- (i) The Bidders for whom the applicable margin is equal to 100% shall, with the submission of the Bid-cum-Application Form draw a payment instrument for the Bid Amount in favour of the Escrow Account of the Company and submit the same to the members of the Syndicate.
- (ii) In case the above Margin Amount paid by the Bidders during the Bidding Period is less than the Offer Price multiplied by the equity shares allocated to the Bidder, the balance amount shall be paid by the Bidders into the Escrow Account of the Company within the period specified in the CAN which shall be subject to a minimum period of two days from the date of communication of the allocation list to the members of the Syndicate by the BRLM.
- (iii) The payment instruments for payment into the Escrow Account should be drawn in favour of
  - a. In case of Resident bidders and non resident bidders applying on non-repatriation basis: **"Escrow A/c – IIL Public Offer"**
  - b. In case of Non Resident Bidder **"Escrow A/c – IIL Public Offer – NR"**
    - In case of Bids by NRIs applying on repatriation basis, the payments must be made through Indian Rupee Drafts purchased abroad or cheques or bank drafts, for the amount payable on application remitted through normal banking channels or out of funds held in Non-Resident External (NRE) Accounts or Foreign Currency Non- Resident (FCNR) Accounts, maintained with banks authorised to deal in foreign exchange in India, along with documentary evidence in support of the remittance. Payment will not be accepted out of Non-Resident Ordinary (NRO) Account of Non- Resident

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bidder bidding on a repatriation basis. Payment by drafts should be accompanied by Bank Certificate confirming that the draft has been offered by debiting to NRE or FCNR Account.

- In case of Bids by Eligible non residents / FIIs, the payment should be made out of funds held in Special Rupee Account along with documentary evidence in support of the remittance. Payment by drafts should be accompanied by Bank Certificate confirming that the draft has been Offered by debiting to Special Rupee Account.

c. In case of Employee Bidder **“Escrow A/c – IIL Public Offer – Employee”**

- (iv) Where a Bidder has been allocated a lesser number of Equity Shares than the Bidder has Bid for, the excess amount, if any, paid on bidding, after adjustment towards the balance amount payable on the Equity Shares allocated, will be refunded to the Bidder from the Escrow Account.
- (v) The monies deposited in the Escrow Account will be held for the benefit of the Bidders until Designated Date.
- (vi) On the Designated Date, the Escrow Collection Banks shall transfer the funds from the Escrow Account as per the terms of the Escrow Agreement into the Offer Account with the Bankers to the Offer.
- (vii) On the Designated Date and no later than 15 days from the Bid/Offer Closing Date, the Escrow Collection Bank shall also refund all amounts payable to unsuccessful bidders and also the excess amount paid on Bidding, if any, after adjusting for allocation to the Bidders

**Payments should be made by cheque, or demand draft drawn on any bank (including a Co-operative bank), which is situated at, and is a member of or sub-member of the bankers' clearing house located at the center where the Bid cum Application Form is submitted. Outstation cheques/bank drafts drawn on banks not participating in the clearing process will not be accepted and applications accompanied by such cheques or bank drafts are liable to be rejected. Cash/ stockinvest/money orders/ postal orders will not be accepted.**

### **Payment by Stockinvest**

In terms of Reserve Bank of India Circular No. DBOD No. FSC BC 42/24.47.00/2003-04 dated November 5, 2003, the stockinvest instrument has been withdrawn. Hence, payment through Stockinvest would not be accepted in this Issue.

### **Submission of Bid-cum-Application Form**

All Bid-cum-Application Forms or Revision Forms duly completed and accompanied by account payee cheques or drafts shall be submitted to the members of the Syndicate at the time of submission of the Bid. Member of the Syndicate may at its sole discretion waive the requirement of payment at the time of submission of the Bid-cum-Application Form and Revision Form.

No separate receipts shall be issued for the money payable on the submission of Bid-cum-Application Form or Revision Form. However, the collection center of the members of the Syndicate will acknowledge the receipt of the Bid-cum-Application Forms or Revision Forms by stamping and returning to the Bidder the acknowledgement slip. This acknowledgement slip will serve as the duplicate of the Bid-cum-Application Form for the records of the Bidder.

## **OTHER INSTRUCTIONS**

### **Joint Bids in the case of Individuals**

Bids may be made in single or joint names (not more than three). In the case of joint Bids, all payments will be made out in favour of the Bidder whose name appears first in the Bid-cum-Application Form or Revision Form (“First Bidder”). All communications will be addressed to the First Bidder and will be despatched to his or her address.

### **Multiple Bids**

A Bidder should submit only one Bid (and not more than one) for the total number of Equity Shares required. Two or more Bids will be deemed to be multiple Bids if the sole or First Bidder is one and the same.

In case of a mutual fund, a separate Bid can be made in respect of each scheme of the mutual fund registered with SEBI and such Bids in respect of more than one scheme of the mutual fund will not be treated as multiple bids provided that the Bids clearly indicate the scheme concerned for which the Bid has been made. The application made by the AMCs or custodians of a mutual fund shall clearly indicate the name of the concerned scheme for which application is being made.

Bids made by Employees both under Employee Reservation Portion as well as in the Net Offer to Public shall not be treated as multiple Bids.

The Company reserve the right to reject, in its absolute discretion to accept or reject, all or any multiple Bids in any or all categories.

### Unique Identification Number - Mapin

In terms of SEBI (Central Database of Market Participants) Regulations, 2003 as amended from time to time and SEBI Notification dated November 25, 2003 and July 30, 2004, circular dated August 16, 2004 and press release dated December 31, 2004, no specified investor being a body corporate shall subscribe to securities which are proposed to be listed in any recognized stock exchange unless such specified investor, its Promoters and directors have been allotted unique identification numbers (UIN) save and except: (i) those Promoters or directors who are persons resident outside India, who are required to obtain UIN before December 31, 2005; and (ii) where such specified investor being a body corporate has applied for allotment of a UIN before December 31, 2004 and has not yet been allotted the UIN until the disposal of his application or, where he has filed an appeal, till the disposal of the appeal, as the case may be. In terms of the above it shall be compulsory for specified investor being a body corporate making application in this Issue to give their UIN. In case where a body corporate has made an application for such number before December 31, 2004 but the same has not been allotted, or where an appeal has been filed, but not disposed off, the investor shall indicate the same in the space provided in the Application Form. Application forms from specified investors being body corporate not providing their UIN or UIN application status, in cases where they have applied for such UIN before December 1, 2004, shall be liable to be rejected.

Bidders are required to indicate in the bid-cum-application form whether they are required to obtain UIN and if required, quote the same. Failure to quote UIN, when required may lead to rejection of the bid-cum-application form.

It should be noted that the bidders are solely responsible to ascertain whether they are required to obtain unique identification number and disclose the same for their securities transaction. Neither the Company nor any intermediaries associated with the Offer have an obligation to verify the same.

### PAN Number

Where Bid(s) is/are for Rs. 50,000 or more, the Bidder or in the case of an Bid in joint names, each of the Bidders, should mention his/her Permanent Account Number (PAN) allotted under the I.T. Act. The copy of the PAN card or PAN allotment letter is required to be submitted with the application form. **Applications without this information and documents will be considered incomplete and are liable to be rejected. It is to be specifically noted that Bidders should not submit the GIR number instead of the PAN as the Bid is liable to be rejected on this ground.** In case the Sole/First Bidder and Joint Bidder(s) is/are not required to obtain PAN, each of the Bidder(s) shall mention 'Not Applicable' and in the event that the sole Bidder and/or the joint Bidder(s) have applied for PAN which has not yet been allotted each of the Bidder(s) should mention 'Applied for' in the Bid cum Application Form. Further, where the Bidder(s) has mentioned 'Applied for' or 'Not Applicable', the Sole/First Bidder and each of the Joint Bidder(s), as the case may be, would be required to submit Form 60 (Form of declaration to be filed by a person who does not have a permanent account number and who enters into any transaction specified in rule 114B), or Form 61 (form of declaration 149 to be filed by a person who has agricultural income and is not in receipt of any other income chargeable to income-tax in respect of transactions specified in rule 114B), as may be applicable, duly filled along with a copy of any one of the following documents in support of the address: (a) Ration Card (b) Passport (c) Driving License (d) Identity Card issued by any institution (e) Copy of the electricity bill or telephone bill showing residential address (f) Any document or communication issued by any authority of the Central Government, State Government or local bodies showing residential address (g) Any other documentary evidence in support of address given in the declaration. **It may be noted Form 60 and Form 61 have been amended vide a notification issued on December 1, 2004 by the Ministry of Finance, Department of Revenue, Central Board of Direct Taxes. All Bidders are requested to furnish, where applicable, the revised Form 60 or 61 as the case may be.**

### Company Right to Reject Bids

The Company, the BRLM and the members of the Syndicate reserve the right to reject any Bid without assigning any reason therefor in case of QIBs. In case of Non-Institutional Bidders and Retail Individual Bidders, the Company, BRLM have a right to reject bids based on technical grounds. Consequent refunds shall be made by cheque or pay order or draft and will be sent to the bidder's address at the Bidder's risk.

### Grounds for Technical Rejections

Bidders are advised to note that Bids are liable to be rejected on the following technical grounds, including the following:

- (a) Amount paid does not tally with the amount payable for the highest value of Equity Shares Bid for;
- (b) Age of First Bidder not given;
- (c) In case of partnership firms, shares may be registered in the names of the individual partners and no firm as such, shall be entitled to apply;
- (d) Bids by Persons not competent to contract under the Indian Contract Act, 1872, including minors, insane Persons;
- (e) PAN Number not given if Bid is for Rs. 50,000 or more;

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- (f) Bids for lower number of Equity Shares than specified for that category of investors;
- (g) Bids at a price less than lower end of the Price Band;
- (h) Bids at a price more than the higher end of the Price Band;
- (i) Bids at Cut-off Price by Non-Institutional Bidders and QIB Bidders;
- (j) Bids for number of Equity Shares, which are not in multiples of 50;
- (k) Category not ticked;
- (l) Multiple Bids as defined in this Prospectus;
- (m) In case of Bid under power of attorney or by limited companies, corporate, trust etc., relevant documents are not submitted;
- (n) Bids accompanied by Stockinvest/money order/postal order/cash;
- (o) Signature of sole and / or joint Bidders missing;
- (p) Bid cum Application Forms does not have the stamp of the BRLMs or the Syndicate Members;
- (q) Bid cum Application Forms does not have Bidder's depository account details;
- (r) Bid cum Application Forms are not delivered by the Bidders within the time prescribed as per the Bid cum Application Forms, Bid Opening Date/Issue Opening Date advertisement and this Red Herring Prospectus and as per the instructions in the Red Herring Prospectus and the Bid cum Application Forms;
- (s) In case no corresponding record is available with the Depositories that matches three parameters namely, names of the Bidders (including the order of names of joint holders), the Depository Participant's identity (DP ID) and the beneficiary's identity;
- (t) Bids for amounts greater than the maximum permissible amounts prescribed by the regulations. See the details regarding the same in the section titled "Issue Procedure – Bids at Different Price Levels" on page 198;
- (u) Bids by OCBs;
- (v) Any other reason which the BRLMs, Lead Manager or the Selling Shareholder deem necessary.
- (w) Unique Identification number – MAPIN, not given by specified intermediaries and specified investors as required.

### **Equity Shares in Dematerialised Form with NSDL or CDSL**

**As per the provisions of Section 68B of the Companies Act, the Equity Shares in this Offer shall be issued/ transferred only in a dematerialized form,** (i.e. not in the form of physical certificates but be fungible and be represented by the statement issued through the electronic mode).

In this context, two tripartite agreements have been signed between the Company and the Depositories:

- a) an agreement dated May 14, 2005 with NSDL and Karvy Computershare Private Limited.
- b) an agreement dated April 26, 2005 with CDSL and Karvy Computershare Private Limited.

**All bidders can seek allotment only in dematerialised mode. Bids from any investor without relevant details of his or her depository account are liable to be rejected.**

- a) A Bidder applying for Equity Shares must have at least one beneficiary account with either of the Depository Participants of either NSDL or CDSL prior to making the Bid.
- b) The Bidder must necessarily fill in the details (including the Beneficiary Account Number and Depository Participant's Identification number) appearing in the Bid-cum-Application Form or Revision Form.
- c) Equity shares allotted to a successful Bidder will be credited in electronic form directly to the beneficiary account (with the Depository Participant) of the Bidder
- d) Names in the Bid-cum-Application Form or Revision Form should be identical to those appearing in the account details in the Depository. In case of joint holders, the names should necessarily be in the same sequence as they appear in the account details in the Depository.
- e) Non-transferable allotment advice or refund orders will be directly sent to the Bidder by the Registrar to this Offer.



