



**“IL&FS Investment Managers Q3 FY2013 Analyst
Conference Call”**

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Moderator

Ladies and gentlemen good day and welcome to the IL&FS Investment Managers Q3 FY13 Analyst Conference Call. This call has been hosted by Dr. Archana Hingorani and Mr. Manoj Borkar. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference to Dr. Archana Hingorani. Thank you and over to you mam.

Archana Hingorani

Good afternoon everybody. Thank you for joining us to discuss the Q3 performance. You may have seen the press release and the results that went out to the stock exchange. We have had a stable top-line with an improvement in the bottom-line. Top-line was about 56 crores with a PBT of 26 and a PAT of 19.7. PAT is 14% higher than the last quarter. On a cumulative basis for the 9 months, it is 6% higher than the previous year.

We expect to be maintaining the pace of this quarter in next quarter also. Largely the performance improvement in a function of cost control, lesser amortization cost for placement agents etc. as well as lower interest on the loans that have been repaid. We have a final bullet repayment coming up in September which will then take care of all loans outstanding against the company's books.

So while the performance has largely been stable, we have as I have said the last time also, the revenue line has been protected largely by the exchange rate movement being in favour of the U.S. dollar since we learned a large part of our revenues in that currency, we have benefited during the 9 months. But significant performance is related to the fact that we have been able to control cost at a pretty large level during this financial year.

While this is about the financial performance, let us look at our view on what the business environment looks like. Clearly there has been a lot of momentum in terms of thought process being positive, reforms being announced etc. Some of them are already in implementations but the key ones still need to work of vis-à-vis what the government needs to do. So from the captive market perspective, we all have seen how it has really triggered at least the blue chips but from our perspective, a lot of our companies, the portfolio companies, sit in the mid market to small market segment. We yet are to see the impact of that. We believe this can only happen when you have really credible reforms actually coming into play obviously including the interest rate decline that one is hugely expecting. Although everybody talks about whether 25 basis points or 50 basis points, until unless that downward trend is not seen a lot of the activity that we do which is hinged on fresh investments, new capitals coming in etc. all of that can only see greater visibility if we see some of improvements from those parameters.

We are very thankful that with the GAAR being postponed till April 2016, we now at least have clarity on tax front. A lot of the money that we get from our LPs comes from outside the country, there has been a severe backlash in the last nine months towards Indian funds especially on account of taxation and of course on account of depreciation of the currency.

People are not clear on what they should be expecting in terms of their assumptions for India given that there was such a huge fall in the last year. Although if you take on a year on year basis over the last 20 years, may be the fall is only 2% per annum. But an aggravated fall last year has created issues especially in an environment where exit has been very few and on top of that if you have to lace your exits with the currency depreciation, the performance obviously in dollar terms has been not remarkable and most LPs are concerned about how India will perform in the future.

As regards fund raising which is one of the key things that we would like to focus on, we have seen very slow progress. We are where we were in the last quarter. We have about \$75 million commitment with Tara; we have a few others on the PIPE fund. We have made a very good progress on the Middle-East fund because it is dealing with different geography and a different set of investors which means Middle-East money for the Middle-East region. We are expecting our first close by the end of this quarter by about 100 million. We also expecting Tara and PIPE to have some kind of close, combined perhaps to another 100 million. So our fund raise expectation by the end of this quarter of about \$200 million, all told.

But what is more important is that we have been able to increasingly focus on exits which is the key to raising new money. We have had a total of 8 partial exits. They are all partial, lot of them are in real estate. One of them was in the private equity space. All of them have created ability to show bench mark returns anywhere between 15 to 20% which is credible in this market. This is creating momentum for us and we expect that because of these exits at least in calendar year 2013 we should be able to see more ability for this company to go out and raise money. More importantly, we also think that this is now the right time to also start focussing more on our infrastructure fund category. So we will be very soon on the basis of talking to our investors as well as getting requisite approvals from our board venture on a part of creating more infrastructure funds in different geographies including India.

So that will be our focus in the next quarter or so to announce 2 funds in this region. Other than that we continue to focus on exits, which is again a large plan for this quarter. Investments are going to be limited given that most of our funds are fully deployed except for our Asia Infrastructure Fund which is currently in deployment mode and should be finishing investments by the end of this quarter.

