Indiabulls Financial Services Limited

Earnings Update for FY 2009

Audited Results

June 06, 2009

The Board of Directors of Indiabulls Financial Services Limited at their meeting held on June 06, 2009, approved the audited results for the year ended March 31st, 2009 and proposed dividend of Rs.2 per share amounting to 100% of the face value per share.

Highlights:

Indiabulls Financial Services Limited (Standalone):
Fiscal Year ended March 31, 2009 compared to Fiscal Year ended March 31, 2008

- Total Revenues up 34.3% to Rs. 1,783.5 crore in FY 09 from Rs. 1,327.9 crore in FY 08
- EBITDA up 27.1% to Rs. 1,191.8 crore in FY 09 from Rs. 937.7 crore in FY 08
- Profit after Tax down 50.2% to Rs. 190.2 crore in FY 09 from Rs 382.0 crore in FY 08

Business Guidance for FY 2010

- The Company believes that the factors that negatively impacted its results in FY 2009 have started to move in a favorable direction and will significantly expand net interest margins and profits in FY 2010:

    - Strong growth in asset portfolio of more than 30% (net growth) during FY 2010 driven by new disbursals target of over Rs 6,000 crores through FY 2010. This compares to 20% decline in FY 2009 due to aggressive risk management and down-sizing of riskier assets. Additionally, the competitive forces in lending business have become more favorable as some NBFCs have shut down their consumer finance businesses and others are severely capital constrained. This will allow the Company to add excellent credit at attractive risk adjusted spreads.

    - Significantly reduced negative carry on excess cash. As stated in almost all earnings releases over the last one year, the Company carried a significant excess cash burden to ensure adequate cash availability throughout the financial crisis and to aid the transition of the balance sheet through shorter dated liabilities to longer term debt. In addition, the Company had shifted the majority of its liquidity to bank FDs at the expense of mutual funds and thus further increased the negative carry. The Company enjoys unutilized credit lines of more than Rs 1,400 crores which coupled with only a small percentage of liabilities coming due in the short term, allowing the Company to carry significantly lower amounts of cash to maintain its liquidity and cash access ratios.

- Significant expansion in net interest margins throughout FY 2010 driven by:

    - Decrease in borrowing costs as incremental borrowing costs (for Rs 250 crores in May 2009) are 6.75% for 1 year term vs. average interest-bearing liability cost of 12.5% at the end of March 31, 2009. We believe that the liability portfolio will be rapidly re-priced down as the Company uses its strong capital position and increased market liquidity to aggressively manage its interest costs. The liability cost is already down to approximately 11.5% as of 31st May 2009.
    - Stable portfolio yields (similar to FY 2009) as the Company's portfolio has low sensitivity to external interest rates. This is the reversal of the trend last year when stable asset yields combined with rapidly increasing borrowing costs had lead to a severe contraction in spreads.
    - Stability in sources of liabilities as the restructuring from short term financing to more stable mid to long term financing has been completed and increasing the duration of liabilities will not be a drag on financing costs any more
    - Stability in asset yields as the portfolio repositioning to more secured assets vs. unsecured assets is completed and will not drag incremental asset yields

- Robust operating leverage as a stable cost platform is leveraged across an increased asset portfolio

- Stable provisioning given the high quality performance of its credit portfolio

- Key segments for the company will be loans against commercial vehicles, new home loans, loans against property and SME financing

- **For FY 2009-10, Company expects to generate consolidated Profits in the range of Rs 430 crores to Rs 600 crores subject to the overall market conditions.**

<u>Indiabulls Financial Services Limited (Consolidated) :</u>
<u>Fiscal Year ended March 31, 2009 compared to Fiscal Year ended March 31, 2008</u>

- Consolidated Total Revenues up 18.8% to Rs. 2,005.8 crore in FY 09 from Rs. 1,688.8 crore in FY 08
- EBITDA before extraordinary items (i.e. excluding Profit / (Loss) on sale of investment) up 34.9% to Rs. 1,445.9 crore FY 09 from Rs. 1,071.6 crore in FY 08
- Operating Profit down 41.1% to Rs. 430.49 crore in FY 09 from Rs. 731.3 crore in FY 08
- Consolidated Profit After Tax down 81.8% to Rs. 105.9 crore in FY 09 from Rs 580.6 crore in FY 08
- Consolidated Net-worth of Rs 3,529.9 crore, as compared to Rs. 3,500.8 crore of consolidated networth on March 31, 2008.
- Treasury Management update: During the quarter, the subsidiaries of the Company have incurred / provided for losses on liquidating its treasury portfolio which has resulted in losses amounting to Rs. 227.53 crores for the year. This amount has been fully charged off to the profit & loss account for FY 2008-09. The company does not hold any treasury portfolio of bonds/stocks as on 31st March 2009 or as on date. However, going forward the company has decided to not have a treasury portfolio and will park all its cash in bank FDs and only liquid schemes of Mutual Funds where principal amount is protected.