- f) If incomplete or incorrect details are given under the heading 'Request for Equity Shares in electronic form' in the Bid-cum-Application Form or Revision Form, it is liable to be rejected.
- g) The Bidder is responsible for the correctness of his or her demographic details given in the Bid-cum-Application Form vis-à-vis those with his or her Depository Participant.
- h) It may be noted that Equity Shares in electronic form can be traded only on the stock exchanges having electronic connectivity with NSDL and CDSL. All the Stock Exchanges where the Equity Shares of the Company are proposed to be listed have electronic connectivity with CDSL and NSDL.
- i) The trading of the Equity Shares of the Company would be in dematerialised form only for all investors.
- j) As this Offer comprises of Fresh Issue and Offer for Sale by the existing shareholders, **Investors are advised to instruct their Depository Participants to accept the Equity Shares that may be allocated/transferred to them pursuant to this Offer. Investors should satisfy themselves that their demat account are active.**

### Communications

All future communications in connection with Bids made in this Offer should be addressed to the Registrar to the Offer quoting the full name of the sole or First Bidder, Bid-cum-Application Form number, number of Equity Shares applied for, date, bank and branch where the Bid was submitted and cheque, draft number and issuing bank thereof.

The company has appointed Mr. Shekhar Deshpande, Company Secretary & Head- Legal as the Compliance Officer. He can be contacted at IL&FS Investsmart Limited, The IL&FS Financial Centre, Plot C-22, G Block, Bandra-Kurla Complex, Bandra (E), Mumbai 400 051 Tel: +91-22-2659 3469, Fax +91-22-2653 3075, E-mail: shekhar.deshpande@investsmartindia.com

**The Investors can contact the Compliance Officer in case of any pre-offer or post-offer related problems such as non-receipt of letters of allotment, credit of allotted shares in the respective beneficiary account, refund orders, etc.**

### Disposal of Applications and Applications Money

The Company shall ensure dispatch of allotment advice or refund orders and give benefit to the Beneficiary Account with Depository Participants and submit the documents pertaining to the allotment to the Stock Exchanges within two working days of date of finalisation of allotment of Equity Shares. The Company shall dispatch refund orders, if any, of value up to Rs. 1,500, "Under Certificate of Posting", and shall dispatch refund orders above Rs.1,500, if any, by Registered Post or Speed Post at the sole or First Bidder's sole risk.

The Company shall use best efforts to ensure that all steps for completion of the necessary formalities for allotment and trading at all the Stock Exchanges where the Equity Shares are proposed to be listed, are taken within seven working days of finalisation of the basis of allotment.

In accordance with the Companies Act, the requirements of the stock exchanges and SEBI Guidelines, the Company further undertake that:

- allotment of equity shares shall be made only in dematerialised form within 15 days of the Bid/Offer Closing Date;
- despatch refund orders within 15 days of the Bid/Offer Closing Date would be ensured; and
- **interest in Case of Delay in Despatch of allotment letters / refund orders**

The Company shall pay interest at 15% per annum (for any delay beyond the 15-day time period as mentioned above), if allotment is not made and refund orders are not dispatched and/or demat credits are not made to investors within the 15-day time prescribed above.

The Company shall provide adequate funds required for dispatch of refund orders or allotment advice to the Registrar to the Offer.

Refunds will be made by cheques, pay orders or demand drafts, drawn on a bank appointed by the Company as a refund banker, and payable at par at places where Bids are received. Bank charges, if any, for cashing such cheques, pay orders or demand drafts at other centres will be payable by the Bidders.

**No separate receipts shall be Offered for the money payable on the submission of Bid-cum-Application Form or Revision Form. However, the collection center of the members of the Syndicate will acknowledge the receipt of the Bid-cum-Application Forms or Revision Forms by stamping and returning to the Bidder the acknowledgement slip. This acknowledgement slip will serve as the duplicate of the Bid-cum-Application Form for the record of the Bidder.**

### Impersonation

**Attention of the applicants is specifically drawn to the provisions of sub-section (1) of Section 68 A of the Companies Act, which is reproduced below:**

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“Any person who:

- (a) makes in a fictitious name, an application to a company for acquiring or subscribing for, any shares therein, or
- (b) otherwise induces a company to allot, or register any transfer of shares therein to him, or any other person in a fictitious name, shall be punishable with imprisonment for a term which may extend to five years.”

### Interest on Refund of excess Bid Amount

The Company shall pay interest at the rate of 15% per annum on the excess Bid Amount received if refund orders are not dispatched within 15 days from the Bid/Offer Closing Date.

### Basis of Allotment

In the event of the Offer being over-subscribed, the basis of allotment to retail and non-institutional bidders shall be finalized by the Company, in consultation with Designated Stock Exchange. The director or managing director (or any other official nominated by them) of the Designated Stock Exchange along with the BRLMs and the Registrar to the Issue shall be responsible for ensuring that the basis of allotment is finalized in a fair and proper manner. The allocation shall be made in multiples of one share, on a proportionate basis as explained below subject to minimum allocation being equal to the 50 equity shares:

#### (A) For Retail Bidders

- Bids received from the Retail Bidders at or above the Offer Price shall be grouped together to determine the total demand under this category. The allocation to all the successful Retail Bidders will be made at the Offer Price.
- The Offer size less allocation to Non-Institutional Bidders and QIBs shall be available for allocation to Retail Bidders who have bid in the Offer at a price, which is equal to or greater than the Offer Price.
- If the aggregate demand in this category is less than or equal to 30,78,000 Equity Shares at or above the Offer Price, full allocation shall be made to the Retail Bidders to the extent of their demand.
- If the aggregate demand in this category is greater than 30,78,000 Equity Shares at or above the Offer Price, the allocation shall be made on a proportionate basis up to a minimum of 50 Equity Shares and in multiple of one share thereafter. For the method of proportionate basis of allotment, refer below.

#### (B) For Non-Institutional Bidders

- Bids received from Non-Institutional Bidders at or above the Offer Price shall be grouped together to determine the total demand under this category. The allocation to all successful Non-Institutional Bidders will be made at the Offer Price.
- The Offer size less allocation to Retail Bidders and QIBs shall be available for allocation to Non-institutional Bidders, who have bid in the Offer at a price, which is equal to or greater than the Offer Price.
- If the aggregate demand in this category is less than or equal to 10,26,000 Equity Shares at or above the Offer Price, full allocation shall be made to Non-Institutional Bidders to the extent of their demand.
- In case the aggregate demand in this category is greater than 10,26,000 Equity Shares at or above the Offer Price, allocation shall be made on a proportionate basis up to a minimum of 50 Equity Shares and in multiple of one share thereafter. For the method of proportionate basis of allotment refer below.

#### (C) For QIBs

- At least 60% of the Net Offer to the Public (i.e. 61,56,000 shares) shall be allotted to QIBs failing which the entire subscription money shall be refunded.
- Bids received from QIBs at or above the Offer Price shall be grouped together to determine the total demand under this category. The allocation to all successful QIBs will be made at the Offer Price.
- The Offer size less allocation to Retail Bidders and Non-institutional Bidders shall be available for allocation to QIBs who have bid in the Offer at a price, which is equal to or greater than the Offer Price.
- The allocation would be broadly decided based on the quality of the Bidder determined by the size, price and date of the Bid.

#### (D) For Employees

- Bids received from Employee at or above the Offer Price shall be grouped together to determine the total demand under this category. The allocation to all the successful Bidders will be made at the Offer Price.
- If the aggregate demand in this category is less than or equal to 11,40,000 Equity Shares at or above the Offer Price, full allocation shall be made to the Bidders to the extent of their demand.

- If the aggregate demand in this category is greater than 11,40,000 Equity Shares at or above the Offer Price, the allocation shall be made on a proportionate basis up to a minimum of 50 Equity Shares and in multiple of one share thereafter. For the method of proportionate basis of allotment, refer below.
- In case of oversubscription in the reserved category, excess allotment shall be made from shortfall if any, in the Retail and Non- institutional category (i.e. shortfall in the retail or non-institutional category shall be first adjusted against excess demand in the non-institutional or retail category respectively and the balance shortfall if any, shall be available to the reserved category).
- In case of undersubscription in the reserved category, the same shall be added back to the net offer to the public. Undersubscription in the reserved category will be allocated first to Retail category and balance undersubscription if any, after allocating to retail category will be allocated to Non-institutional category

The Company shall in consultation with the BRLMs would have the discretion for any allocation to QIBs based on prior commitment, investor quality, price aggression, earliness of bids, etc.

#### **Procedure and Time Schedule for Transfer of Equity Shares**

The Company and the members of the Syndicate reserve the right to reject any Bid without assigning any reason thereof in case of QIBs. In case of Non- Institutional Bidders and Retail Individual Bidders, the Company has a right to reject bids based on technical grounds. In case a Bid is rejected in full, the whole of the Bid Amount will be refunded to the Bidder within 15 days of the Bid/Offer Closing Date. In case a Bid is rejected in part, the excess Bid Amount will be refunded to the Bidder within 15 days of the Bid/Offer Closing Date. The Company will ensure allotment/transfer of the Equity Shares within 15 days from the Bid/Offer Closing Date, and the Company shall pay interest at the rate of 15% per annum (for any delay beyond the periods as mentioned above), if Equity Shares are not allotted, refund orders are not dispatched and/ or demat credits are not made to investors within two working days of the finalisation of basis of allotment.

#### **Method of proportionate basis of allocation in the Retail, Non-Institutional and Employee Portions**

In the event the Offer is over-subscribed, the basis of allotment to Retail, Non-Institutional Bidders and Employee shall be finalised by the Company in consultation with the Designated Stock Exchange. The Executive Director (or any official nominated by them) of the Designated Stock Exchange along with the BRLMs and the Registrar to the Offer shall be responsible for ensuring that the basis of allotment is finalised in a fair and proper manner.

The subscription in the retail and the non-institutional portion will be computed separately. Bidders will be categorized according to the number of Equity Shares applied for by them.

- The total number of Equity Shares to be allotted to each portion as a whole shall be arrived at on a proportionate basis, which is the total number of Equity Shares applied for in that portion (number of Bidders in the portion multiplied by the number of Equity Shares applied for) multiplied by the inverse of the over-subscription ratio.
- Number of Equity Shares to be allotted to the successful Bidders will be arrived at on a proportionate basis, which is total number of Equity Shares applied for by each Bidder in that portion multiplied by the inverse of the over-subscription ratio.

In all Bids where the proportionate allotment is less than 50 Equity Shares per Bidder, the Allotment shall be made as follows:

- Each successful Bidder shall be allotted a minimum of 50 Equity Shares; and
- The successful Bidders out of the total Bidders for a portion shall be determined by draw of lots in a manner such that the total number of Equity Shares Allotted in that portion is equal to the number of Equity Shares calculated in accordance with (b) above.

If the proportionate Allotment to a Bidder is a number that is more than 50 but is not a multiple of one (which is the market lot), the decimal would be rounded off to the higher whole number if that decimal is 0.5 or higher. If that number is lower than 0.5, it would be rounded off to the lower whole number. Allotment to all Bidders in such categories would be arrived at after such rounding off.

If the Equity Shares allocated on a proportionate basis to any portion are more than the Equity Shares allotted to the Bidders in that portion, the remaining Equity Shares available for Allotment shall be first adjusted against any other portion, where the Equity Shares are not sufficient for proportionate Allotment to the successful Bidders in that portion. The balance Equity Shares, if any, remaining after such adjustment will be added to the portion comprising Bidders applying for minimum number of Equity Shares.

#### **Letters of Allocation or Refund Orders**

The Company shall despatch allotment advice, refund orders and give credit to the Beneficiary Account with Depository Participants and submit the allotment and listing documents to the Stock Exchanges within two working days of finalisation of the basis of allotment. The Company shall ensure dispatch of refund orders, if any, of value up to Rs.1,500 by "Under Certificate of Posting", and shall dispatch refund orders above Rs.1,500, if any, by registered post or speed post at the sole or first bidder's sole risk. The Company shall ensure that all

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steps for completion of the necessary requirements for listing and commencement of trading at all the stock exchanges where the Equity Shares are proposed to be listed, are taken within seven working days of finalisation of the basis of allotment.

In accordance with the Companies Act, the requirements of the Stock Exchanges and SEBI Guidelines, the Company further undertakes that:

- Allocation and transfer of Equity Shares will be made in dematerialised form only within 15 days from the Bid/ Offer Closing Date;
- Despatch of refund orders will be done within 15 days from the Bid/Offer Closing Date; and
- The Company shall pay interest at 15% per annum (for any delay beyond the 15 day time period as mentioned above) if transfer is not made, refund orders are not despatched and/or demat credits are not made to investors within the 15 day time prescribed above.

The Company shall provide adequate funds required for despatch of refund orders or allocation advice to the Registrar to the Offer. Refunds will be made by cheques, pay orders or demand drafts drawn on a bank appointed by the Company, as a banker to the issue and payable at par at places where bids are received. Bank charges, if any, for encashing such cheques, pay orders or demand drafts at other centres will be payable by the bidders.

### **Interest in Case of Delay in Despatch of allotment letters / refund orders**

The company agrees that allotment of securities offered to the public shall be made not later than 15 days of the closure of public issue. The company further agrees that it shall pay interest @15% per annum (for any delay beyond the 15-day time period) if the allotment letters/ refund orders have not been despatched to the applicants within 15 days from the date of the closure of the issue.