This is all I have vis-à-vis what has happened in this quarter. We are happy to take questions on what we have discussed today.

Moderator

Thank you madam. Participants, we will now begin with the question and answer session. We have the first question from the line of Prakash Ramseshan from Kotak Mahindra. Please go ahead.

Prakash Ramseshan

Just asking about the possibility of carried interest in any of your fund. If you could elaborate because of your past few quarters, we have been tracking that to see if any of your funds are getting to a stage where carry will start to accrue to the company?

Archana Hingorani	Prakash, the only carry that is visible at this moment is from the Leverage India Fund and the Leverage India Fund as you may have noticed had a very delayed exits from one of its companies which we announced recently-Arch, largely because of government regulations. We had to go through 3 set of approvals which were unanticipated in the sense these were new regulations with which the government put in. We still not completely exited because one part of the regulation is still has not been cleared by the company in terms of exit profile. So we have exited only 80% of our investment, 20% still remains to be exited on our quarter as soon as we get those permissions. According to me this is the only fund that has reached a stage where we could think about carry but it at least needs 1 or 2 other exits to be able to complete it. Earlier we thought that it may not take that long but the longer you wait, the IRR keeps building up. So we will at least need one more exit before we can plan for carry in LIF. So that perhaps is likely in the second quarter of the coming fiscal.
Prakash Ramseshan	Which would be quarter of September 2013?
Archana Hingorani	Yes.
Moderator	Thank you. We have the next question from the line of Gaurav Jalan from Avant Garde Wealth Management. Please go ahead.
Gaurav Jalan	Could you tell what your ending AUM is for the 3rd quarter?
Archana Hingorani	Last quarter it was 2.4; with this quarter it will be 2.34 billion.
Gaurav Jalan	You mentioned cost control, I understand that depreciation going down because of lower placement fee amortization but in terms of other expenditures, what led to the decline?
Archana Hingorani	We have a joint venture in Singapore and both our joint venture partner and we have cause that are attributed to this. So that also has been declining since the activity has not been as much. The first fund is near fully deployed. Because of that, expenses in that JV has been coming down.
Moderator	Thank you. We have the next question from the line of Rajat Buddhiraj from Banyan Capital Advisors. Please go ahead.
Rajat Buddhiraj	My first question is on Middle-East fund. You were saying you are expecting it to close for 100 million in the next quarter. What is the committed capital as of now?
Archana Hingorani	We just started marketing in December of last year and we have capital commitments belonging to the GP as well as senior LPs of about \$45 million. We expect another 50 to come in this quarter. So that is the reason we are saying that we think we should be able to target 100 million by March end.
Rajat Buddhiraj	Okay. This is a pretty good response that you have already got 45 million.

- Archana Hingorani** Yes but it is a combination of what GPs are bringing to the table as well as what LPs. In this case because we are in the Middle-East, we also have partners. So jointly we are able to provide a better level of capital as versus had it been by ourselves. So that is probably one more reason why the fund is better placed to collect money faster.
- Rajat Buddhiraj** It would be great if you can just give me an idea on the GP and LP also?
- Archana Hingorani** I am sorry, I will not be able to tell you the break ups right now because we are still completing into what part goes into the GP contribution.
- Rajat Buddhiraj** I have right now, say some funds are there on which I have to get an update. As per your website for example Standard Chartered is going to be complete by FY16 and IIRF-2 by FY16. So I want to get the update one by one say IIRF-1, when do you think all the exits will happen?
- Archana Hingorani** IIRF-1, its fund life ends in April 2014. It has capacity to have two extensions of one year each. It is very likely that we need at least one year extension. So that is on IIRF-1. IIRF-2 on the other hand ends in December of 2015. It is probably not likely that we will need an extension and we are on track in terms of investments and exits. So that goes to December of 2015.
- Rajat Buddhiraj** What about Standard Chartered Asia Infra growth?
- Archana Hingorani** That fund, it is an 8-year life and it goes to 2017. So we still have a few years away and I do not expect us to ask for an extension on that.
- Rajat Buddhiraj** What is the rationale behind the extension of IIRF-1?
- Archana Hingorani** Exits would not be complete. So that is why you will ask for an extension.
- Rajat Buddhiraj** And no divestments has happened as of now, so....
- Archana Hingorani** That is incorrect. Divestments have happened in IIRF-1. I am just saying that the entire portfolio will not be exited by then and therefore it will need an extension because they are all large projects.
- Rajat Buddhiraj** What about the carrying infra not in the current quarter or in the next 2 quarters but I am looking at FY14 as such. So according to the divestments how much carrying costs interest you expecting? How carrying interest will flow to the shareholders like us?
- Archana Hingorani** Difficult question to answer because as I said LIF is the one that is nearly seen ability because it has been able to generate enough to be able to return all the capitals back right now in terms of quantity. It is now generating enough to be able to return the hurdle rate and then there will be a sharing so LIF is visible.
- As far as IIRF-1 is concerned, I think the way the exits has been, we have been able to generate exits of probably total quantum value of about 25% of the fund as of date. So we still

