

“IL&FS Investment Managers Q3 FY2014 Earnings Conference Call”

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**MODERATORS: MS. ARCHANA HINGORANI –CEO & EXECUTIVE
DIRECTOR, IL&FS INVESTMENT MANAGERS.
MR. MANOJ BORKAR– CFO, IL&FS INVESTMENT
MANAGERS.**

Moderator

Ladies and gentlemen good day and welcome to the IL&FS Investment Managers Q3 FY2014 Earnings Conference Call. Joining us on the call today from IL&FS Investment Managers are Dr. Archana Hingorani – CEO and Executive Director and Mr. Manoj Borkar – CFO. As a remainder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Dr. Archana Hingorani from. Thank you and over to you ma’am.

Dr.Archana Hingorani

Thank you. Good afternoon everybody. Thank you for joining us for our third quarter results. You probably you had a chance to look at them through the press release.

For this quarter, top line income was at Rs. 54 crores with a PBT of Rs. 24.5 crores and net profit after tax at Rs. 18.7 crores. Net profit after tax is lower than the previous quarter by about 3%. And net profit before tax is lower by about 7%. On a cumulative basis for the 9 month period, our income is Rs. 167 crores with PBT of 76 crores and a net profit after tax of Rs. 56.4 crores. So on a 9 month basis, the PAT is pretty much similar to the last year, up marginally by 2%. In terms of the performance during the quarter on the operations side, we have as you know various funds under different stages of maturity. Of those leverage India funds from the private equity growth vertical and the real estate fund one from the real estate vertical are the ones that are in exit mode largely. The remaining are partially monitoring and partially generating cash flow. For the quarter, we generated exits of roughly Rs. 200 crores across 9 investments. This is coming as current cash flows as well as some full exits that have happened in the portfolio.

Overall for the financial year, we have been able to do significant number of exits. Please note that the large part of this exit number is linked to the profitability. So on average, we are generating about 14 – 15% return. A large part of the capital that is being given back is largely in the form of profit. So we have achieved Rs. 900 crores worth of exit from the 9 month period and the goal is to keep on continuing that as that is going to be your biggest indicator of fresh capital when markets are ready. In terms of new funds that are being raised, as you are aware, we are in the market for primarily 3 funds - The Middle East fund, there is Tara which has been out there for sometime and of course the Asian fund in the infrastructure vertical. The Asian fund as well as the Tara fund, while we have made some progress, we have had some soft commitments in the Tara fund of approximately 15 million in this quarter. We are waiting for the finalization of those documents to be able to declare a first growth, perhaps April of this year. In the infrastructure fund, we are still in discussion primarily, the Asian markets as well as the Indian elections have been a big issue in terms of converting investors as they don’t see material change specially given that inflation is high, you are still announcing increase in interest rates. Then of course the fact as you look at the international press, all emerging markets including India are being looked at with the sense of doubt specially given that there is going to be significant tapering happening from the international markets in terms of cash flows coming into emerging markets like India. The last one Middle East fund also, while we have commitments of about 15

million and commitment for another 50, we have still not reached a stage where we can announce the first close. So all in all fund raising continues to be very difficult.

We have better results in this quarter in the sense that there are more investors willing to sign on term sheets and start doing due diligence but conversion to the next level where we can sign off and convert it into revenues still remains a significant challenge.

We expect that the following quarter also will pretty much look like these quarters and therefore financials for the full year will be similar to that of last year. Thank you.

Moderator	Ladies and gentleman, we will now begin with the question and answer session. The first question is from Shreyas Bukhanwala of Sushil finance. Please go ahead.
ShreyasBukhanwala	One question is on, what's the earning AUM as of now?
Dr Archana Hingorani	\$1.7 billion.
ShreyasBukhanwala	And sir on the fund raising front, what I just missed out, it is like Middle East and Tara we have already 50 million each and another 50 million is just like a soft launch type?
Dr Archana Hingorani	No I didn't say 50, I said 15, I wish it was 50. In both of them it's 15 more million which has been signed up in MoU format. It needs to be converted into full commitments.
ShreyasBukhanwala	And earlier it was like 50 plus 15 or its just 15?
Dr Archana Hingorani	No, so this quarter we have made, both funds in these quarters have seen soft commitments of 15 million which was not there earlier.
ShreyasBukhanwala	So earlier it was like 50 till last quarter?
Dr Archana Hingorani	Correct. Roughly 60 – 65 in each of the funds. Yes.
ShreyasBukhanwala	And Sir when do you expect the Leverage India fund to be fully exited?
Dr Archana Hingorani	We will see full exit, we won't see full exit although the fund life ends in April of this coming year. But we have ability to extend this fund for periods of 1 year each for another 2 years. So we have already put in a request for one more year of extension because there will be about 3 – 4 investments that will spill over and not have a complete exit by the time April comes around.
ShreyasBukhanwala	One more thing on the dividend front, will we be maintaining the more or less same dividend policy like post this equity bonus thing?
Dr Archana Hingorani	I think we had this discussion last time also and yes that is our goal