### **Undertaking by the Company**

The Company undertakes as follows:

- that the complaints received in respect of this Offer shall be attended to expeditiously and satisfactorily;
- that all steps will be taken for the completion of the necessary formalities for listing and commencement of trading at all the stock exchanges where the Equity Shares are proposed to be listed within seven working days of finalisation of the basis of allotment;
- that the funds required for despatch of refund orders or allotment advice by registered post or speed post shall be made available to the Registrar to the Offer;
- that the refund orders or allotment advice to the NRIs or FIIs shall be despatched within specified time;
- that no further issue of Equity Shares shall be made till the Equity Shares issued through this Prospectus are listed or until the bid monies are refunded on account of non-listing, under-subscription etc.

### **Utilisation of Offer proceeds**

The Board of Directors of the Company certify that:

- all monies received out of the Fresh Issue and Offer for Sale shall be transferred to a separate bank account other than the bank account referred to in sub-section (3) of Section 73 of the Companies Act;
- details of all monies utilised out of Fresh Issue proceeds referred above shall be disclosed under an appropriate separate head in the balance sheet of the Company indicating the purpose for which such monies have been utilised; and
- details of all unutilised monies out of the Fresh Issue, if any shall be disclosed under the appropriate separate head in the balance sheet of the Company indicating the form in which such unutilised monies have been invested.
- details of all monies utilised out of reservation for Employees shall be disclosed under an appropriate separate head in the balance sheet of the Company indicating the purpose for which such monies have been utilised; and
- details of all unutilised monies out of reservation for Employees, if any shall be disclosed under the appropriate separate head in the balance sheet of the Company indicating the form in which such unutilised monies have been invested.

The Company and the Selling Shareholders shall not have recourse to the Offer proceeds until approval for trading of Equity Shares from all the stock exchanges where listing is sought is received. The Company shall pay to the Selling Shareholders proceeds arising from the Offer for Sale forthwith on the same being permitted to be released in accordance with the SEBI regulations and the Companies Act, being no later than 2 business days after receipt of approval for trading of Equity Shares from all the stock exchanges where listing is sought.

Pending utilisation of net proceeds of the Fresh Issue as specified under the section "Objects of the Offer" the net proceeds will be invested by the Company in high quality interest bearing liquid instruments including but not limited to deposits with banks for the necessary duration.

### **Restriction on foreign ownership of Equity Shares of the Company**

Foreign investment in Indian securities is regulated through the industrial policy of the Government of India, or the Industrial Policy and FEMA. While the Industrial Policy prescribes the limits and the conditions subject to which foreign investment can be made in different sectors of the Indian economy, FEMA regulates the precise manner in which such investment may be made. Under the Industrial Policy of the Government of India, unless specifically restricted, foreign investment is freely permitted in all sectors of Indian economy up to any

extent and without any prior approvals, but the foreign investor is required to follow certain prescribed procedures for making such investment. As per current foreign investment policies, foreign investment is allowed up to 100% in companies in the Non Banking Financial Companies sector, subject to minimum capitalisation norms. The government bodies responsible for granting foreign investment approvals (where required to be obtained) are the FIPB and the RBI. Under the present regulations, the maximum permissible investment by a single FII cannot exceed 10% of its total issued capital. The maximum permissible FII investment in the Company is restricted to 24% of its total issued capital. This limit of 24% of the total issued capital can be raised to 100% by adoption of a special resolution by the Company's shareholders; however, as of the date hereof, no such resolution has been recommended to the shareholders of the Company for adoption.

**MAIN PROVISIONS OF THE ARTICLES OF ASSOCIATION**

● **SHARE CAPITAL**

**Article 4**

**Power to Increase Capital**

The Company in general meeting may, from time to time, increase its Capital by the creation of new Shares, such increase to be of such aggregate amount and to be divided into shares of such amounts as the resolution shall prescribe. Subject to the provisions of the Act, any shares of the original or increased capital shall be issued upon such terms and conditions and with such rights and privileges as the general meeting resolving upon the creation thereof shall prescribe and, if no direction be given, as the Board shall determine, and, in particular, such shares may be issued with a preferential or qualified right to dividends and, in the distribution of assets of the Company and with a right of voting at general meetings of the Company, in conformity with Sections 87 and 88 of the Act. Whenever the Capital of the Company has been increased under the provisions of these Articles, the Company shall comply with the provisions of Section 97 of the Act.

**Article 7**

**Company to purchase its shares**

Notwithstanding anything to the contrary contained in these Articles, the Company may purchase its own Shares or other specified securities in accordance with the provisions of Sections 77A, 77AA and 77B of the Act and such regulations or guidelines framed by SEBI or any other appropriate authority.

**Article 8**

**Shares at the disposal of the Board**

Subject to the provisions of the Act and these Articles, the Shares in the Capital of the Company for the time being (including any shares forming part of any increased Capital of the Company) shall be under the control of the Board who may issue, allot or otherwise dispose of the same or any one of them to such Persons in such proportion and on such terms and conditions and either at a premium or at par or (subject to compliance with the provisions of the Act) at a discount and at such times as they may from time to time think fit and proper and with the sanction of the Company in general meeting to give to any Person the option to call for or be allotted shares of any class of the Company either at par or at premium or subject as aforesaid at a discount during such time and for such consideration and such option being exercisable at such times as the Board think fit, and may issue and allot shares in the capital of the Company on payment in full or part of any property sold and transferred or for any services rendered to the Company in the conduct of its business and any shares which may be so allotted may be issued as fully paid up shares and if so issued shall be deemed to be fully paid up shares. The Board shall cause to be filed the returns as to allotment provided for in Section 75 of the Act. The provisions of this Article shall mutatis mutandis apply to debentures of the Company. Provided that the option or right to call of shares shall not be given to any Person(s) without the sanction of the Company in the General Meeting.

**Article 11**

**Liability of joint holders**

If any share is registered in the names of two or more Persons all the joint Members of the share shall be severally as well as jointly liable for the payment of all deposits, instalments and calls due in respect of such shares and for all incidents thereof according to these Article, but the person first named in the Register of Members shall, as regards receipt of dividend or bonus or service of notice and all or any other matters connected with the Company, except voting at meetings, and the transfer of the shares and any other matter by the Act or herein otherwise provided, be deemed the sole Member thereof.

**Article 13**

**Acceptance of Shares**

Any application signed by the applicant for shares in the Company, followed by an allotment of any share therein, shall be an acceptance of shares within the meaning of these presents; and every person who thus or otherwise accepts any shares and whose name is on the Register shall, for the purposes of these presents, be a Member of the Company.

**Article 14**

**Liability of Members**

Every Member or his heirs, executors or administrators shall pay to the Company the portion of the capital represented by his share or shares which may, for the time being remain unpaid thereon, in such amounts, at such time or times and in such manner as the Board of Directors shall, from time to time, require or fix for the payment thereof.

## **V FORFEITURE AND LIEN**

### **Article 33**

#### **If calls or instalment not paid, notice may be given**

If any Member fails to pay any call or instalment on or before the day appointed for the payment of the same or any extension thereof, the Directors may at any time thereafter, during such time as the call or instalment remains unpaid serve a notice on such Member requiring him to pay the same together with any interest that may have accrued and all expenses that may have been incurred by the Company by reason of such non- payment.

### **Article 34**

#### **Form of Notice**

The notice shall name a day (not being earlier than the expiry of thirty days from the date of service of the notice) and a place or places, on and at which such call or instalment and such interest thereon at such rates as the Board shall determine from the day on which such call or instalment ought to have been paid and expenses as aforesaid are to be paid. The notice shall also state that in the event of non-payment on or before the time and at the place appointed, the shares in respect of which the call was made or instalment is payable will be liable to be forfeited.

### **Article 35**

#### **If Notice not complied with, shares may be forfeited**

If the requisitions of any such notice as aforesaid are not complied with, all or any shares, in respect of which such notice has been given may, at any time thereafter, but before payment on all calls or instalments, interest and expenses, due in respect thereof, be forfeited by a resolution of the Board of Directors to that effect. Such forfeiture shall include all dividends and other benefits declared in respect of the forfeited shares and not actually paid or effected, as the case maybe, before the forfeiture.

### **Article 36**

#### **Notice of Forfeiture**

When any share shall have been so forfeited, notice of the resolution authorising the forfeiture by the Board of Directors shall be given to the Member in whose name it stood immediately prior to the forfeiture or to any of his legal representatives or to any of the Persons entitled to the shares by transmission and an entry of the forfeiture with the date thereof shall forthwith be made in the Register of Members, provided however, that the any omission or neglect or failure to give such notice or to make such entry as aforesaid will not in any way invalidate the forfeiture.

### **Article 37**

#### **Forfeited shares to become property of the Company**

Any shares so forfeited shall be deemed to be the property of the Company and may be sold, re-allotted or otherwise disposed of, either to the original Member thereof or to any other person, in such manner, as the Board shall think fit.

### **Article 38**

#### **Power to annul forfeiture**

The Directors may, at any time, before any shares so forfeited shall have been sold, re-allotted or otherwise disposed of, annul the forfeiture thereof as a matter of grace and favour but not as a matter of right, upon such terms and conditions as they may think fit.

### **Article 39**

#### **Arrears to be paid notwithstanding forfeiture**

Any Member whose shares shall have been forfeited shall, cease to be a Member in respect of the forfeited shares. Notwithstanding the forfeiture, such person shall be liable to pay and shall forthwith pay to the Company on demand all calls, instalments, interest and expenses, owing upon or in respect of such shares at the time of the forfeiture together with interest thereon, from the time of forfeiture until payment, at such rate as the Board may determine, and the Directors may enforce the payment of such monies or any part thereof as they think fit.

### **Article 40**

#### **Effect of forfeiture**

The forfeiture of a share shall involve the extinction of all interest in an also of all claims and demand against the company in respect of the share and all other rights incidental to the same except only such of those rights as by these presents are expressly saved.

## **IL&FS INVESTSMART LIMITED**

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### **Article 42**

#### **Title of purchaser and allottee of forfeited shares**

The Company may receive the consideration, if any, given for any share forfeited, on any sale, re-allotment or other disposal thereof and may execute transfer of the share in favour of the person to whom the share is sold or disposed of and the person to whom such share is sold, re-allotted or disposed of may be registered as the holder of the share. Any such purchaser or allottee shall not (unless by express agreement) be liable to pay any calls, amounts, instalments, interest and expenses owing to the Company prior to such purchase or allotment nor shall he be entitled (unless by express agreement) to any of the dividends, interest or bonus accrued or which might have accrued upon the share before the time of completing such purchase or before such allotment. Such purchaser or allottee shall not be bound to see the application of the purchase money, if any, nor shall his title to the share be affected by any irregularity or invalidity in the proceedings in reference to the forfeiture, sale, re-allotment or disposal of the share.

### **Article 43**

#### **Company's lien on shares**

The Company shall have a first and paramount lien upon all the shares, not being fully paid-up shares, registered in the name of each Member (whether solely or jointly with another or others), and upon the proceeds of sale thereof, for all monies (whether presently payable or not) called or payable at a fixed time in respect of such shares, and no equitable interest in any share shall be created except upon the footing and condition that Article 24 hereof is to have full effect. Any lien on shares shall extend to all dividends from time to time declared in respect of such shares. Unless otherwise agreed, the registration of a transfer of shares shall operate as a waiver of the Company's lien, if any, on such shares. The Board of Directors may at any time declare any shares to be wholly or in part exempt from the provisions of this Article.

### **Article 44**

#### **Enforcement of shares by lien**

For the purpose of enforcing such lien, the Board of Directors may sell the shares subject thereto in such manner as they think fit; but no sale shall be made until such period as aforesaid shall have arrived and until notice in writing of the intention to sell have been served as provided in Article 215 hereof on such Member, his heirs, executors or administrators and default shall have been made by him or them in the payment, fulfilment, or discharge of such debts, liabilities, or engagements for seven days after such notice. To give effect to any such sale, the Board may authorise some person to execute an instrument of transfer in respect of the shares sold and to transfer the shares sold to the purchaser thereof and the purchaser shall be registered as the holder of the shares comprised in any such transfer. Upon any such sale as aforesaid the certificates in respect of the shares sold shall stand cancelled and become null and void and of no effect, and the Directors shall be entitled to issue a new certificate in lieu thereof to the purchaser or purchasers concerned.

### **Article 45**

#### **Application of proceeds of sale**

The net proceeds of such sale shall be received by the Company and after payment of the cost of such sale shall be applied in or towards satisfaction of the debts, liabilities or engagements of such Member and the residue if any, paid to such Member, his heirs, executors and administrators or assigns or other legal representative as the case may be.

### **Article 46**

#### **Validity of sale in exercise of lien and after forfeiture**

Upon any sale after forfeiture or for enforcing a lien in purported exercise of the powers herein before given, the Board of Directors may appoint some person to execute an instrument of transfer of the shares sold and cause the purchaser's name to be entered in the Register in respect of the shares sold and the purchaser shall not be bound to see to the regularity of the proceedings nor to the application of the purchase money and after his name has been entered in the Register in respect of such shares, the validity of the sale and the entry in the Register in respect of the shares sold shall not be impeached by any person and the remedy of any person aggrieved by the sale shall be in damages only and against the Company exclusively.

### **Article 47**

#### **Board of Directors may issue new certificates**

Where any shares under the powers in that behalf herein contained are sold reallocated or otherwise dispose of under the provisions of the preceding Articles by the Board of Directors after forfeiture or for enforcing a lien and the certificate in respect thereof has not been delivered up to the Company by the former holder of such shares, such certificate shall stand cancelled and become null and void and of no effect, the Board of Directors may issue a new certificate of such shares distinguishing it in such manner as they may think fit from the certificate not so delivered.