need to finish remaining 75% of quantum which is nearly \$400 million exits after which you will start looking at carry. I do not think in FY14 you can expect anything from IIRF-1.

Rajat Buddhiraj Okay. How will this carrying interest from Leverage India fund will be beneficial or will move into our kitty basically?

Archana Hingorani Whatever comes as carry distributed will be distributed. We have not had a distribution for carry since the first fund. It will be distributed in the ratio of 70:30; 70 to the employees and 30 to the firm which is IL&FS investment managers which in turn will then give it back to shareholders through dividends etc.

Rajat Buddhiraj I also want to get the update on other funds but I do not think like there are other funds. So maybe it would be great if we can send a query to IR person over there so that it would be answered.

Archana Hingorani Yes absolutely. No issues.

Moderator Thank you. We have the next follow up question from the line of Gaurav Jalan from Avant Garde Wealth Management. Please go ahead.

Gaurav Jalan Could you please tell me what your diluted share count is for the 3rd quarter? We have seen like the share count is fallen from the 2nd quarter. So I am just wondering if I am doing the math right.

Archana Hingorani I do not think so. There is no change in shareholdings. There were no ESOPs also exercised. So I do not think there is no change in shareholding.

Gaurav Jalan Can you just tell me what the number is for diluted share count in millions?

Manoj Borkar 208.8 million is the number of shares.

Moderator Thank you. We have the next question from the line of Vivek Joshi, an individual investor. Please go ahead.

Vivek Joshi I have two questions. I want some long term colour on the PE industry. In the sense, how do you see the industry, you see a lot of changes in the industry, lot of partners are coming directly to India and all. What is the company doing to kind of position itself in that market? How do you see yourself growing in the next 5-7 years? Is there going to be any intrinsic change in the model which you are evaluating right now?

Archana Hingorani I do not expect our model to change intrinsically significantly. As we explained in the last call what we are trying to do is broad in our geography with the same expertise because we know how to do this business in and out and therefore it makes us sense for us to have a greater geographic spread therefore, Middle-east and therefore Asia, and therefore wanting to do different things outside the country, which we have already started. This Middle-East will be our third venture. We have Pan-Asia fund, we have Sky-Asia and now this will be our third foreign venture. So we are trying to do more of that.

As regards to your comments that many of them are trying to come in directly. That direct play is what we have seen around the people that are trying to come in at best a very limited market. We are addressing it to the investors that are already with us if they need any direct participation. We have been talking to them so that they come through us. If there are new players who are trying to come to India, we are talking to them also.

But clearly if you were to ask me is that a significant contributor to the bottom line, let us say 2 years down the road, 3 years down the road, probably not because that model is very dependent on carry only. The fee that you get upfront from direct deals is very minuscule ranges anywhere between 0.25 to 0.5% at best. And there is link completely to exit.

So from a growth perspective and a business model perspective, while you can have that in the overall scheme of things let us say 5 years down the road, let us say 20% of your revenue profile. But really it cannot contribute significantly to your bottom line because of the way it is structured.

Vivek Joshi

What I also wanted to understand is last probably couple of years we have been concentrating in these calls on the near term issues. I just wanted to know as a company are you confident that this is like in 5-7 years we have 2 times, 3 times the business or you feel you have some less visibility even in the long term?

Archana Hingorani

If you had asked me this question in 2005 when we were at \$300 million, then will I by 2008-09 be \$2 billion, the answer would have been 'no'. I did not have that visibility. Similarly for asking today can I become from 3 billion to 6 billion in the next 2 years, my sense is perhaps not because we have to look at the business model; what is the business model. Actually it is an annuity model where you have got in growth in the last 3-4 years because we splice the business to become multiple funds rather than one original fund that we used to have in place. So if you keep on growing through multiple funds and multiple geographies you can maintain the pace. But you also have to remember that we have collected \$3 billion in the last 4-5 odd years and we need to give this all back and collect more. So while you are running to increase the AUM, because you want to show performance you are also declining the AUM. So there is some calculation effect. So will that 3 become 6 in the next 2-3 years, perhaps not. Will the 3 become 4 and 4.5, yes. I hope you understand what I am trying to say.

Vivek Joshi

My question actually just to clarify, not the 2-3 year question. I am just trying to look at this as IL&FS as a 10 year play. In a 10 year play, do you expect it to be 3-4 times? You expect it to be a very mildly growth industry?

Archana Hingorani

I do not know how to answer that question only because this is a step function business. So we had no growth from 2000 to 2005-06. Then we had rapid growth 2006-2009 as I said because we multiplied the business into different formats. We are continuing to do that, so we do expect growth from that. But we started at a small base of 300 million. So the repayment that we have to do was only 300 to get to the next level of growth. Now when I want my next level of growth, I need to repay back 3 billion as well as collect more money. So if you are asking

from a long term business 10 years perspective, do we think there is growth in the business, yes there is growth.

Vivek Joshi That is what I am asking. Do you see any structural threats to the business or the models seems to be robust.

Archana Hingorani I think the model is robust. You are seeing a lot of people talking about how fee structures are changing, fee will come down. But fee structures as I had explained even in the last time for us because we are creating large funds in infrastructure and real estates. Our fee structures are already not that 2120 model. It was the 1.25 to 1.5% and the 20 model. That has not seen any significant stress at least from where we are coming from or what we are seeing from our investors. Structural changes I think will be there in the short term because we are trying to get in the next level of growth. But on a long term basis, we still see this model being effective.

Vivek Joshi My second question is that across your funds, could you give some color on what are your investments in the listed space. I am just trying to see where the exits are easier and the ones I have been able to identify are Gayatri Projects, Ramky Infrastructures and Karuturi Global.

Archana Hingorani We are on a different view on listed completely today as what we had let us say 3 or 4 years ago or let us say when we first started listing our companies. The model for the capital markets in India has gone through a sea change in the last 4-5 years where I think international benchmarks, international events have become so intrinsic that basic fundamentals of a company need not determine what the pricing is. So from a long term perspective if you are asking the question, then from our perspective, we are not seeing ourselves as being somebody who will list unlisted companies and then stay the course to see if there is greater room for capital appreciation. We are not looking at that model anymore. But you are right. We have 5 or 6 companies that are still in the listed categories and we do expect exits from them in the next couple of quarters. We have targeted quite a few of them because some of them even if you want to stay for 2 more years, you do not have visibility on how you would exit especially because there are liquidity related concerns. So yes we have listed. We have time to exit a few of them. There is Gayatri, there is Gujarat Pipavav Port with us; we have DEN Networks which is recently doing quite well. So we have 3 or 4 companies that we need to exit from in the next couple of quarters.

Vivek Joshi Which fund are they mainly from?

Archana Hingorani The Gayatri and GPPL are from the Leverage India Fund, DEN is there in the Tara Fund as well as in the Standard Chartered Asia Fund. So they are all across.

Moderator Thank you. As there are no further questions from the participants, I would now like to hand the floor back to Dr. Archana Hingorani for closing comments. Over to you.

Archana Hingorani Thank you everybody for joining us on this call. We hope we have answered most of your questions. If not, please do send us any questions you may have and I look forward to talking to you on the next call which will be the year end call. Thank you.



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Moderator

Thank you. Ladies and gentlemen, on behalf of IL&FS Investment Managers, that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.