Moderator	Our next question is from Vivek Joshi, he is an individual investor. Please go ahead.
Vivek Joshi	I have 2 questions. One is since the revenue is more or less same for the year, could you give me some color on what is the dollar, how much of revenue gain has come due to dollar movement and what is the underlying fundamentals of the revenue?
Dr Archana Hingorani	I think while Manoj is pulling that data out, I will tell you when the actual drop happened in that quarter, obviously the impact was quite significant around September when we saw the melting of the exchange rate. So I think that quarter did give us little bit more benefit. But over the 9 month period the average rate has been around Rs.60 to a dollar as versus the previous year where it would have been approximately 55.
Vivek Joshi	So 10% roughly.
Dr Archana Hingorani	Yeah.
Vivek Joshi	My second question is I have spent quite bit of time to understand, why would a company like yours who doesn't need capital, increase its capital base? It affects you ROE and everything adversely, I couldn't understand why would you go in for a bonus instead of just declaring dividend?
Dr Archana Hingorani	I think this conversation we had last time also. It was a board decision based on the fact that we are trying to close the gap as much as possible between our stand alone and consolidated which gives us greater dividend paying capacity. Now of course there are schools of thought. We could have done it a year later versus now. The call that the board made was that they wanted to signal that it is an attempt to ensure that the consolidated and stand alone starts resembling each other. So that there is maximum dividend provided to share holders. You are aware that we give out almost everything that comes into the stand alone books. So the intent was that.
Vivek Joshi	Just to press a little bit more here, you are saying the intention is to bridge the gap in which the funds were lying abroad or whatever. So I still don't understand why you couldn't declare a Rs.3 dividend instead of having to increase the capital base. Why would you increase your equity base? The consolidation could be done by just increasing the dividend payout also.
Dr Archana Hingorani	I think if you are aware of the history of this company, we don't normally practice interim dividends and this was the boards judgment on what signaling they wanted to give to the market and they are more comfortable doing this rather than an interim dividend, I understand your concerns but anyway this is a decision that we have made.
Vivek Joshi	I am just asking what is the signal the boards is trying to give by increasing the equity? That's what I do not understand. And there must be an intention behind increasing the equity. What is the signal you are sending to investors, I am confused, that's why.

- Dr Archana Hingorani** As I said there were 2 reasons, one was we quite confidence that we can maintain the dividend on this equity base and we wanted to signal it today rather than 9 months down the road and second is that the board said and this is a considered view that there would be a better attempt at liquidity if one was to do it as we have seen in previous bonuses that we did a few years back. So that was the basic assumption and thesis behind which the board was happy to do it.
- Vivek Joshi** Any further traction you had, you said you started some advisory services.
- Dr Archana Hingorani** No let me correct, we have not started advisory services. What I explained the last time was that given that there are significant investments in the Indian markets by various kind of investors, many of them have come through non fund structures that they have put in money directly. And do not know how to handle these investments 3 – 4 years down the line because they didn't turn out the way they were expecting. Perhaps because they don't have an India base and don't have people working for them. So we have tried to amass approximately \$1billion worth of assets under a managed account format which is largely a very small percentage fee that we are earning on those managed accounts with a greater portion of the sales proceeds coming to us as carry as and when it happens. So it is not advisory, it's the same thing that we do, it's the same business but the profitability model is different in the sense it skewed more towards exit base to return rather than fee.
- Vivek Joshi** Let me call it managed account, I just want to know has the AUM under managed accounts grown during this quarter?
- Dr Archana Hingorani** We just did 3, as of December, we had put in 3 relationships in place which is approximately \$1billion. We have not done any new one in this quarter.
- Moderator** The next question is from Anuj Anandwala of PPFAS. Please go ahead.
- Anuj Anandwala** Just wanted to know a couple of book keeping questions, your employee cost has gone up. What would be the clarification on that?
- Dr Archana Hingorani** No this year we have only done 7% increment. So it would not be more than that in any case.
- Anuj Anandwala** And secondly on just exit part, you said that you have a criteria where you can go in for year or 2 of extensions, if exits don't happen as per planned. So would you be going this extension works for all the funds or how does it work?
- Dr Archana Hingorani** Almost all funds will have a 1+1 extension period built into them. We normally takes the call in the last 6 months depending on how many investments are left in the portfolio.
- Anuj Anandwala** Okay, but could you go to the same investors for new fund raising or you have to completely.
- Dr Archana Hingorani** No, that is not a reason for them to say no and in the market you are not considered to be somebody that you shouldn't invest with just because you had a fund life extension. Our first

fund in which we made excellent return for our investor, went to a 10+1+1 structure. So that is not a reason for people to not look at you.

- Anuj Anandwala** We have a follow up question from Vivek Joshi, he is an independent investor. Please go ahead.
- Vivek Joshi** I wanted to know, what is the receivable figure as of today, how does it compare to what you ended at 30th September?
- Dr Archana Hingorani** Are you talking about the difference between, because our receivables largely are basically fees that we pull from Mauritius into India, is that what you are talking?
- Vivek Joshi** On the stand alone sheet.
- Manoj Borkar** Stand alone for 2 quarters same as what it is there in the last quarter.
- Vivek Joshi** This is around at Rs.100 crores?
- Manoj Borkar** That includes more at Mauritius level. So Mauritius level will have roughly about 14 million.
- Vivek Joshi** We have to take the fee from the separate asset management company? So it is the same, it has not risen, that's what I want to know?
- Manoj Borkar** No.
- Dr Archana Hingorani** No.
- Moderator** Our next question is from Mohit Bansal. He is an individual investor. Please go ahead.
- