Indiabulls Financial Services Limited

Earnings Update – Q1 FY09

Un-audited Results

July 25th, 2008

The Board of Directors of Indiabulls Financial Services Limited at their meeting held on July 25th, 2008, approved the un-audited results for the quarter ended June 30th, 2008. *(Indiabulls Financial Services Limited results for FY 2008 period are presented excluding the results of Indiabulls Securities Limited to provide for effective comparison with current period numbers)*

The Board of Directors had recommended a dividend of Rs. 8.50 per share (425% on the face value of Rs. 2 per share) for FY 2008 to be distributed once it is declared in Annual General meeting of the shareholders (scheduled for 5th September 2008.)

Earnings Guidance for FY 2009:

- The Company expects that FY 09 earnings will range from Rs 27.0 to Rs 30.0 per share. Earnings guidance assumes continued lower risk portfolio position, negative carry from excess liquidity and the current macro-economic environment.

Highlights:

Q1 FY 09 compared to Q1 FY 08

- Consolidated Total Revenues up 74.4% to Rs. 564.6 crore in Q1 of FY 09 from Rs. 323.7 crore in Q1 of FY 08
- Consolidated Profit After Tax up 28.8% to Rs. 148.9 crore in Q1 of FY 09 from Rs. 115.6 crore in Q1 of FY 08
- Basic EPS up 6.3% to Rs. 5.61 in Q1 of FY 09 from Rs. 5.28 in Q1 of FY 08

Strong Year on Year Growth in Revenues and Profits After Tax:

- Revenues continued their strong annual growth rate with 74.4% increase over the same period last year.
- Profits after tax growth rate was 28.8% with profits increasing to Rs. 148.9 crore, reflecting strong year on year growth in the business.
- The strong profit growth was achieved despite three key constraints:
  - No IPO Finance activity during Q1 FY 09 given poor market conditions, leading to zero revenues associated with this business. The Company is the largest player in this market segment and IPO Finance related revenues contributed almost 10% of revenues during Q4 FY08 (driven by Reliance Power IPO).
  - Substantial increase in excess cash and liquidity, resulting in a large negative carry on excess liquidity as cash on balance sheet earned a lower interest rate than the corporate borrowing rate. The Company adopted this measure in late Q4 FY 08 as a prudent safeguard against global risks and macro-economic concerns.
  - Significant change in Asset portfolio mix towards lower risk assets as the Company only originated low risk (secured and mortgage) portfolio during the quarter, and actively churned higher risk assets. The Company has adopted this conscious strategy in light of an uncertain macro-economic environment.

Strategic Update:

New Business Ventures

During Q1 FY 09, the Company has made significant progress towards commercial launch of its three new business ventures. The Company is committed to complete all regulatory formalities during the current year and fully operationalizing the businesses before CY 2008 end. We expect to make significant progress on each of these three new strategic ventures throughout FY 2009 and expect them to form pillars of our growth and value creation in FY 2010 and beyond:

- **Life Insurance Venture:** Indiabulls Financial Services Limited (IBFSL) joint venture with Sogecap, the insurance arm of Societe Generale (SocGen) for its upcoming life insurance venture has made solid progress during the quarter on both regulatory front as well as on the operational aspects (including preliminary work on products, pricing and strategy, IT systems) including hiring key operating personnel. Sogecap will invest Rs 150 crore to subscribe to 26% of the paid up capital in the Joint Venture. IBFSL is awaiting in-principle approval from IRDA and has already recieved RBI approval as well as submitted its final Business Plan and regulatory documentation,.

- **Commodities Exchange:** IBFSL and MMTC Limited, a Government of India undertaking and the largest international trading house in India, have recently received the in-principle approval from Forward Market Commission, Ministry of Consumer Affaires, Food and Public Distribution, Department of Consumer Affairs, Government of India, to establish a Nationwide Multi Commodity Exchange subject to certain conditions. IBFSL will own 40% of the combined entity (in-line with the revised COMEX guidelines). The proposed Commodities Exchange is the fourth national level approved exchange in India and will be targeting a rapidly growing commodity trading market.

- **Asset Management Business:** IBFSL has already received approval from SEBI for its Asset Management Company (AMC). We have put together a competent team of professionals and are currently preparing to launch the business.

Business Highlights

The Company has proactively re-positioned its business for the uncertain macro-economic environment by implementing significant steps that are a drag on operating profits in the short term however significantly reduce operating, financing and credit risks:

- Change in Asset mix from higher yielding (and higher risks) assets to lower yielding (and lower risks) assets primarily by focusing on Secured credit and low LTV mortgage business. Almost all gross new assets originated are low risk, secured assets.
- Tightening credit policies to cause portfolio churn of existing assets to further reduce higher risks assets and position the portfolio to be primarily lower risk assets.
- Significant increase in Liquidity on balance sheet and large Net worth
- Change liability mix from short term funding to longer dated term financing

Portfolio Highlights:

- Total outstanding & serviced loans as on June 30, 2008 were Rs. 11,557.2 crore compared to total outstanding & serviced loans of Rs 4,138.7 crore as on June 30, 2007 (a growth of over 179.2% yoy); sequentially the portfolio grew 10.7% compared to Rs 10,441.0 crore as on March 31, 2008.

- Average annualized yield on Rs 11,557.2 crore outstanding and serviced portfolio is 19.8%. Average annualized yield was negatively impacted as the mix of the portfolio shifted from higher yielding (and higher risk) assets to lower yielding (and lower risk) assets.

- Like for like annualized yields in each asset category saw impressive increase in interest rates compared to same period last year as the company was able to fully offset the increase in its costs of borrowing on both new and existing portfolio.