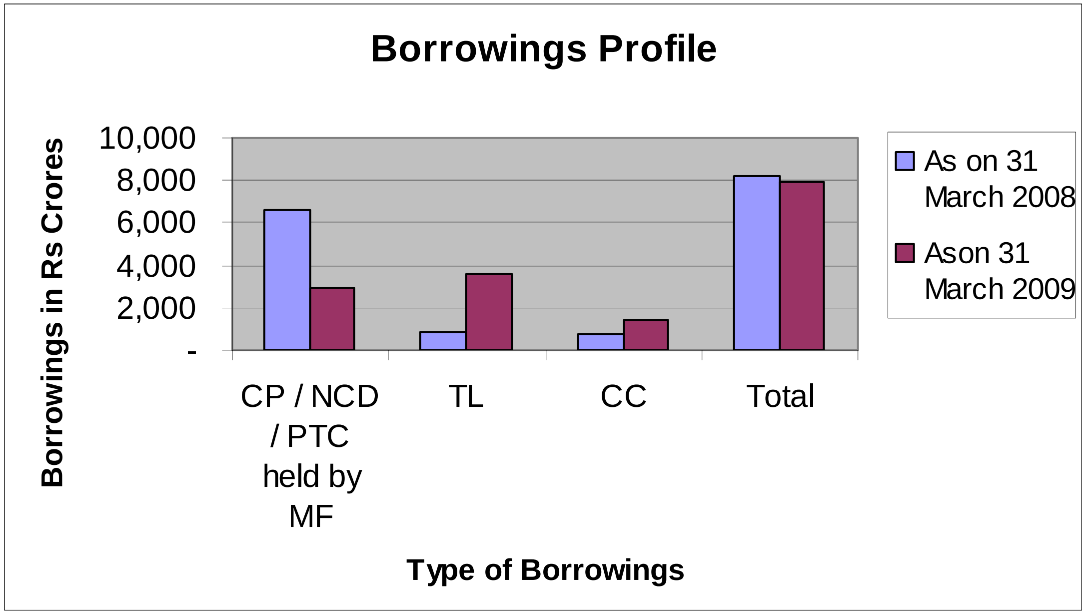
<u>Portfolio Highlights:</u>

- Total outstanding & serviced loans as on March 31, 2009 were Rs. 8,931.9 crore compared to total outstanding & serviced loans of Rs. 10,441.0 crore as on March 31, 2008
- Average annualized yield on Rs. 8,931.9 crore outstanding and serviced portfolio is 19.92%.
- Gross NPAs of Rs 142.5 crore which represents 1.60% of the total loan portfolio.
- Net NPAs of Rs 0.0 crore which represents 0.0% of the total loan portfolio (net zero NPA company as of 31st March 2009)
- Provisions / Gross NPA coverage of 112.6% as of 31st March 2009
- General provisions stood at Rs. 108.1 crore & specific provisions stood at Rs. 52.4 crore. Aggregate provisions stood at Rs 160.5 crore representing 1.8% of the loan portfolio (excluding Rs 174.3 crore of write-offs during the year).
- The Company has taken total write offs of Rs. 174.3 crore in FY 09 including Rs. 54.4 crore during the quarter ended March 31, 2009 as bad debts. This is in line with the Company policy of writing off loans at an early stage if recovery is doubtful and is reflected in the low balance of delinquent loans with DPD graduation beyond 360 days
- The vast majority of Delinquency and Credit costs are driven by the small-ticket personal loan business which is in run-off mode. Total outstanding small ticket personal loans were Rs. 161.8 crores as on March 31, 2009 which constitutes about 1.8% of the current loan portfolio as compared to Rs. 383.5 crores as on March 31, 2008 which constituted 3.7% of the then portfolio

