Indiabulls

- Veritas published a malafide and factually incorrect report on Indiabulls companies on 1st August 2012. Veritas released it in media on 8th August 2012, after a gap of 7 days. Indiabulls promptly approached Police on various actions of Veritas and its employees. As a result of the preliminary enquiry Crime Branch Mumbai Police has booked Mr. Neeraj Monga, Mr. Nitin Mangal and Veritas Investment Research Corporation under Section 384 read with Section 120-B, 500, 506 of Indian Penal Code and under Sections 66A, 66B, 66C & 75 of Information Technology Act, 2000 under FIR dated 9th August 2012 and Gurgaon Police authorities have booked the said persons & Veritas under Sections 383, 384, 420, 500, 506, 511 and 120-B of Indian Penal Code & under Sections 66A,66B & 75 of Information Technology Act, 2000 under FIR dated 8th August 2012.

- On one hand Veritas claims to be with an eleven-year track record as the leading independent research house in Canada. On other hand Neeraj Monga, Research Head of Veritas personally demands money from shareholders through his own email and further writes in his email that if monies are paid in time he would hold back the report. What ethics does Veritas have when their Research Head is personally engaged in the activity of soliciting money and is ready to hold back the Veritas report if monies are paid? The Research Head is focused on demanding money but does not bother to contact company officials even once to check facts or visit any of the project sites before publishing the Veritas report.

- Veritas has chosen not to keep any offices, employees or stakes in India so that they can be away from the clutches of criminal and civil liabilities for their malicious and incorrect reports/ actions on various Indian companies from time to time. Veritas modus operandi is to intentionally choose not to clarify the facts with any company officials and/or visit any industrial sites before releasing their false and incorrect Reports at different dates for different set of people for the sole purposes of profiteering in ways more than one. When Management refutes the allegations by providing facts Veritas comments that "if there are errors, we are ready to correct them." Why do Veritas analysts not contact any company officials like all bonafide Research Analysts do, so that these kind of gross errors are not made each time they bring out a Report on a company? It is clear that, Veritas does not seek clarification from company officials since facts would be provided by the company, and then Veritas will not be able to publish their grossly misleading and erroneous Reports, and their ulterior motive of profiteering would not get fulfilled. Investigating authorities are investigating the pattern of similar short build up before release of Veritas Report on each of the 5 different Business Houses.

- Indiabulls has chosen to pursue the people behind these cognizable offences so that the offenders are punished and no other Indian company is subject to this type of tactics in future. Police authorities have started investigation & has issued notice /summons to the accused persons for personal appearance on 27th August 2012.

- To highlight the blatant bundle of lies and factual incorrectness of Veritas Research Report, Indiabulls states the real facts against allegations made on each page of the malafide Veritas report. The facts being stated by Indiabulls are not new but have been in the public domain for years.

Veritas Page No	Allegation (Extract from Veritas Report)	Detailed Factual position
1	IIDL IBPOW merger	
(a)	Time period of IIDL investment by external investors	Investment in IIDL is more than 5 years old. IIDL received equity investment from KARRICK LTD and FIM LIMITED ("Investors") pursuant to Shareholders Agreement dated Jan 26, 2007 along with Special investor rights customary for all private equity transactions. This disclosure was made public at the time of the Investment and has been available on stock exchange websites for the last five years.
(b)	IBREL shareholding in IBPOW declined through IIDL merger from 62.3% to 52.5%	Before merger of IIDL, shareholding of IBREL (through IIPL) in IBPOW was 53.20%. Post merger of IIDL, shareholding of IBREL together with its subsidiary and through IIPL in IBPOW actually increased to 53.97%. Thus shareholding of IBREL and by extension public investors in IBPOW increased from 53.2% to 53.97%
(c)	At current stock price...investors earned a return of 4.58x the original investment in less than a year.	Shareholders other than IBREL and its subsidiary invested Rs 488.6 cr in IIDL for which they were issued a total of 5,16,48,527 shares. Post merger, against 5,16,48,527 shares of IIDL, shareholders other than IBREL and its subsidiary received 17,40,55,535 shares of IBPOW. At the current stock price of approximately INR 13.6 per share of IBPOW, external investors' shareholding in IBPOW is valued at Rs 236.7 cr, a total return of 0.484x
4	Dev Properties public issue in 2007	Dev Property Development raised Rs. 1,091 cr as equity capital from public markets on 1st February 2007 through a regulated process managed by reputed International banks under AIM, an exchange owned by London Stock Exchange. The allegation of Veritas casts aspersions on public fund raising process in London which speaks of the dubious quality of the report. Veritas is alleging that IBREL took money from AIM Investors and then decided to invest in its own projects at high valuations. This is complete misrepresentation. The actual facts are: • Before the Dev Property IPO, each investment (IPPL, IRECPL and IIDL) had been clearly identified and each and every parameters had been determined exactly how much money, at what valuation, what % of the company etc. • These facts were disclosed prior to the IPO in the Prospectus and the Road Show. Thus, each and every investor invested in Dev Property with full knowledge of exactly what Assets and what % ownership in those assets will be owned by Dev Property. Not a single rupee was left to discretion of management in terms of Investment. • Major sophisticated international investors who understand the markets very well subscribed to DEV shares at IPO. These include Fidelity, Government of Singapore, HSBC, Capital Research, Tribeca (Citibank), Miura, FCM, Khronos, JLF, Indea, Treeline, Portfolio Logic, and others. • Prior to Dev Properties listing, many other reputed Indian companies had listed similar asset specific companies and Investors were well versed with the same.
5-7	Fornax	All accounting standards and rules under the Companies Act 1956 have been followed and all requisite disclosures have been made. • Fornax and Indiabulls Resources Ltd have been duly consolidated in the financial results of IBREL. • Loss in Indiabulls Resources Ltd has been fully disclosed and is already part of published consolidated financial statements of IBREL. • IBREL had made substantial gains on the listing of its Indian assets through IPIT in Singapore which have been fully disclosed in the financial statement. Rs 1,025 cr were raised by selling 15% of the entity.
8	IIDL net worth	The true net worth of IIDL is Rs 1045 cr and has been assessed by all appointed agencies and auditors. The money raised by IIDL itself totals more than Rs 890 cr and additional returns were generated as interest on the capital of IIDL leading to the Rs 1,045 cr net worth. IIDL and its associate companies while executing SEZ project at Raigad had acquired few hundred acres in Alibaug area.

<table>
<tr><td>9</td><td>IPPL / IRECPL net asset value declined</td><td>The financial crisis of 2008-2009 had large impact on Real Estate assets globally. At the time of IPIT - IPO, IPPL and IRECPL had signed top rated Indian corporates with binding and signed lease agreements at Rs 275 per sq ft. After the financial crisis, all these lease contracts had to be renegotiated to Rs 175 per sq ft to adjust for the new reality of the post crisis world. On the basis of these facts, the Valuation was reduced by Knight Frank in 2009 (post crisis) compared to their estimate of the value in 2008 (before the crisis). All these factors were driven by the global macro situation, were completely unpredictable in March 2008 and directly impacted Commercial Leasing activity and rates all over the world and particularly in India. The specific factors were:
• Reduced Rent expectation
• Time to lease the property which was substantially increased due to global turmoil
• Increase in cap rate from 10% to 12% and increase in discount rate from 13.5% to 15.0% driven by the global macro conditions and resultant impact on commercial leasing.
IPPL owns One Indiabulls Center which has 1.8 million sq ft of leasable area with gross rent of Rs 206 cr / year (on leased portion), worth more than Rs 3,600 cr (at market price of Rs 20,000 / sq ft). IRECPL owns Indiabulls Finance Center which has 1.50 million sq ft of leasable area with gross rent of Rs 191 cr / year (on leased portion) worth more than Rs 3,000 cr (at market price of Rs 20,000 / sq ft).
In addition, IPPL and IRECPL own the "Sky" family of residential projects that are yet to be completed and are of additional value.</td></tr>
<tr><td>10</td><td>IBREL's book Equity</td><td>IBREL has a net worth of Rs 7,402 cr on 30th June 2012 (post demerger of IIDL). The detailed balance sheet and the various assets held by IBREL have been disclosed in full detail in all financial reports.
• IBREL has purchased prime lands in various public auctions held by government by paying around Rs 3,700 cr, out of which Rs 2,100 cr was paid to the government for Bharat and Poddar Mills acquired through e-auction process in FY 2011
• The Company invested Rs 592.5 cr in IBPOW which is now demerged to shareholders
• In addition, company has acquired over 800 acre land in Panvel area, 875 acre in NCR (Delhi and its suburbs), 230 acre in Chennai and 3,150 acre in other markets. All these lands are fully paid for and owned by company and its subsidiaries. There are no contingent payments or liabilities due.</td></tr>
<tr><td>10</td><td>DEV was bought back by issuing GDRs</td><td>• DEV shareholders got 0.12091 IBREL GDR for every share of DEV. Last traded price of DEV was GBP 0.75 per share whereas price of IBREL GDR was GBP 8.27 and thus shareholder of DEV received value of GBP 1.00 against the market price of GBP 0.75.
• Accordingly shareholders of DEV were paid 32.5% premium on the last trading price of DEV.</td></tr>
<tr><td>11</td><td>IBPOW ability to finance its projects and its operational expertise to become a power company</td><td>The allegations are completely baseless. Neither has Veritas visited the plant sites even once in 3 years nor has it even bothered to check the actual plant site photographs displayed prominently on the home page of Indiabulls website and published in the quarterly earnings update of IBPOW.
IBPOW has already invested more than Rs 8,000 cr in Phase 1 of Amravati and Nashik. Debt as per financial covenants can only be drawn down after requisite equity has been spent upfront.
Below is the link for latest photographs for both the projects prominently displayed on the website from the last year and half.
Http://www.indiabulls.com/power/project_gallery.htm
The factual position is as following:
• The plants at both locations, Amravati and Nashik are ready
• Boiler lightup of Amravati is scheduled to happen in the current month and commercial production of electricity will start within 90 days
• Boiler lightup of Nashik is scheduled to happen in October and commercial production of electricity will start within 90 days from October
• Contrary to the claims made in the report that other companies are benefitting in execution of the projects, the facts are that the projects have been constructed without any escalation in costs and as per the original financial closure 3 years back and the project cost of the BHEL manufactured 270 MW units at 5 cr is the cheapest cost per MW by any IPP using BHEL equipment
• The projects have been completed by best in class companies such as BHEL, ABB, Siemens, Areva, L&T, Shapoorji Paloonji, GDC and Paharpur
• Several analysts who are providers of unbiased research reports have taken the pain to visit the power plant sites on several occasions to monitor the progress on the power plants during the last 3 years</td></tr>
<tr><td>13-16</td><td>IIC & IINFC</td><td>IIC is an EPC company for carrying out the construction of power projects. IINFC is a 100% subsidiary of IIC.
• Promoters have invested significant amount of money and also have raised external money for these companies. As of March 31, 2012, the total capital base is more than Rs 540 cr and not one rupee of this is contributed from any group entity.
• Contrary to the claims made in the report that EPC companies are benefitting in execution of the projects, the facts are that the Power projects of IBPOW have been constructed without any escalation in costs and as per the original financial closure 3 years back and the total project cost of the power project based on BHEL manufactured 270 MW units at Rs 5 cr is the cheapest cost per MW by any IPP using BHEL equipment
• The EPC companies were created to ring-fence IBPOW from various litigations which happen during the course of developing mega projects. Right at the start of Amravati power plant in 2009, major litigation was launched against IBPOW. IIC was incorporated in March 2010 to ensure that litigations happening during the course of construction of project can be stopped at the level of EPC Company instead of being directed against IBPOW. Presently, there are litigations against IIC and promoters involving contractors and labour related to issues on the site. If IIC was not there, then these would have been directly against IBPOW and its employees, and impacted the timely completion of the project.
• The EPC companies employ 537 employees for various project related activities as off March 2012
• These EPC companies have been disclosed to lenders at all stages and also disclosed in all financials of various group companies for many years.
• As of date, IIC (and its subsidiary) have awarded and signed contracts for more than Rs 3,229 cr to leading third party contractors. Given the nature of the contracts, advances are given by the EPC companies to third party contractors to get equipment and personnel mobilized at site. These advances are backed by advances given by project companies to the EPC companies.
The list of top contractors with contract and amount is below:
<table>
<tr><th>Vendor</th><th>Contract</th><th>Amt (Rs in Crs)</th><th>Vendor</th><th>Contract</th><th>Amt (Rs in Crs)</th></tr>
<tr><td>L&T</td><td>CHP, BOP (Civil and Electrical)</td><td>821.40</td><td>Unitech Machines</td><td>Fire Fighting</td><td>36.64</td></tr>
<tr><td>BSBK</td><td>AHP, Mill reject system</td><td>505.27</td><td>Kirloskar Brothers Limited</td><td>RW Pump House</td><td>39.03</td></tr>
<tr><td>GDC</td><td>BTG Civil</td><td>403.01</td><td>K J Infra</td><td>Roads and Drains</td><td>44.47</td></tr>
<tr><td>Siemens</td><td>220KV & 400KV GIS Switchyard</td><td>145.15</td><td>Sureland Fire and Security Pvt. Ltd.</td><td>Fire Fighting</td><td>32.22</td></tr>
<tr><td>Welspun</td><td>CW Pipes - Supply</td><td>143.54</td><td>Metcon</td><td>RW reservoir</td><td>29.57</td></tr>
<tr><td>Paharpur</td><td>IDCT</td><td>136.00</td><td>Voltas Limited</td><td>HVAC</td><td>23.40</td></tr>
<tr><td>Gammon</td><td>Chimney</td><td>104.76</td><td>Aqua Startegy</td><td>WTP</td><td>18.14</td></tr>
<tr><td>Shinde Developers</td><td>Area Grading, Ash pond, Raw Water Reservior, Roads and Drains</td><td>95.24</td><td>Atlas Copco</td><td>Compressed Air System</td><td>14.60</td></tr>
<tr><td>Suyojit Infrstructure</td><td>Nasik Township</td><td>90.75</td><td>Shapoorji Pallonji</td><td>RW Pump House</td><td>14.29</td></tr>
<tr><td>Metcon SDPL JV</td><td>Railway siding</td><td>84.93</td><td>Unique Industrial Handlers</td><td>Cross Country Pipeline</td><td>14.12</td></tr>
<tr><td>Phadnis Infrastructure Limited</td><td>Amravati Township</td><td>84.29</td><td>Shiv Corporation</td><td>33KV Transmission</td><td>13.12</td></tr>
<tr><td>Technofab</td><td>LP Piping, CW Pipes - Laying</td><td>66.31</td><td>Jyoti Structures Ltd</td><td>RW Intake Pumps</td><td>11.55</td></tr>
<tr><td>Doshion</td><td>Cross Country Pipeline, ETP</td><td>92.78</td><td>Jyoti Limited</td><td>EOT Cranes, Miscellaneous Cranes</td><td>11.00</td></tr>
<tr><td>Ionexchange India Limited</td><td>TTP</td><td>57.59</td><td></td><td></td><td></td></tr>
<tr><td>Others (total of 29 parties each with contract less than 10 Crs)</td><td colspan="4">Graphite India Limited, RAHEE-DIMTS JV, GE India Industrial Pvt. Ltd, J.K Construction,, S.D.Mali Contructions, Eastern Electrolyser, Techno Industries, Reva Industries Limited, OM Construction, Pyrotech Workspave Pvt. Ltd. Seltec India, Savant Automation, Oyster Infracon, Richa Industries, Bemco Sleepers, Fouress, Groundfos Pump, Tiwari Construction Company, Varun Earthmovers, VAG Valves Pvt. Ltd., J.P. Mega Mahindira Pvt Limited, RN Industrial Pvt. Ltd., JS Construction, Swami Engineering, Flowmore Limited, Savant Instruments, Indoasiatic, D Wren, Sri Balaji Enterprises</td><td>96.50</td></tr>
<tr><td>Grand Total</td><td colspan="4"></td><td>3,229.66</td></tr>
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The promoters have funded the purchase of shares and warrants of Indiabulls companies through loans of more than Rs 550 cr raised since April 2010 from third party Financial Institutions and Banks, against the mortgage of their personal property and personal guarantees.
Further the intentions of promoters are demonstrated by the fact that the Power Company was started by the promoters in 2007 as a subsidiary of IBREL and not as their own private company. This was done to create value in the hands of shareholders of IBREL even through Power was a completely different sector and not in the business plans of a real estate company. More than Rs.1580 cr of equity in the power business was raised at a premium from private equity funds in 2008 for the benefit of IBREL shareholders which could have also been done in the promoters' personal companies if they had decided to build IBPOW as a personal company instead of as a subsidiary of IBREL.

19 — Increasing dividend payout from IBULL

Questioning dividend payout itself clearly establishes the malafide intention of Veritas. They have even attributed a dubious motive to dividend distribution, which is done equally to each and every shareholder, and is considered a shareholder friendly practice that is widely appreciated around the world.
IBFSL is the second most profitable mortgage finance company and enjoys AA+ Credit rating. Indiabulls Financial Services Ltd.'s dividend payout ratio level is similar to that of other companies in the mortgage finance industry while maintaining a significantly higher Tier I CRAR (capital adequacy ratio).
For the financial year ended March 31, 2012, IBFSL's Tier I CRAR was at 18.2% compared to the industry average of just over 11%. IBFSL's net leverage, another indicator of capitalization levels, at the end of March 2012, was only 3.9 compared to the industry average of well over 7. For the financial year ended March 31, 2011, IBFSL's Tier I CRAR was at 19.9% compared to the industry average of about 12%. At the end of March 2011, IBFSL's net leverage was a low 3.1 compared to industry average of well over 6.
IBFSL dividend policy has been stable for many years. The table below shows the dividend policy of IBFSL from 2007 till date:

	PAT (Rs. Cr.)	Dividend/Share (Rs.)	Dividend (including CDT) (Rs. Cr.)	Payout Ratio
FY 2011-12	1,006.5	13.0	470.7	46.8%
FY 2010-11	750.9	10.0	361.8	48.2%
FY 2009-10	307.5	5.0	180.9	58.8%
FY 2008-09	106.0	2.0	72.5	68.4%
FY 2007-08	580.6	8.5	252.0	43.3%

In fact, IBULL has followed the best corporate governance and has not provided any loans to any related parties (whether listed group companies or their subsidiaries, or privately owned promoter companies). The balance sheet of IBULL is more than Rs 32,000 cr with zero related party loans.

20 — EWT no options have been awarded ….

Right from inception of Indiabulls, promoters have always believed very strongly in incentivising Employees through stock options. This has been one of the key success factors in the Company's success since it encouraged the best professionals to be part of the Indiabulls growth story and to create the success. Outside the IT sector, Indiabulls is regarded as one of the best employers for wealth-creation and wealth-sharing with employees. Indiabulls group today has more than 8,500 highly motivated employees which are the key asset of the group.
In 2004, when IBULL first got listed, the number of outstanding Employee Options was 7.36% of the shares outstanding which increased to 8.15% in 2007 and in 2012, through EWT, employee pool owns 9.92%. Since 2004, the employee base of IBULL has grown manifold, thus requiring additional allocation of ESOPS. The EWT program allows for such awards to be continued without necessarily causing additional dilution to shareholders. The ESOP schemes for both IBBREL and IBFSL are being administered and managed through IB EWT, an independent trust.

20 — EWT contributed to profits at IBULL

The NII that IBFSL earned from EWT is only Rs 18 cr compared to its total FY 2012 NII of Rs 1866 cr. Thus the NII is less than 1% of the total NII of IBFSL. Further, all transactions with EWT have been fully disclosed and are as per the best corporate governance practices.
All the details below are available in the same public documents that Veritas has supposedly reviewed:

- Note 37(g) on Page 96 of the Annual Report of FY-2012 states: 'The repayment of the loans granted by the Company to the Trust is dependent on the exercise of options of the eligible employees, at the exercise price as determined by the Trust based on its Carrying Cost and the market price of the underlying shares of the unexercised option ..'. Note 37(g) makes it abundantly clear that the eligible employees who are beneficiaries of the Employee Stock Option Schemes will pay to the Trust the Total Cost of the Trust, (including interest cost less dividend) at the time of exercising the Options granted to them.
- EWT is being levied interest @12% per annum and the total interest income is INR 0.99B and not INR 1.2B. More importantly the Net Interest Income (NII) is Rs. 18 cr given that IBFSL has cost of funds of 10.1% for FY-2012. Rs.18 cr is less than 1% of the NII of Rs. 1866 cr earned by the company in FY 12.
- On Page 58 in Note 3(e) of Annual Report of FY-2012, the constitution of the EWT has been detailed. As stated in the Annual Report of FY-2012: 'EWT has been founded pursuant to the approval of shareholders in meeting held of September 30,2010, to administer and implement the Company's current Employee Stock Option Schemes (ESOP) and any future ESOP schemes. The Trust is administered by independent Trustees.'
- Given the fact that EWT is not a 100% subsidiary and operates at an arm's length through independent trustees, IBFSL cannot give any interest free loan to this entity as per RBI guidelines and the provisions of the Companies Act, 1956 and has to charge a fair rate of interest. All related disclosures pertaining to this have also been made in Annual Report of FY11 in Note 7 on Page 99.
- The value of stocks in EWT, have accrued a positive return of an amount of Rs. 45 cr based on closing price of Rs.210 of IBFSL on 7th August,2012
- EWT has a subsidiary company to facilitate group housing for the welfare of the employees of Indiabulls group contrary to malafide intentions implied by Veritas.

21 — We rate all stocks of Indiabulls group as SELL

Veritas has given this recommendation without ever seeking any clarification from Indiabulls or meeting any of its officers or visiting any of the IBREL or IBPOW sites. Veritas has published the incorrect and malafide research report for the sole purpose of profiteering in ways more than one.
Promoters have a track record of creating very large value for the shareholders. The original investors in Indiabulls at IPO (of Rs 19 per share) have by now received the following:

- 1 share of Indiabulls Financial (Rs 211.15)
- 1 share of Indiabulls Real Estate (Rs 55.65)
- 1 share of Indiabulls Securities (Rs 7.65)
- 2.95x share of IBIPL (which in turn owns IBPOW in 1:1 ratio) (IBPOW share price Rs 13.50)
- 0.125 x share of IWSL (which in turn owns Store One Retail) (IWSL share price Rs 10.30)

Even in the current depressed markets, a shareholder who had invested in Indiabulls on its listing has many fold returns of more than 2025% over 8 years (at CAGR of 56.3%) including dividends.
The table below shows the returns of Indiabulls from its listing till date compared to NSE & BSE.

Returns since Indiabulls IPO in Sep 2004			
	Indiabulls Finance Share*	**Nifty**	**Sensex**
CAGR	56.3%	15.0%	15.5%
Appreciation	2025%	303%	313%

* considering dividends and shares of demerged entities

If Veritas wants to rate Indiabulls companies as a SELL, it is their opinion. However if they want to spread malicious headlines and intentionally use blatantly incorrect data without seeking any clarifications from the company even once for fulfilling their personal agenda of profiteering, as demonstrated by the points above, then we strongly protest and will ensure that Veritas face the legal consequences.