- The Company continued to show strong momentum in the mortgage and commercial credit businesses, with strong growth in both segments making them the largest and fastest growing loan segments. Further, LTV for mortgage portfolio originated during Q1 FY 09 was brought down to less than 40% (compared to over 45% in prior period) as the company has purposely steered the asset mix towards lower risk and better coverage assets.

- Total outstanding small ticket personal loans were Rs. 331.5 crores as on Jun 30, 2008 which constitutes about 2.6% of the current loan portfolio as compared to Rs. 433.7 crores as on Jun 30, 2007 which constituted 10.5% of the then portfolio, and Rs. 383.5 crores as on March 31, 2008 which constituted 3.7% of the then portfolio.

Liquidity & Net worth:

- Post dividend of Rs 252.0 crores (inclusive of Corporate Dividend Tax) for FY 2008, the Company has Rs. 3,645.1 crore of consolidated net worth, compared to Rs. 3,500.8 crore of consolidated networth on 31st March 2008.

- The Board of Directors of the Company had recommended a dividend of Rs. 8.50 per share (425% on the face value of Rs. 2 per share) for FY 2008. The same shall be distributed after it is approved in Annual General meeting to be held on 5th September 2008 for which the books of the company will remain closed from 29th Aug 08 to 5th Sep 08 (both dates inclusive).

- The Company substantially increased the cash it carries on its balance sheet both as a prudent measure given the global liquidity and credit crisis and to benefit from the significant growth opportunities available. This excess cash has resulted in a large negative impact on Q1 FY 2009 earnings as cash on balance sheet earned a lower interest rate than the corporate borrowing rate. This negative impact is expected to continue while the Company retains this excess liquidity, however the excess liquidity will also allow the Company to continue to seek strong growth and benefit from the current environment.

Financing & Liabilities:

- The Company has significantly strengthened its financing with the following steps:
    - CRISIL has enhanced the Company's P1+ rated (denoting highest degree of safety) debt program to Rs.4000 crore from Rs 2,000 crore, subsequent to the quarter end.
    - ICRA has assigned LAAA(SO) rating to Indiabulls mortgage backed securities pools during the quarter.
    - Financing relationships have increased to 26 different banks, financial institutions and mutual funds from only 9 in same period last year.
    - Most of the short term debt has been converted to longer tenor term loans, thereby stabilizing our funding base.
    - Increased Networth of Rs. 3,645.1 crore makes the Company one of the strongest franchises in its competitive space

Provisioning & Credit Performance

Indiabulls Financial Services Limited follows a combination of general and specific provision policy on its outstanding loan portfolio. General provisions are taken upfront on all consumer loans disbursed and outstanding, while specific provisions are additional and based on progressive rates on aged portfolio and on static basis. The specific provisions reflect the actual performance of the portfolio and are in addition to the upfront general provisions.

Credit Performance:

- The Company has written off Rs. 28.2 crore during the quarter ended June 30, 2008 as bad debts.
- The vast majority of Delinquency and Credit costs are driven by the small-ticket personal loan business, which the Company has reduced from more than 10% of total book a year ago to Rs 331.5 crores or about 2.6% of total book, and is in run-off mode.
- The Company continued to experience excellent credit performance across the entire portfolio as its prudent credit policies and strict operating controls continue to provide good results.
  - Commercial Credit portfolio (loans greater than Rs 10 crore) doesn't have even a single delinquent loan. The Company has been extremely selective in underwriting and credit selection in this important segement and is very proactive in managing its exposure and clients .
- Upfront provisioning has provided significant credit cushion as Provisions cover is 250% of NPAs in non-small ticket personal loan business(which is more than Rs 11,200 crores or 97.4% of total book), and significantly higher as % of expected losses on these NPAs (given the generally high recoveries in Secured asset portfolios).

As at June 30, 2008, Credit statistics for the entire loan portfolio were as under:

- The upfront general provisions stood at Rs. 104.5 crore and specific provisions stood at Rs. 44.0 crore. The aggregate provisions stood at Rs 148.5 crore which represents 1.3% of the loan portfolio (net off Rs 23.24 crore of write-offs taken during the quarter).
- Gross NPAs of Rs 101.6 crore which represents 0.9% of the total loan portfolio.
- Net NPAs of Rs 0.0 crore which represents 0.0% of the total loan portfolio.
- Provisions / NPA coverage of 146.1%
- Total delinquent consumer loans with payments outstanding for more than 180 days are Rs. 91.53 crore which represents 0.7% of the loan portfolio.
- Total delinquent consumer loans with payments outstanding for more than 360 days are Rs. 0.73 crore which represents 0.01% of the loan portfolio.

As at June 30, 2008, Credit statistics of portfolio (excluding the Small ticket personal loan book):

- The upfront general provisions stood at Rs. 88.39 crore and specific provisions stood at Rs. 14.54 crore. The aggregate provisions stood at Rs 102.93 crore which represents 0.9% of the loan portfolio (net off Rs 5.35 crore of write-off taken during the quarter).
- Gross NPAs of Rs 40.7 crore which represents 0.35% of the total loan portfolio.
- Net NPAs of Rs 0.0 crore which represents 0.0% of the total loan portfolio.
- Provisions / NPA coverage of 253.0%
- Total delinquent consumer loans with payments outstanding for more than 180 days are Rs. 30.57 crore which represents 0.26% of the loan portfolio.
- Total delinquent consumer loans with payments outstanding for more than 360 days are Rs. 0.73 crore which represents 0.01% of the loan portfolio.

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 in either Consumer Finance, 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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