Business Highlights FY09

- FY 2009 was characterized by unprecedented global financial crisis with a sudden and complete collapse of global wholesale lending markets, distortion of long term highly correlated interest rates, severe equity and credit market dislocations and severe financial stress in operating businesses in almost all sectors of the economy.
- The severe financial crisis took its toll on many marquee Financial services brands such as Lehman Brothers, Bear Stearns (sold to JP Morgan at bargain basement prices), Merrill Lynch (ditto to Bank of America), AIG (under government stewardship), RBS & Barclays (ditto) etc. In India, many large NBFC's have shut their lending operations or significantly restructured their business.
- Despite the global turmoil and severe stress in global financial institutions, Indiabulls Financial Services maintained its high credit ratings and even enhanced its borrowing limits under the P1+ commercial paper program rated by CRISIL (S&P subsidiary) to Rs 5,000 crores (from Rs 2000 crores) during FY 2009.
- The Company has not tapped into the Government created reserve liquidity fund for NBFCs due to its ability to manage it's liquidity profile without government support.
- The company is amongst the largest remaining NBFCs with a strong balance sheet, zero net NPA loan portfolio, strong and robust operational capabilities and an ability to lend.
- While the profitability for the FY 2009 year was severely depressed by various market driven factors, the operating business of the Company remains robust and strong, and the Company expects to fully recover its earnings power in FY 2010 and continue its strong historical growth path
    - The Company reduced AUM to Rs. 8,931.9 crore from Rs. 12,267.0 crore in September 2008 in order to reduce the riskier assets in its portfolio. This resulted in lower interest earning assets and significantly impacted the interest income of the company. The company has started the disbursement process towards the end of Q4FY09 and in FY10 will grow the AUM by 30%.
    - The temporary liquidity squeeze in the Indian market, caused by Global financial crisis, caused short term borrowing costs to increase sharply in FY09 from 10.75% to 12.52%. In Q1FY10 the company has been able to borrow at 7% levels and is rapidly reducing its borrowing costs which will positively impact its spreads.
    - Due to continued uncertainty in the economic environment, the company carried a high unencumbered cash position during the quarter and as on 31st March 2009, the company had a cash balance of Rs. 2,481.3 crore. The returns on cash balances temporarily dropped in the year as the company shifted a bulk of its cash from mutual funds to bank fixed deposits. This sharply increased the negative carry on excess cash reserves. 73.5% of the company's FDR's were parked with Public Sector Banks as of March 31, 2009. The company is running down the cash and replacing it with undrawn bank cash credit facilities which will reduce the negative carry to only 1% levels for these undrawn lines.

- The Company has a robust liability management program that leads to stable borrowings at attractive costs:
  - As on March 31, 2009, the Company had established banking relationships with 13 PSU Banks as against relationships with only 4 PSU Banks as on March 31, 2008. Besides its strong relationship with PSU Banks the company also enjoys facilities with 4 Private Banks and 6 Foreign Banks and Financial Institutions including Asset Management Companies.
  - In FY09, company sold down assets worth Rs. 2,315.2 crores using the direct assignment/securitization route after securing AAA rating for its SME and Mortgage Assets. The company did the first ever sell down transaction to a PSU Bank and in Q4 FY09 the value of assignment / securitization transactions done by the company was the highest ever at Rs 520 cr.
  - As on March 31, 2009, the company increased its dependence on three year Term Loans (TL) to Rs. 3570 crores(45% of total borrowings) as against Rs. 847 crores(10% of total borrowings) as on March 31,2008. The company reduced its dependence on Mutual Funds (MF) as on March 31, 2009 to Rs. 2938 crores(37% of total borrowings) as against Rs.6625 crores(80% of total borrowings) as on March 31,2008. The break up of borrowings is as follows:



Updates on New Business Ventures

Indiabulls Societe Generale Life Insurance Company Ltd

- Company expects Life Insurance Business to be a key growth driver over the next few years and is looking at making substantial investments to scale up the business soon after completing the regulatory process.
- Company will leverage on its strong capital base and large distribution strength to rapidly gain market share.
- Licensing process is expected to be completed in CY2009. The global market slowdown had caused uncertainty in the environment and resulted in delay in regulatory approvals. The company now expects to complete the approval process over the next 6 months.
- Appointment of Key Management Personnel has been completed.
- Set up of Project Management Office, key vendors and technology providers has also been completed.

International Multi Commodity Exchange Ltd

- The national level multi commodity exchange being set up as a joint venture between Indiabulls Financial Services Limited and MMTC will go live by end of July 2009.
- In line with the Government ownership guidelines, entire paid-up capital of Rs 100 crore has been subscribed by IBFSL (40%), MMTC (26%), Indian Potash Ltd (10%), and Others (24%)
- Recognition of the exchange from Forward Markets Commission expected shortly.
- Technology platform for the exchange including network infrastructure is at advanced stage of completion and membership campaign is underway.
- Exchange has identified about a dozen contracts in the first phase comprising bullion, agro and base metals and energy with strong delivery support

Indiabulls Assets Management Company Ltd

- The company has hired key personnel for launch of Debt Schemes and has also completed the process of appointment of Trustees.
- Key vendors for fund accounting and for setting up the technology platform have been identified and have started work on their respective assignments

Safe Harbor

This document contains certain forward-looking statements based on current expectations of Indiabulls management. Actual results may vary significantly from the forward-looking statements in this document due to various risks and uncertainties. These risks and uncertainties include the effect of economic and political conditions in India, and outside India, volatility in interest rates and in Securities markets, new regulations and government policies that might impact the business of Indiabulls, the general state of the Indian economy and the demand for credit by commercial enterprises and consumers, and the management's ability to implement the company's strategy. Indiabulls doesn't undertake any obligation to update these forward-looking statements.
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