## **Article 48**

### **Application of forfeiture provision**

The provisions of the Articles as to forfeiture shall apply in the case of non-payment of any sum which by the terms of the issue of a share becomes payable at a fixed time, whether on account of the amount of the share, or by way of premium, as if the same had been payable by virtue of a call duly made and notified.

## **VI TRANSFER AND TRANSMISSION**

## **Article 52**

### **Form of Transfer**

The instrument of transfer of any share shall be in writing in the prescribed form and in accordance with Section 108 of the Act.

## **Article 53**

### **Notice to the transferee and transferor of refusal to transfer shares**

If the Company refuses to register any subject to and in accordance with section 111 A of the Act such transfer or transmission of right, the Company shall, within one month from the date on which the instrument of transfer or the intimation of such transmission as the case may be was delivered to the Company, send notice of the refusal to the transferee and the transferor or to the person giving intimation of such transmission, as the case may be.

## **Article 59**

### **Directors' power to reject application of transfer**

Subject to the provisions of Section 111A of the Act and the rules made thereunder, the listing agreement entered into by the Company with the Stock Exchanges where the Shares of the Company are listed and applicable provisions of Securities Exchange Board of India Act, 1992, rules and regulations made thereunder, Board of Directors shall have absolute and uncontrolled discretion and power to decline to register any proposed transfer or transmission of any shares without assigning any reasons whatsoever. This Article shall apply notwithstanding that the proposed transferee or the proposed holder under transmission may already be a Member of the Company. Registration of a transfer shall not be refused on the ground of the transferor being either alone or jointly with any other person or persons indebted to the Company on any account whatsoever except a lien on the shares. Provided further that nothing in this clause shall apply in case of a transfer of shares according to the procedure prescribed under Article 70.

## **Article 59A**

### **Right of First Refusal; Co Sale Rights**

- (a) In the event that any of the Shareholders desire to Transfer all or a portion of the Shares held by it (such seller, the "Selling Shareholder") pursuant to a bona fide offer by any Person ("Offeror"), the Selling Shareholder shall immediately deliver a written notice ("Offer Notice") to the other Shareholders (the Shareholders, other than the Selling Shareholder, the "Other Shareholders") describing accurately and in reasonable detail the terms and conditions of the offer, including the timing as to execution, the number of Shares subject to the offer (the "Offer Shares") and the price to be paid for such Shares pursuant to such offer, the name and address of the Offeror, any agreements or documents to be executed and delivered relating to such offer, any related terms and conditions and any additional information reasonably required by Other Shareholders. Notwithstanding any provision of this Article (except Article 59D, the Selling Shareholder shall not Transfer the Offer Shares to, or enter into any binding agreement in respect of the Offer Shares with, the Offeror unless and until the terms and requirements of Article 59A(b) through (h) are satisfied.
- (b) Upon the Offer Notice being delivered to the Other Shareholders, the Other Shareholders shall have the right, exercisable at their sole discretion, to either (i) purchase all or any of the Offer Shares on such terms and conditions that are no less favourable than those specified in the Offer Notice in accordance with the terms of Article 59A(c) (the "Exercising RFR Shareholders") or (ii) exercise their rights to sell their Shares in the manner contemplated in, and in accordance with the terms of Article 59A(d) (the "Exercising Cosale Shareholders"). In the case of Article 59A(b)(i), if there is more than one Exercising RFR Shareholder, such Offer Shares shall be allocated between the Exercising RFR Shareholders in proportion to their respective shareholdings in the Company, provided, however, that if either ETM or SAIF chooses either not to become an Exercising RFR Shareholder or to become an Exercising RFR Shareholder but to purchase less than its proportional entitlement to the Offer Shares, the other such entity (ETM or SAIF, as the case may be) shall be entitled to purchase the balance of such Offer Shares not being purchased and provided further that if either IL&FS or ORIX chooses either not to become an Exercising RFR Shareholder or to become an Exercising RFR Shareholder but to purchase less than its proportional entitlement to the Offer Shares, the other such entity (IL&FS or ORIX, as the case may be) shall be entitled to purchase the balance of such Offer Shares not being purchased.

## IL&FS INVESTSMART LIMITED

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- (c) If the Other Shareholders, in their sole discretion, choose to become Exercising RFR Shareholders under Article 59A(b)(i) above, such Exercising RFR Shareholders shall, within the time frame set in the offer made by the Offeror, provided that such period shall in any event be at least five (5) Business Days (such period, the “Offer Period”), give to the Selling Shareholder a notice in writing exercising its right of first refusal (a “RFR Notice”). If an RFR Notice is provided by the Exercising RFR Shareholders, the transaction of purchase and sale shall be completed by any such Exercising RFR Shareholder within the time frame specified in the offer by the Offeror, provided that such period shall in any event extend at least ten (10) Business Days following the expiry of the Offer Period, and provided further that such obligation to complete is subject to receipt of requisite governmental and regulatory approvals and satisfaction of other requirements of Applicable Law.
- (d) If the Other Shareholders, in their sole discretion, decide to exercise their rights to be Exercising Cosale Shareholders under Article 59A(b)(ii), such Exercising Cosale Shareholders shall, within the Offer Period, be entitled to participate in the sale by the Selling Shareholder of the Offer Shares (“Co-sale Right”) by requiring the Offeror to (or requesting the Selling Shareholder in the Co-Sale Notice to require the Offeror to, and the Selling Shareholder shall, upon such request, require the Offeror to) purchase and acquire from the Other Shareholders (and the Selling Shareholder shall cause the Offeror to purchase and acquire from the Other Shareholders), on terms and conditions that are no less favorable than those contained in the Offer Notice, such number of Shares owned by each such Exercising Cosale Shareholder so that the same proportion of the Shares held by each Exercising Cosale Shareholder’s are being sold as is being sold by the Selling Shareholder. If the Other Shareholders wish to exercise their Co-sale Right, they must give the Selling Shareholder a notice in writing (“Co-sale Notice”) within the Offer Period. If a Co-sale Notice is provided by other Shareholders, the transaction of purchase and sale shall be completed within the time frame set in the offer by the Offeror, provided that such period shall in any event extend at least ten (10) Business Days following the expiry of the Offer Period, and provided further that such obligation to complete is subject to receipt of requisite governmental and regulatory approvals and satisfaction of other requirements of Applicable Law. Unless and until the Offeror, as applicable, completes the purchase of all the Shares offered by the Other Shareholders in accordance with the terms of the Co-sale Notice, the Selling Shareholder shall not Transfer the Shares owned by it to the Offeror. It is agreed and understood, however, that any rights of cosale under Article 59A(b)(ii) and this Article 59A(d) shall cease following the date which is the earlier of (i) the date of the Company’s IPO and (ii) the date which is two years after 28<sup>TH</sup> February 2005.
- (e) If the Other Shareholders, in their sole discretion, do not fully exercise their rights under Article 59A(b)(i) or Article 59A(b)(ii), and do not, within the Offer Period, provide either the RFR Notice or the Co-sale Notice, the Selling Shareholder may, to the extent that such rights of the Other Shareholders are not exercised, sell the Offer Shares to the Offeror after the expiry of the Offer Period, within a period of four (4) months and for a price and on other terms no more favourable than those contained in the Offer Notice. If the Offer Shares are not sold within such four month period on such terms, the rights of the Other Shareholders pursuant to this Article 59A shall again take effect with respect to any sale of Shares of the Company held by the Selling Shareholder.
- (f) Notwithstanding any provision of these Articles, the Other Shareholders shall be entitled to require reasonable evidence from the Selling Shareholder that the purchase and sale of the Offer Shares was completed at a price and on other terms no more favourable than those contained in the Offer Notice.
- (g) All notices given under this Article shall also be given concurrently to the Company.
- (h) The Selling Shareholder shall at all times in soliciting or accepting any offers from any third party, condition such proposed sale on the execution of a deed of adherence under which the party to whom any Shares would be sold would agree to be bound by the provisions mentioned therein. The Offeror shall, as a condition to the effectiveness of any Transfer of Shares contemplated in this Article 59A, deliver to the Company (i) such Offeror’s deed of adherence upon consummation of the Transfer and (ii) any other information reasonably requested by the Company. The Selling Shareholder and/or the Offeror shall reimburse the Company for all reasonable costs and expenses incurred by the Company in connection with any such Transfer.

### Article 59B

#### Change in Control

- (a) To the extent possible, not less than 30 Business Days prior to the occurrence of a Change in Control, but in any event promptly upon becoming aware of the earliest of any threatened, likely or imminent Change in Control, IL&FS shall notify the other Shareholders and the Company of such threatened, likely or imminent Change in Control in writing (the “Change in Control Notice”). The Change in Control Notice shall contain all relevant information in connection with such threat or likelihood, including, without limitation, the identity of the Person or Persons who may acquire control of the said entity.
- (b) SAIF and ETM shall have the right, exercisable within the Put Exercise Period, to ‘put’ and sell to IL&FS, some or all of the Shares held by such entity upon the delivery of a written notice of put exercise to such entity and the Company within the Put Exercise Period (in each case, the “Change in Control Put Notice”). The Change in Control Put Notice shall state the number of the Shares that SAIF or ETM, as the case may be, desires to sell. If neither SAIF nor ETM, as the case may be, delivers a Change in Control Put Notice within the Put Exercise Period, it shall be deemed to have waived all its ‘put’ rights under this Article 59B

- (c) Upon the exercise of any 'put' rights under this Article 59B, IL&FS shall either directly purchase, or cause a third party to purchase, the Shares specified in the Change in Control Put Notice at a purchase price per Share equal to the Fair Value of such Share as at the date of the Change in Control Put Notice. If within a period of three months from the date of receipt of a Change in Control Put Notice, IL&FS is unable to procure sale to a third party of the Shares specified in a Change in Control Put Notice at a purchase price per Share equal to the Fair Value of such Share, IL&FS shall be obligated to purchase such Shares forthwith at a purchase price per Share equal to the Fair Value of such Share. Any third party purchaser procured by IL&FS must purchase all, but not less than all, of the Shares specified in the Change in Control Put Notice.
- (d) The provisions of this Article 59B shall be valid and binding on the parties in respect of the Shares purchased by ETM until the date which is four years after February 28, 2005 and up to the IPO in respect of the Shares purchased by SAIF.

#### **Article 59C**

##### **Material Breach**

- (a) If there is a Material Breach by any Shareholder (such Shareholder, the "Defaulting Shareholder"), any other Shareholder (a "Continuing Shareholder") or any Person nominated by a Continuing Shareholder may, within 30 Business Days of becoming aware of the Material Breach, notify the Company and the Defaulting Shareholder in writing of such Material Breach.
- (b) Unless the Defaulting Shareholder disputes the occurrence of the Material Breach and the dispute is referred to Arbitration (in which case, the 'put' rights under this Article 59C(b) may not be exercised, if at all, until after the date of an arbitral award declaring the occurrence of the Material Breach), the Continuing Shareholders or any Person nominated by the Continuing Shareholders for such purpose shall have the several right, exercisable within the Put Exercise Period, to 'put' and sell to the Defaulting Shareholder, some or all of the Shares owned by the Continuing Shareholders upon the delivery of a written notice of 'put' to the Defaulting Shareholder and the Company within the Put Exercise Period (in each case, the "Default Put Notice"). The Default Put Notice shall state the number of the Shares that the Continuing Shareholder(s) or its nominee desires to sell. If neither a Continuing Shareholders nor its nominee delivers a Default Put Notice within the Put Exercise Period, such Continuing Shareholders and its nominee shall be deemed to have waived all its 'put' rights under this Article 59C with respect to the breach in question but not to any future breaches.
- (c) Upon the exercise of its 'put' rights under Article 59C(b), the Continuing Shareholder and/or its nominee, as the case may be, shall be entitled to sell the Continuing Shareholder's Shares specified in the Default Put Notice at a purchase price per Share equal to the Fair Value of such Share. Upon the exercise of any 'put' rights under this Article 59C(b), the Defaulting Shareholder shall be obligated to purchase the Continuing Shareholder's Shares specified in the Default Put Notice at a purchase price per Share equal to the Fair Value of such Share.

#### **Article 59D**

##### **Permitted Transfers**

The restrictions set forth in the 59A-F with respect to the Transfer of any Shares shall not apply to any Transfer of Shares by a Shareholder to any Affiliate of such Shareholder (unless a buy-back is contemplated); provided, however, that if a Shareholder makes a Transfer of less than all of such Shareholder's Shares to one or more of its Affiliates, such Shareholder shall continue to be bound by the terms of these Articles and shall retain the right to continue to nominate the number of Directors set forth in Article 129 hereof and the transferee shall have no right to nominate a Director, and the restrictions and rights set forth in these Articles in relation to transfer of shares will continue to be applicable to the Shares (or any interest therein) after any Transfer to such Affiliate. Each such Affiliate shall, as a condition to the effectiveness of any Transfer of Shares, deliver to the Company (i) such Affiliate's deed of adherence, in a stipulated form upon consummation of the Transfer; and (ii) any other information reasonably requested by the Company. The transferor and/or transferee shall reimburse the Company for all reasonable costs and expenses incurred by the Company in connection with such Transfer. Further, the restrictions set forth in this Article with respect to the Transfer of Shares shall not apply to any Transfer of Shares pursuant to an IPO.

#### **Article 59E**

##### **Compliance with Legal Requirements**

Notwithstanding any other provision of these Articles, no Transfer of Shares by any Shareholder will be permitted until and unless all applicable notices and the receipt of all applicable governmental approvals and/ or authorizations required by Applicable Law have been received and evidence thereof provided to the Company and Shareholders.

## **IL&FS INVESTSMART LIMITED**

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### **Article 59F**

#### **General Transfers**

- (a) SAIF may Transfer to ETM all or any portion of the Shares held by it, and ETM may transfer to SAIF all or any portion of the Shares held by it, in each case, without being subject to the requirements of Article 59A-F. ORIX may Transfer to IL&FS all or any portion of the Shares held by it, without being subject to the requirements of Article 59A-F. Any Transfer by IL&FS to ORIX of all or any portion of the Shares held by it shall be subject to the requirements and restrictions of Article 59A-F.
- (b) Each of SAIF and ETM shall be entitled to Transfer some or all of the Shares held by it to any Person whatsoever, so long as such Person is not a Direct Competitor of the Company. Notwithstanding anything to the contrary herein, the rights of co-sale set forth in Article 59A hereof shall not apply to any such Transfer.
- (c) Each of the Sellers and the Company shall provide and extend all assistance required by SAIF or ETM in procuring any approval from any governmental authority for implementing and consummating any Transfer of Shares, including providing any documents required for such purpose.
- (d) The Sellers and the Company shall provide all necessary assistance to enable any potential purchaser pursuant to Article 59F(b), identified by SAIF or ETM, to purchase all or a portion of the Shares held by SAIF or ETM, and to conduct a due diligence review of the Company as may be generally required or requested by a potential purchaser. Further, if SAIF or ETM desires to Transfer all or a portion of the Shares held by it to the public, the Company shall timely do all such acts and provide all such assistance (including procuring of all applicable consents and approvals) as is requested or sought by SAIF or ETM, as the case may be, to ensure the successful completion of such sale.
- (e) If either SAIF or ETM intends to Transfer to a Direct Competitor of the Company all or a portion of the Shares held by it, then, the rights of first refusal and the rights of co-sale set forth in Article 59A hereof shall apply to such Transfer.
- (f) If the Company fails to complete an IPO by the second anniversary of February 28, 2005 the, the restrictions set forth in this Article 59F on the Transfer of any Shares by SAIF and/or ETM shall automatically terminate on the second anniversary of such closing date.
- (g) Notwithstanding the terms of this Article 59F, neither SAIF nor ETM shall be entitled to Transfer to any Person all or any portion of the Shares held by it for a period of six months from February 28, 2005. The Parties hereby agree that the put rights set forth in Article 59B are not Transferable and shall not be available to any other Person who purchases or otherwise acquires any Shares held by SAIF or ETM. Nothing contained in this Article 59F shall prevent or preclude either SAIF or ETM from exercising any of their co-sale rights set forth in Article 59AF

### **Article 59G**

#### **Valuation**

Except as stated in Article 59A or as otherwise expressly required by these Articles, the purchase price payable for any Transfer of the Shares of the Company shall be the fair market value of the Shares of the Company as at the date of the event that gives a Shareholder the entitlement hereunder to exercise the right of purchase or sale, calculated in accordance with the principles of valuation decided by the Shareholders (such fair market value, the "Fair Value").

### **Article 60**

#### **Registration of persons entitled to shares otherwise than by transfer (Transmission clause)**

Subject to the provisions of the Act and these presents, any person becoming entitled to a share in consequence of death, bankruptcy or insolvency of any Member or by any lawful means other than by a transfer in accordance with these presents, may with the consent of the Directors (which they shall not be under any obligation to give) and upon producing such evidence as the Board thinks sufficient either be registered himself as the holder of the share or elect to have some person nominated by him and approved by the Board, registered as such holder; provided nevertheless, that if such person shall elect to have his nominee registered he shall testify the election by executing to his nominee an instrument of transfer of the share in accordance with the provisions herein contained and until he does so, he shall not be freed from any liability in respect of the share.

### **Article 61**

#### **Persons entitled may receive dividends without being registered as Members**

A person entitled to a share by transmission shall, subject to the right of the Directors to retain such dividends or monies as hereinafter provided, be entitled to receive, and may give a discharge for, any dividends or other monies payable in respect of the share.

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**Article 62****Board may require evidence of transmission**

Every transmission of share shall be verified in such manner as the Directors may require and the Company may refuse to register any such transmission until the same be so verified or until and unless an indemnity be given to the Company with regard to such registration which the Directors in their discretion shall consider sufficient, provided nevertheless that there shall not be any obligation on the Company or the Directors to accept any indemnity.

**Article 63****Transfer by legal representative**

Every holder of shares or debentures may, at any time nominate, in the prescribed manner, a person to whom his shares, or debentures shall vest in the event of his death. If the shares are held jointly, the joint holders, may together nominate, in the prescribed manner, a person to whom all the rights in the shares or debentures shall vest in the event of death of all the joint holders.

Notwithstanding anything contained in any other law for the time being in force or in any disposition, whether testimony or otherwise, in respect of such shares or debentures, where a nomination made in the prescribed manner purports to confer on any person the right to vest the shares or debentures, the nominee shall, on the death of the shareholder or holder of debentures, or as the case may be, on the death of the joint holders become entitled to all the rights in such shares or debentures or as the case may be, all the joint holders, in relation to such shares or debentures to the exclusion of all other persons, unless the nomination is varied or cancelled in the prescribed manner.

Where the nominee is a minor, it shall be lawful for the holder of the shares, or debentures to make the nomination to appoint in the prescribed manner any person to become entitled to shares or debentures, in the event of his death, during the minority.

**Article 64****Transfer by Legal representative**

A transfer of the share in the Company of a deceased Member made by his legal representative shall, although the legal representative is not himself a Member, be as valid as if he had been a Member at the time of the execution of the instrument of transfer.

**Article 65****Certificate of Transfer**

The certification by the Company of any instrument of transfer of shares in or debentures of the Company, shall be taken as a representation by the Company to any person acting on the faith of the certification that there have been produced to the Company such documents as on the face of them show a prima facie title to the shares or debentures in the transferor named in the instrument of transfer but not as a representation that the transferor has any title to the shares or debentures.

**VIII INCREASE, REDUCTION AND ALTERATION OF CAPITAL****Article 68****Power to increase Capital**

The Company in General Meeting may from time to time by Ordinary Resolution, increase the capital by the creation of new shares of such amount, as it thinks expedient.

**Article 69****On what conditions new shares may be issued**

Subject to the provisions of the Act, the new shares shall be issued on such terms and conditions and with such rights and privileges annexed thereto, as the General Meeting, resolving upon the creation thereof, shall direct and if no direction be given, as the Directors shall determine; and in particular such shares may be issued with a preferential or qualified right to dividends and in the distribution of assets of the Company and subject to the Act and the rules made in this behalf by the Central Government, with a special or without any right of voting. Whenever the Capital of the Company has been increased under the provisions of these Articles, the Company shall comply with the provisions of Section 97 of the Act. No offer of fresh shares shall be made except as per the provisions of Article 70 hereunder.

**Article 70****New shares to be offered to existing Members**

70A Further Issue of Shares

## IL&FS INVESTSMART LIMITED

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- (a) Where at the time after the expiry of two years from the formation of the Company or at any time after the expiry of one year from the allotment of shares in the Company made for the first time after its formation, whichever is earlier, it is proposed to increase the subscribed capital of the Company by allotment of further shares either out of the unissued capital or out of the increased share capital then:
- (i) Such further shares shall be offered to the persons who at the date of the offer, are holders of the equity shares of the Company, in proportion, as near as circumstances admit, to the capital paid up on those shares at the date
  - (ii) Such offer shall be made by a notice specifying the number of shares offered and limiting a time not less than thirty days from the date of the offer and the offer if not accepted, will be deemed to have been declined
  - (iii) The offer aforesaid shall be deemed to include a right exercisable by the person concerned to renounce the shares offered to them in favour of any other persons and the notice referred to in sub clause (b) hereof shall contain a statement of this right. PROVIDED THAT the Directors may decline, without assigning any reason to allot any shares to any person in whose favour any Member may renounce the shares offered to him
  - (iv) After expiry of the time specified in the aforesaid notice or on receipt of earlier intimation from the person to whom such notice is given that he declines to accept the shares offered, the Board of Directors may dispose off them in such manner and to such persons
  - (v) rights of SAIF and ETM under this Article are collective such that they shall at all times have the right to the combined Shareholders Percentage Interest, so that to the extent that either of them does not choose to subscribe for its full allotment of shares, the other may choose to subscribe for any or all of the Shares not so subscribed for, in addition to the shares which it is intending to purchase from its own allotment, provided that such election is made within the required time frames, as set forth below (the "Purchaser's Allocation Rights").
  - (vi) The rights of IL&FS and ORIX under this Article are collective such that they shall at all times have the right to the combined Shareholders Percentage Interest, so that to the extent that either of them does not choose to subscribe for its full allotment of Shares, the other may choose to subscribe for any or all of the shares not so subscribed for, in addition to the shares which it is intending to purchase from its own allotment, provided that such election is made within the required time frames, as set forth below (the "Sellers' Allocation Rights").
- (b) Nothing in sub-clause (iii) of (a) hereof shall be deemed :
- (i) To extend the time within which the offer should be accepted; or
  - (ii) To authorise any person to exercise the right of renunciation for a second time on the ground that the person in whose favour the renunciation was first made has declined to take the shares comprised in the renunciation
- (c) Nothing in this Article shall apply to the increase of the subscribed capital of the Company caused by the exercise of an option attached to the debenture issued or loans raised by the Company
- (i) To convert such debentures or loans into shares in the Company; or
  - (ii) To subscribe for shares in the company (whether such option is conferred in these Articles or otherwise)
- PROVIDED THAT the terms of issue of such debentures or the terms of such loans include a term providing for such option and such term :
- (1) Either has been approved by the Central Government before the issue of the debentures or the raising of the loans or is in conformity with Rules, if any, made by that Government in this behalf ; and
  - (2) In the case of debentures or loans or other than debentures issued to or loans obtained from Government or any institution specified by the Central Government in the behalf, has also been approved by a special resolution passed by the Company in General Meeting before the issue of the debentures or raising of the loans.
- 70B Provided that notwithstanding what is stated above the Directors shall comply with such Rules or Regulation or requirements of any Stock Exchange or the Rules made under the Act or the rules made under Securities Contracts (Regulation) Act, 1956 or any other Act, or rules applicable in this behalf.

Notwithstanding anything herein contained the new shares aforesaid may be offered to any persons, whether or not those persons include the persons who, at the date of the offer, are holders of the equity shares of the Company, in any manner whatsoever: -

- (a) if a Special Resolution to that effect is passed by the Company in general meeting;
- (b) Where no such Special Resolution is passed, if the votes cast (whether on a show of hands or on a poll, as the case may be) in favour of the proposal contained in the Resolution moved at the general meeting sanctioning the issue of such shares (including the casting vote, if any, of the Chairman) by Members who, being entitled so to do, vote in person, or where proxies are allowed, by proxy, exceed the votes, if any, cast against the proposal by Members so entitled and voting and the Central Government is satisfied on an application made by the Board of Directors in that behalf that the proposal is most beneficial to the Company.

#### **Article 71**

##### **How far new shares to rank with shares in original capital**

Except so far as otherwise provided by the conditions of issue or by these presents, any capital raised by the creation of new shares shall be considered part of the original capital and shall be subject to the provisions of these presents.

#### **Article 72**

##### **Reduction of Capital**

The Company may (subject to the provisions of Sections 78, 80 and 100 to 105, both inclusive, of the Act), from time to time by special resolution, reduce its capital and any capital redemption reserve account or securities premium account in any manner for the time being authorized by law, and in particular, Capital may be paid off on the footing that it may be called up again.

#### **Article 73**

##### **Alteration of Capital**

The Company in General Meeting may, by ordinary resolution:

- (i) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares ;
- (ii) convert all or any of its fully paid up shares into stock and reconvert that stock into fully paid up shares of any denomination ;
- (iii) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, so however, that in the sub-division the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived ;
- (iv) Cancel shares, which, at the date of the passing of the resolution in that behalf have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled.

### **IX MODIFICATION OF RIGHTS**

#### **Article 76**

##### **Power to vary shareholders' rights**

If at any time the Capital is divided into different classes of Shares, all or any of the rights and privileges attached to the Shares of any class may, subject to the provisions of Sections 106 and 107 of the Act, be varied, commuted, affected, dealt with or abrogated with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution at a separate meeting of the holders of the issued Shares of that class.

### **XI MEETINGS**

#### **Article 86**

##### **Right to attend General Meeting**

Every Member of the Company shall be entitled to attend every general meeting either in person or by proxy, and the Auditor of the Company shall have the right to attend and to be heard at any general meeting on any part of the business, which concerns him as Auditor.

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### **XII PROCEEDINGS AT GENERAL MEETINGS**

#### **Article 96**

##### **Quorum to be present when business commences**

Five Members present in person shall be quorum for a General Meeting and no business shall be transacted at any General Meeting, unless the quorum requisite be present at the commencement of the business. Provided however, that, that no quorum shall exist until at least one nominee or representative appointed or authorized by each of the Shareholders is present at the meeting.

#### **Article 99**

##### **When, if Quorum not present, meeting to be dissolved and to be adjourned**

In the absence of a quorum, the general meeting shall be adjourned by the shareholders present and shall be reconvened on such date, time and place as may be decided by the Board. At any such adjourned general meeting, the presence in person of any five (5) members shall constitute quorum, provided, however, that if the adjourned meeting is an extraordinary general meeting of the Company, no quorum shall exist until at least one nominee or representative appointed or authorized by each of the Shareholders is present at such adjourned meeting.

#### **Article 101**

##### **Casting vote of Chairman**

Every question submitted to a meeting shall be decided, in the first instance, by a show of hands and in the case of an equality of votes. The Chairman of a General Meeting shall not have a casting vote.

#### **Article 102**

##### **Voting by show of hands**

At any General Meeting, a resolution put to the vote of the meeting shall, unless a poll is demanded be decided on a show of hands.

#### **Article 103**

##### **Result of voting**

A declaration by the Chairman that on a show of hands, a resolution has or has not been carried either unanimously or by a particular majority and an entry to that effect in the books containing the minutes of the proceedings of the Company, shall be conclusive evidence of the fact, without proof of the number or proportion of the votes cast in favour of or against such resolution.

#### **Article 104**

##### **Demand for poll**

- (i) Before or on the declaration of the result of the voting on any resolution on a show of hands, a poll may be ordered to be taken by the Chairman of the meeting of his own motion, and shall be ordered to be taken by him on a demand made in that behalf by any Member or Members present in person or by proxy and holding share in the Company which confer a power to vote on the resolution not being less than one-tenth of the total voting power in respect of the resolution, or on which any aggregate sum of not less than fifty thousand rupees has been paid-up.
- (ii) The demand for a poll may be withdrawn at any time by the person or persons who made the demand.

#### **Article 105A**

##### **Certain matters to be decided by poll**

The affirmative vote of at least 75% of the shareholders of the Company present and voting at a validly called meeting at which a quorum is present shall be required for any action to be taken by the Company's shareholders on the matters set forth in Article 167A. Unless SAIF, ETM and ORIX each agree in writing otherwise, voting on any matter set forth in Article 167A will be through a poll conducted in accordance with the provisions of the Act and not by a show of hands.

#### **Article 108**

##### **Chairman to be sole judge of validity of vote tendered at meeting and at poll**

The Chairman of any meeting shall be the sole judge of the validity of every vote tendered at such meeting. The Chairman present at the taking of all polls shall be the sole judge of the validity of every vote tendered at such poll.



#### **Article 109**

##### **Right of Member to use his vote**

On a poll taken at meeting of the Company, a Member entitled to more than one vote, or his proxy or other person entitled to vote for him, as the case may be, need not, if he votes, use all his votes or cast in the same way all the votes he uses. No Member shall be entitled to vote either personally or by proxy at any general meeting or meeting of a class of Shareholders either upon a show of hands or upon a poll in respect of any shares registered in his name on which any calls or other sums presently payable by him have not been paid or in regard to which the Company has, and has exercised, any right of lien.

#### **Article 110**

##### **Resolution at adjourned meeting**

Where a resolution is passed at an adjourned meeting of the Company, the resolution shall, for all purposes, be treated as having been passed on the date on which it was in fact passed and shall not be deemed to have been passed on any earlier date.

### **XIII VOTING RIGHTS**

#### **Article 114**

##### **Votes of Members**

- (a) Subject to Article 105A, every Member, who being an individual, is present in person or being a corporation, is present by a representative, not being disqualified in terms of these Articles shall have one vote on a show of hands.
- (b) Every Member not being disqualified in terms of these Articles who being an individual present in person or by a proxy or by attorney duly authorised under power of attorney, or being a Corporation is present by a representative or his proxy shall, on a poll, have a voting right in proportion to his share of the paid up equity capital of the Company.

#### **Article 115**

##### **No voting by proxy on show of hands**

No Member not personally present shall be entitled to vote on a show of hands unless such Member is present by attorney duly authorised under power of attorney or unless such Member is a body corporate present by a representative duly authorised under Section 187 of the Act in which case such attorney or representative may vote on a show of hands as if he were a Member of the Company.

#### **Article 116**

##### **Votes in respect of shares of deceased Member**

Any person entitled under the Transmission Clause to any shares may vote at any General Meeting in respect thereof in the same manner as if he were the registered holder of such share, provided that forty-eight hours at least before the time of holding the meeting or adjourned meeting as the case may be, at which he proposes to vote he shall satisfy the Board of Directors of his right to Transmission of such shares, unless the Directors shall have previously admitted his right to Transmission of such shares or his right to vote at such meeting in respect thereof.

#### **Article 117**

##### **Votes in respect of Members of Unsound Mind and Minors**

A Member of unsound mind or in respect of whom an order has been made by any Court having jurisdiction in lunacy may vote, whether on a show of hands or on a poll, by his committee or other legal guardian, and any such committee or guardian may on poll vote by proxy. If any Member be a minor, the votes in respect of his share or shares shall be made by his guardian or any of his guardians, if more than one, to be elected in case of dispute by the Chairman of the meeting.

#### **Article 121**

##### **When vote by proxy valid, though authority revoked**

A vote in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death of the Principal or revocation of the proxy or transfer of the share in respect of which the vote is given, provided no intimation in writing of the death, revocation or transfer shall have been received at the office of the Company or by the Chairman of the meeting before the vote is given.

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### **Article 123**

#### **Proxy either for a specified meeting or for a specified period**

An instrument of proxy may appoint a proxy either for the purpose of a particular meeting specified in the instrument and any adjournment thereof, or it may appoint for the purposes of every meeting of the Company or of every meeting to be held before the date specified in the instrument and any adjournment of any such meeting.

### **Article 124**

#### **Time and place for inspection of proxies lodged**

Every Member entitled to vote at a meeting of the Company according to the provisions of these presents on any resolution to be moved thereat, shall be entitled during the period beginning twenty-four hours before the time fixed for the commencement of the meeting and ending with the conclusion of the meeting, to inspect the proxies lodged, at any time during the business hours of the Company, provided not less than three days' notice in writing of the intention so to inspect is given to the Company.

### **Article 125**

#### **No Member entitled to vote etc while call due to Company**

No Member shall be entitled to vote either personally or by proxy at any General Meeting of a class of shareholders either upon a show of hands or on poll in respect of any shares registered in his name on which any calls or other sums presently payable by him have not been paid or in regard to which the Company has exercised any right of lien.

### **Article 126**

#### **Objection to Vote**

No objection shall be made as to the validity of any vote, except at any meeting or poll at which such vote shall be tendered, and every vote, whether given personally or by proxy, not disallowed at such meeting or poll shall be deemed valid for all purposes of such meeting or poll whatsoever.

## **XIV DIRECTORS**

### **Article 129**

#### **Appointment of Directors by IL&FS, ORIX and Raheja**

129A. Composition of Board of Directors:

The Composition of the Board of Directors shall be as follows:

- 3 Members recommended / nominated by IL&FS.
- 1 Member recommended / nominated by SAIF
- 1 Member recommended / nominated by ETM
- 1 Member recommended / nominated by ORIX
- 4 independent directors
- A Managing Director & CEO
- A Deputy Managing Director

IL&FS & ORIX shall vote the Shares held by them to elect and appoint as Directors the individuals nominated by SAIF and ETM in accordance with this Article, and SAIF and ETM shall vote the Shares held by them to elect and appoint as Directors the individuals nominated by IL&FS and ORIX.

If the shareholding of SAIF, ETM or ORIX is reduced to less than 7.5% of the paid-up capital of the Company, the veto and other related powers in relation to the management of the Company as contemplated herein shall not be available to SAIF, ETM or ORIX, as the case may be. Notwithstanding the foregoing, each of SAIF, ETM and ORIX shall continue to be entitled to nominate a Director for so long as their individual shareholding is no less than 5% of the paid up capital of the Company.

### **Article 132**

#### **Qualification Shares**

No Director shall be required to hold any share or qualification shares of the Company.

## **Article 133**

### **Remuneration of Directors**

The maximum remuneration of Director for his services shall be such sum as may be prescribed by the Act or the Central Government from time to time for each meeting of the Board of Directors attended by him. The Directors shall also be paid any travelling, hotel and boarding expenses incurred to attend Director's or Committee Meeting.

## **Article 134**

### **Reimbursement of expenses of Directors**

The Company shall reimburse directors for reasonable expenses incurred in connection with the Board meetings and the functions of the Directors. The Company shall organize five-star hotel accommodation, business class air-fare and local transport and shall pay for the same directly to the respective agencies.

## **XV Rotation of Directors**

## **Article 142**

### **Retirement of Director by rotation**

Not less than two-thirds of the total number of Directors of the Company shall be persons whose period of office is liable to determination by retirement of Directors by rotation and save as otherwise expressly provided in the Act and these Articles, be appointed by the Company in General Meeting,

The remaining Directors shall be appointed in accordance with the provisions of these Articles, and;

(c) [Mr. Ravi Parthasarathy, Mr. Hemang Raja and Mr. Ramesh Bawa shall be the Directors not liable to retire by rotation]

## **Article 145**

### **Company to appoint successor**

Subject to the provisions of the Act at the Annual General Meeting at which a Director retires in the manner aforesaid, the Members present at the meeting may fill up the vacated office by electing the retiring Director or some other person thereto.

Notwithstanding the above, in case of the Shareholders if any Director nominated by the Shareholders is liable to retire by rotation (the "Retiring Director"), the Shareholders shall ensure that at the annual general meeting at which such Director must retire, at the option of the Shareholder who appointed the Retiring Director, either the Retiring Director is reappointed as a Director or another nominee of such Shareholder is appointed as a Director in place of the Retiring Director.

## **Article 149**

### **Removal of Directors**

Subject to the provisions of Section 284 of the Act, the Company may remove any Director before the expiration of his period of office and appoint another person in his stead. The person so appointed shall hold office during such time as the Director in whose place he is appointed would have held the same if he had not been removed

Provided however each Shareholder shall be entitled to remove any Director nominated by it, by giving prior written notice to such Director, the other Parties and the Company. Any vacancy occurring on the Board by reason of the death, disqualification, inability to act, resignation or removal of any Director shall be filled only by another nominee of the Party whose nominee was so affected so as to maintain a Board that is consistent with the provisions of Article 129.

Save and except as provided in the foregoing, no Shareholder shall, either individually or acting collectively with the other Shareholders, remove any Director except any Director nominated by such Shareholder.

## **XVI Meeting of the Board of Directors**

## **Article 152**

### **Quorum**

The presence in person of at least five Directors on the Board shall be required to constitute a quorum; provided, however, that no quorum shall exist unless one Director nominated by each of the Shareholders is present. In the absence of a quorum, the meeting of the Board shall be adjourned by the Directors present and shall be reconvened 14 days thereafter on the same day, time and place or at any other date with the consent of the Chairman and nominee Directors of SAIF, ETM and ORIX. At any such adjourned meeting, the presence in person of at least five Directors on the Board shall be required to constitute a quorum.

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### Article 154A

#### Chairman of the Company

For so long as IL&FS holds more than 40% of the share capital of the Company (or such other percentage holding as is required by Applicable Law for maintaining a dominant shareholding), the Chairman of the Company shall be a nominee Director of IL&FS. Subject to the above, , Mr. Ravi Parthasarathy shall be the Chairman of the Company for the period of 5 (Five) years with effect from March 9, 2004.

### Article 156

#### Directors may appoint Committees and delegate powers

- (a) Subject to the provisions contained in Section 292 of the Act, the Board may, by resolution or resolutions passed by a majority of the entire Board, designate one or more committees, which, to the extent provided in such resolution or resolutions, shall have and may exercise the powers of the Board in the management of the business and affairs of the Company; but no such committee shall have the power or authority to adopt an agreement of merger or amalgamation, recommend to the shareholders the sale, lease or exchange of all or substantially all of the Company's property and assets, recommend to the shareholders a dissolution of the Company or a revocation of a dissolution, make calls on shareholders in respect of money unpaid on their shares, issue debentures or shares of the capital stock of the Company, or recommend to the shareholders of the Company an amendment to the Articles or Memorandum of Association of the Company and, unless the resolution or resolutions of the Board expressly so provide, no such committee shall have the power or authority to declare a dividend.

- (b) The Board shall constitute a committee known as the "Compensation Committee" and the "Audit Committee".

The Compensation Committee shall comprise of 5 members out of which 2 members shall be nominated/recommended by IL&FS and 1 member shall be nominated/recommended by each of Softbank, ETM and ORIX. The Compensation Committee will determine and approve salaries of all executives of the Company with a cost to the Company of more than INR 15,00,000 per annum. The Compensation Committee will also have full discretion over the issue of employee stock options.

The Audit Committee shall comprise of 5 members out of which 2 members shall be nominated/recommended by IL&FS and 1 member shall be nominated/recommended by each of Softbank, ETM and ORIX. The Audit Committee will perform the customary functions of an audit committee, including the recommendation of the Company's external auditors and approval of the Company's internal control systems.

- (e) At least one Director nominated by SAIF and at least one Director nominated by ETM to the Board will be appointed to each of the Audit Committee and the Compensation Committee of the Company. The presence in person of at least one Director nominated by SAIF and at least one Director nominated by ETM to the Board shall be required to constitute a quorum for meetings of the Audit Committee and the Compensation Committee. In the absence of a quorum, the meeting of the Committee shall be adjourned by the Directors present and shall be reconvened 14 days thereafter on the same day, time and place or at any other date with the consent of the Chairman of the Committee and nominee Directors of SAIF and ETM. At any such adjourned meeting, the presence in person of at least two Directors on the Committee shall be required to constitute a quorum.
- (f) All actions taken by any committee in between any meetings of the Board shall be reported to the Board at its next meeting to ensure that the actions taken are within the powers of the relevant committee
- (g) Apart from the committees constituted by the Board in Article 156(b), the Board of Directors may appoint an executive or other committee or committees consisting of such Members, of its body as it thinks fit, and to delegate any of their powers to such committee or committees and the Board may from time to time revoke and discharge any such committee or committees of the Board either wholly or in part and either as to persons or purposes, but every Committee of the Board so formed shall, in the exercise of the power so delegated, conform to any regulations that may from time to time be imposed on it by the Board of Directors. All acts done by any such Committee of the Board in conformity with such regulations and in fulfilment of the purposes of their appointment but not otherwise, shall have the like force and effect as if done by the Board, subject to the provisions of the Act and to the approval of the Company in General Meeting the Board of Directors may from time to time fix the remuneration to be paid to any Member or Members of their body constituting a Committee appointed by the Board in terms of these presents, and may pay the same.
- (h) Committees are entitled to conduct meetings through conference calls. Matters may be approved through circular note or resolutions approved or signed by all the committee members of the respective committees as the case may be.

## Article 167A

### Certain powers to be exercised in a particular manner

Notwithstanding any provision in this Article to the contrary, no action shall be taken on any of the following matters unless there is a Board meeting at which a quorum is present and at least one Director nominated by each of the Shareholders present at the meeting has voted affirmatively in favour of, or to approve or authorise, such action, provided that any action with respect to the matters listed at 167A(v) below may only be taken if the Directors nominated by at least three Shareholders vote affirmatively in favour of, or approve or authorise, such action (it being understood that the limits prescribed in Articles 167A(vii), (ix), (xi) and (xvii) are not cumulative and any unutilized limit will lapse at the end of the relevant financial year):

- (i) Appointment of a committee of Directors and powers to be vested in such committee;
- (ii) Filling in of casual vacancies of the Board and appointment of additional Directors;
- (iii) Any amendment to the Memorandum of Association or Articles of Association if the same is not required under any Applicable Law;
- (iv) Any material deviation from or material change in the objects or activities of the Company or the discontinuation of existing lines of business or commencement of a new business by the Company that is unrelated to any existing line of business of the Company;
- (v) Recommendation or declaration of any dividend (including interim dividend) or any other distribution to the Shareholders that would require distribution in a financial year of more than 25% of the profits of the Company in the preceding financial year;
- (vi) Issue of further capital or securities of the Company or alteration or reduction of Share capital or any variation of any rights attached to the Shares or any securities of the Company;
- (vii) Making any loans out of the funds of the Company in excess of Rs. 500 million in aggregate in any financial year of the Company (it being understood that the Executive Committee of the Board of Directors has the authority to approve loans up to an aggregate amount of Rs. 500 million)
- (viii) Any change in any significant accounting policies not mandatorily required under Applicable Law or the appointment, replacement, removal and remuneration of the financial auditor of the Company;
- (ix) The creation of any Encumbrance upon or in respect of any property or assets of the Company in excess of Rs. 500 million in aggregate in any financial year of the Company;
- (x) Any assignment, sale, licensing or otherwise transfer or other disposition of a substantial part of the Company's assets or business, or any intellectual property right that is either owned by the Company or that the Company has a license to (or is otherwise entitled to) use;
- (xi) Borrowing fund or creating, incurring, or assuming any obligations or liabilities (whether accrued, absolute, contingent, or otherwise) in excess of Rs. 500 million in aggregate in any financial year of the Company (it being understood that the Executive Committee of the Board of Directors has the authority to approve borrowings and other such transaction up to an aggregate amount of Rs. 500 million)
- (xii) Approving contracts in which any Director is an interested party;
- (xiii) Any joint venture agreements, technology transfer, technical collaboration and/or assistance in India or abroad;
- (xiv) Any liquidation, dissolution or winding-up of the Company, and any arrangement entered into between the Company and its creditors in connection with such liquidation, dissolution or winding-up;
- (xv) The Transfer of Shares or any determination that the Transfer of any Shares or change of the Percentage Interest of any Shareholder has been made in accordance with the provisions of these Articles;
- (xvi) The approval of (and any amendments to) the business plan and the Annual Plans of the Company;
- (xvii) The formation or disposal of any subsidiary of the Company to the extent that it would engage in a new line of business for the Company, or to the extent that the cost of establishing it would exceed Rs. 200 million in aggregate in any financial year of the Company;
- (xviii) The listing of any securities of the Company on any stock exchange;

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(xix) Any agreement with or commitment to any Shareholder or any Affiliate of such Shareholder;

(xx) Any guarantee or indemnity furnished by the Company in excess of Rs. 500 million in aggregate in any financial year of the Company; and

(xxi) The appointment and removal of each of the Managing Director and the CEO of the Company.

### **XXIII DIVIDENDS**

#### **Article 176**

##### **Dividends**

The profits of the Company, subject to any special rights relating thereto created or authorised to be created by these presents and subject to the provisions of these presents as to the Reserve Fund or other special fund or funds, shall be divisible among the Members in proportion to the amount of capital paid up on the shares held by them respectively.

Provided always that (subject as aforesaid) any capital paid upon a share during the period in respect of which a dividend is declared shall unless the Directors otherwise determine, entitle and shall be deemed always to have entitled the holders of such share only to an apportioned amount of such dividend as from the date of payment.

#### **Article 177**

##### **Dividends on Capital paid up in advance and carrying interest**

Provided that where capital is paid up on any shares in advance of calls upon the footing that the same shall carry interest, such capital shall not whilst carrying interest, confer a right to participate in profit.

#### **Article 178**

##### **Declaration of dividends, Restriction on amount of dividends**

Subject to the provisions of Section 205 of the Act, the Company in General Meeting may declare a dividend to be paid to the Members according to their rights and interests in the profits and may fix the time for payment. No dividends shall be declared in excess of the amounts recommended by the Directors, but the Company in General Meeting may declare a smaller dividend.

#### **Article 179**

##### **Dividends out of profits only and shall not carry interest**

No dividend shall be paid otherwise than out of the profits of the year or any other undistributed profits of the Company and no dividend shall carry interest as against the Company.

#### **Article 181**

##### **Dividend in proportion to amount paid up on shares**

The Company shall pay dividends in proportion to the amount paid up or credited as paid up on each share, where a larger amount is paid up or credited as paid up on some shares than on others.

#### **Article 182**

##### **Interim dividends**

The Directors may from time to time pay to the Members such interim dividends as in their judgement the position of the Company justifies.

#### **Article 183**

##### **Debts may be deducted**

The Directors may retain any dividends payable on shares on which the Company has a lien and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists.

#### **Article 184**

##### **Set off of dividends and call together allowed**

Any General Meeting declaring a dividend may make a call on the Members of such amount as the meeting fixes, but so that the call on each Member shall not exceed the dividend payable to him and so that the call be made payable at the same time as the dividend and the dividend may, if so arranged between the Company and the Member, be set off against the call. The making of a call under this Article shall be deemed ordinary business of an Annual General Meeting, which declares a dividend.

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**Article 185****Effect of transfer**

A transfer of shares shall not pass the right to any dividend declared thereon after such transfer and before the registration of the transfer.

**Article 186****Retention in certain cases**

The Directors may retain the dividends payable upon shares in respect of which any person is under the Transmission Clause entitled to become a Member or which any person under that Article is entitled to transfer, until such person shall become a Member, in respect of such shares or shall duly transfer the same.

**Article 187****No Member to receive dividends whilst indebted to the Company and the company's right to reimbursement thereof**

No Member shall be entitled to receive payment of any interest or dividend in respect of his share or shares, whilst any money may be due or owing from him to the Company in respect of such share or shares or otherwise howsoever, either alone or jointly with any other person or persons; and the Directors may deduct from the interest or dividend payable to any Member all sums of money so due from him to the Company.

**Article 188****Dividends to joint holders**

Any one of several persons who are registered as the joint holders of any share may give effectual receipts for all dividends and payments on account of dividends in respect of such shares

**Article 191****Dividend to be paid within forty two days**

The Company shall pay the dividend or send warrant in respect thereof to the shareholder entitled to the payment of the dividend, within forty-two days from the date of the declaration of the dividend unless :

- (a) Where the dividend could not be paid by reason of the operation of any law  
OR
- (b) Where a shareholder has given directions regarding the payment of dividend and those directions cannot be complied with  
OR
- (c) Where there is a dispute regarding the right to receive the dividend  
OR
- (d) Where the dividend has been lawfully adjusted by the Company against any sum due to it from the shareholders  
OR
- (e) Where for any other reason, the failure to pay the dividend or to post the warrant within the period aforesaid was not due to any default on the part of the Company.

**Article 191B****Unpaid or unclaimed dividend**

Where the Company has declared a dividend but which has not been paid or the dividend warrant in respect thereof has not been posted within 42 days from the date of declaration to any shareholder entitled to the payment of the dividend, the Company shall within 7 days from the date of expiry of the said 42 days, open a special account in the that behalf in any Scheduled Bank called the "Unpaid Dividend Investment Limited Account" and transfer to the said account, the total amount of dividend which remains unpaid or in relation to which no dividend warrant has been posted.

Any money transferred to the unpaid dividend account which remains unpaid for a period of seven years from the due date of payment shall in accordance with Section 205C of the Act be transferred to the investor Education and Protection Fund established by the Central Government.

No unclaimed or unpaid dividend shall be fortified by the Board.

## IL&FS INVESTSMART LIMITED

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### XXV CAPITALISATION

#### Article 195

##### Capitalisation of Reserves

- (a) Any General Meeting may upon the recommendations of the Directors, resolve that any monies, investments or other assets forming part of the undivided profits of the Company, standing to the credit of any of the Company's Reserve Funds or to the credit of the Profit and Loss Account or any Capital Redemption Reserve Fund or in the hands of the Company and available for dividend or representing premium received on the issue of shares and standing to the credit of the Share Premium Account be, subject to the provisions of Section 78 of the Act, capitalised and distributed amongst such of the shareholders as would be entitled to receive the same if distributed by way of dividend and in the same proportions on the footing that they become entitled thereto as capital and that all or any part of such capitalised fund shall not be paid in cash but shall be applied subject to the provisions contained in clause (b) hereof on behalf of such shareholders in full or towards:
- (i) paying either at par or at such premium as the Resolution may provide, any unissued shares or debentures or debenture-stock of the Company which shall be allotted, distributed and credited as fully paid up to and amongst such Members in the proportions as aforesaid; or
  - (ii) paying up any amounts for the time being remaining unpaid on any shares or debentures or debenture-stock held by such Members respectively; or
  - (iii) paying up partly in the way specified in sub-clause (i) and partly in that specified in sub-clause (ii) and that such distribution or payment shall accepted by such shareholders in full satisfaction of their interest in the said capitalised sum
- (b) (i) Any monies, investments or other assets representing premiums received on the issue of shares and standing to the credit of Share Premium Account ; and
- (ii) if the Company shall have redeemed any Redeemable Preference Shares, all or any part of any Capital Redemption Fund arising from the redemption of such shares, may by resolution of the Company be applied only in paying up in full or in part any new shares or any shares then remaining unissued to be issued to such Members of the Company as the General Meeting may resolve up to an amount equal to the nominal amount of the shares so issued;
- (c) Any General Meeting may resolve that any surplus monies arising from the realisation of any capital assets of the Company or any investments representing the same or any other undistributed profits of the Company not subject to charge for income-tax be distributed among the Members on the footing that they receive the same as capital.
- (d) For the purposes of giving effect to any such resolution under this Article, the Director may settle any difficulty which may arise in regard to the distribution of payment as aforesaid as they think expedient and in particular, may issue fractional certificates and may fix the value for distribution of any specific assets and may determine that cash payment shall be made upon the footing of the value so fixed or that fractions of less value than Rs 1/- may be disregarded in order to adjust the rights of all parties and may vest any such cash or specific assets in trustees upon such trust for the persons entitled to the dividend capitalised fund as may seem expedient to the Directors and generally may make such arrangements for the acceptance allotment and sale of such shares or other specific assets and fractional certificates or otherwise as they may think fit.
- (e) If and whenever any shares become held by any Member in fraction, the Directors may subject to the provisions of the Act and these presents and to the directions of the Company in General Meeting if any sell these shares which Members hold in fractions for the best price reasonably obtainable and shall pay and distribute to any amongst the Members entitled to such shares in due proportion the net proceeds of the sale thereof. For the purpose of giving effect to any such sale, the Directors may authorise any person to transfer the shares sold to the purchaser thereof comprised in any such transfer and he shall not be bound to see the application of the purchase money nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings in reference to the sale.
- (f) Where requisite, a proper contract shall be delivered to the Registrar for registration in accordance with Section 75 of the Act and Directors may appoint any person to sign such contract on behalf of the persons entitled to the dividend or capitalised fund and such appointment shall be effected.



## **XXIX SECRECY CLAUSE**

### **Article 216**

#### **Members not entitled to information**

Subject to the provisions of the Companies Act, no Member shall be entitled except to the extent expressly permitted by the Act or these presents to enter upon the property of the Company or to require discovery of or any information respecting any detail of the Company's trading or any matter which is or may be in the nature of a trade secret, mystery of trade or secret process which may relate to the conduct of the business of the Company and which in the opinion of the Directors, it will be inexpedient in the interest of the Members of the Company to communicate to the public.

### **Article 217**

#### **Indemnity**

Subject to the provisions of Section 201 of the Act, every Director, Managing Director, Officer or servant of the Company shall be indemnified by the Company against, and it shall be the duty of the Directors, to pay out of the funds of the Company all costs, charges, losses and expenses which any such Officer or servant may incur or become liable to by reason of any contract entered into or act or thing done by him as such Officer or servant or in any way in the discharge of his duties including expenses and in particular and so as not to limit the generality of the foregoing provisions, against all liabilities incurred by him as such Director, Managing Director, Officer or servant in defending any proceedings, whether civil or criminal, in which judgement is given in his favour or he is acquitted or in connection with any application under Section 633 of the Act in which relief is granted by the Court and the amount for which such indemnity is provided shall immediately attach as a lien on the property of the Company.

### **Article 218**

#### **Individual responsibility of Directors**

Subject to the provisions of Section 201 of the Act, no Director, Managing Director, Officer of the Company shall be liable for the acts, receipts, neglects of any other Director or Officer or for joining in any receipt or other act for conformity or for any loss or expenses happening to the Company through the insufficiency or deficiency of title to any property acquired by order of the Directors for or on behalf of the Company or for the insufficiency or deficiency of any security in or upon which any of the monies of the Company shall be invested or for any loss or damage arising from the bankruptcy, insolvency or tortuous act of any person with whom any monies, securities or effects shall be deposited or for any loss occasioned by an error of judgement, omission, default or oversight on his part or for any other loss, damage or misfortune whatever which shall happen in the execution of the duties of his office or in relation thereto unless the same happens through his own dishonesty.

## **XXX WINDING UP**

### **Article 219**

#### **Distribution of Assets**

If the Company shall be wound up, and the assets available for distribution among the Members as such shall be insufficient to repay the whole of the paid up capital, such assets shall be distributed so that as nearly as may be, the losses shall be borne by the Members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up, on the shares held by them respectively. And if in a winding up the assets available for distribution among the Members shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the Members in proportion to the capital, at the commencement of the winding up, paid up or which ought to have been paid up on the shares issued upon special terms and conditions.

### **Article 221**

#### **Rights of shareholders in case of sale**

A special resolution sanctioning a sale to any other Company duly passed pursuant to Section 494 of the Act may subject to the provisions of the Act in like manner as aforesaid determine that any shares or other consideration receivable by the liquidators be distributed amongst the Members otherwise than in accordance with their existing rights and any such determination shall be binding upon all the Members subject to the rights of dissent and consequential rights conferred by the said section.

## **IL&FS INVESTSMART LIMITED**

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### **MATERIAL CONTRACTS AND DOCUMENTS FOR INSPECTION**

The following contracts (not being contracts entered into in the ordinary course of business carried on by the Company or contracts entered into more than two years before the date of this Red Herring Prospectus) which are or may be deemed material have been entered or to be entered into by the Company. These contracts, copies of which have been attached to the copy of this Red Herring Prospectus have been delivered to the Registrar of Companies Maharashtra, Mumbai for registration and also the documents for inspection referred to hereunder, may be inspected at the Registered office of the Company from 10.00 a.m. to 4.00 p.m. on working days from the date of this Red Herring Prospectus until the date of closure of the Issue.

#### **A. Material Contracts**

1. Letter dated April 14, 2005 from the Company appointing SBI Capital Markets Limited, Enam Financial Consultants Private Limited and Kotak Mahindra Capital Company Limited the Book Running Lead Managers, and their acceptance thereto.
2. Memorandum of Understanding between the Company, Selling Shareholder, i.e. Infrastructure Leasing & Financial Services Limited, SBI Capital Markets Limited, Enam Financial Consultants Private Limited and Kotak Mahindra Capital Company Limited dated April 25, 2005.
3. Memorandum of Understanding between the Company and Karvy Computershare Private Limited dated April 07, 2005.

#### **B. Documents for Inspection**

- 1) The Memorandum and Articles of Association of the Company, as amended from time to time.
- 2) Certificate of Incorporation of the Company dated September 01, 1997 and Fresh Certificate of Incorporation consequent to change of name dated March 25, 2003.
- 3) Certificate of Commencement of Business dated October 07, 1997.
- 4) Certificate of Registration of Special Resolution passed for Alteration of Objects dated April 08, 2002
- 5) Copy of circular resolution of dated March 15, 2005 approving the offer and shareholders resolution dated March 28, 2005 passed under Section 81(1A) of the Companies Act.
- 6) Copy of resolution of the Committee of Directors of the Company, passed at its Meeting held on April 05, 2005 approving the Offer for Sale of Promoter.
- 7) Copy of the resolution dated March 28, 2005 of the Promoter i.e. Infrastructure Leasing & Financial Services Limited, authorizing the Offer for Sale.
- 8) Copy of the Board resolution dated March 15, 2005 authorising committee of directors to approve draft red herring prospectus, to carry out necessary actions in respect of offer for and on behalf of the board of directors of the Company.
- 9) Resolution of the Committee of Directors of the Company dated April 25, 2005 approving the Draft Red Herring Prospectus.
- 10) Shareholders Agreement and Share Purchase Agreement dated November 23, 2004 entered into between IL&FS, ORIX Corporation, Japan, E\*Trade Mauritius Limited, Mauritius, SAIF Investment Company Limited, Mauritius and the Company.
- 11) Share Transfer Agreement dated April 20, 2005 entered between IL&FS and ORIX.
- 12) Copy of Shareholders resolution dated January 20, 2005 approving the ESOP 2005. Compensation Committee circular resolution dated January 25, 2004 granting options to eligible employees.
- 13) Resolution of the Members of the Company passed at the Annual General Meeting held on June 10, 2004 appointing M/s. S. B. Billimoria & Co., Chartered Accountant as statutory auditors for the year 2004-2005.
- 14) Annual Report of the Company for the last 5 financial years and all subsidiaries for relevant periods.
- 15) The report of the statutory auditors, M/s. S. B. Billimoria & Co., Chartered Accountant dated May 14, 2005 prepared as per Indian GAAP and mentioned in the Red Herring Prospectus and copies of balance sheet and profit and loss account of the Company referred to therein.
- 16) Consent dated March 24, 2005 from M/s. S. B. Billimoria & Co., Chartered Accountant for inclusion of their reports on accounts in the form and context in which they appear in the Red Herring Prospectus.

- 17) A copy of the tax benefit report dated April 04, 2005 from M/s Lakhani & Co., Chartered Accountant.
- 18) Consents of Directors, Auditors, Legal Advisors of the Offer of the Red Herring Prospectus, BRLMs, Syndicate Members, Registrar to the Offer, Bankers to the Offer, Bankers to the Company, Company Secretary and Compliance Officer as referred to in their respective capacities.
- 19) General Power of Attorney executed by Directors of the Company in favour Mr. Hemang Raja and Mr. Sachin Joshi, for signing and making necessary changes to the Draft Red Herring Prospectus, Red Herring Prospectus and Prospectus.
- 20) Power of Attorney executed by Promoter in favour of Mr. Arun K. Saha and Mr. Manu Kochhar for signing and making necessary changes to the Draft Red Herring Prospectus, Red Herring Prospectus, Prospectus and performing all the matters incidental thereto and Letter of Authority in favour of Mr. Sachin Joshi executed by Power of Attorney holder Mr. Manu Kochhar, constituted attorney of Infrastructure Leasing & Financial Services Limited.
- 21) Resolution of the Meeting of the Board of Directors dated March 9, 2001 for the formation of the Company's Audit Committee, dated July 12, 1999 for formation of Compensation Committee, dated February 19, 2003 for formation of Committee of Directors and dated March 9, 2004 for formation of Share Transfer and Investor Grievance Redressal Committee.
- 22) Resolution of the members of the Company passed at their Extra Ordinary General Meeting held on July 7, 2004 revising the terms of appointment of Mr. Hemang Raja as the Managing Director & CEO of the Company and approving the remuneration payable to him.
- 23) Resolution of the members of the Company passed at their Extra Ordinary General Meeting held on July 7, 2004 revising the terms of appointment of Mr. R.C. Bawa as the Deputy Managing Director and approving the remuneration payable to him.
- 24) Tripartite Agreement between the Company, NSDL and Karvy Computershare Private Limited dated May 14, 2005.
- 25) Tripartite Agreement between the Company, CDSL and Karvy Computershare Private Limited dated April 26, 2005.
- 26) Copies of the applications to BSE and the NSE for seeking in-principal listing approval dated April 26, 2005.
- 27) In principle approvals from the BSE and the NSE.
- 28) Copy of FIPB approval dated June 21, 2005 for transfer of the Offer for Sale Equity Shares from resident to non-residents.
- 29) Copy of RBI approval dated June 22, 2005 for transfer of the Offer for Sale Equity Shares from residents to non-residents.
- 30) Escrow Agreement dated June 22, 2005 entered into amongst the Company, the Selling Shareholder, the Registrar, the Escrow Collection Bank(s) and the BRLMs and amendment agreement dated July 7, 2005.
- 31) Syndicate Agreement dated June 22, 2005 entered into amongst the Company, the Selling Shareholder, BRLMs and the Syndicate Members.
- 32) Copy of Letter No. CFD/DIL/Issues/PB/EB/4891/2005 dated June 17, 2005 received from SEBI and reply by SBI Capital Markets Limited dated June 21, 2005.
- 33) Copy of Resolution passed by Committee of Directors fixing price band for the offering and approval of Red Herring Prospectus.
- 34) Copy of Special Resolution passed at the EGM held on March 28, 2005 for increase in Authorised Capital from Rs. 4,000 lacs to 5,000 lakhs.
- 35) Copy of Special Resolution on December 3, 1999 under Section 293(1)(a) and 293 (1)(d) of the Companies Act, 1956.
- 36) Underwriting Agreement dated July 11, 2005 entered into amongst the Company, Selling Shareholders, BRLMs, Syndicate Members and The Registrar to an Issue.
- 37) Copy of resolution passed by the Committee of Directors dated July 9, 2005 fixing the Offer Price.
- 38) Copy of resolution passed by Committee of Directors dated July 9, 2005 approving the Prospectus to be filed with RoC.
- 39) Copy of Resolution passed by the Committee of Directors dated July 9, 2005, approving underwriting agreement.

Any of the contracts or documents mentioned in this Red Herring Prospectus may be amended or modified at any time if so required in the interest of the Company or if required by the other parties, without reference to the shareholders subject to compliance of the provisions contained in the Companies Act and other relevant statutes.

## IL&FS INVESTSMART LIMITED

### DECLARATION

All the relevant provisions of the Companies Act, 1956, and the guidelines issued by the GoI or the guidelines issued by Securities and Exchange Board of India, as the case may be, have been complied with and no statement made in this Prospectus is contrary to the provisions of the Companies Act, 1956, the Securities and Exchange Board of India Act, 1992 or the rules made thereunder or guidelines issued, as the case may be. The Company further certifies that all the statements in this Prospectus are true and correct.

The Selling Shareholders assume no responsibility for any of the statements made by the Company in this Prospectus relating to the Company, its business and related disclosures, except statements specifically made by the Selling Shareholder.

#### SIGNED BY THE DIRECTORS OF THE COMPANY

Mr. Ravi Parthasarathy\*



Mr. Arun K. Saha\*



Mr. A. R. Barwe\*



Mr. Girish Dave\*



Mr. Neel Raheja\*



Mr. Ravi Adusumalli\*



Mr. Robert Jarrett Lilien\*



Mr. Yoshitaka Matsuno\*



Mr. Vibhav Kapoor\*



Mr. Hemang Raja\*



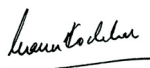
Mr. Ramesh Bawa\*



\* Signed by constituted Power of Attorney holder Mr. Sachin Joshi on behalf of the directors

#### SIGNED BY THE SELLING SHAREHOLDERS

Mr. Manu Kochhar



*For and On behalf of :*

Infrastructure Leasing & Financial Services Limited

Mr. Hemang Raja



SIGNED BY THE MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

Mr. Sachin Joshi



SIGNED BY THE CHIEF FINANCIAL OFFICER

Date : July 13, 2005

Place : Mumbai, India

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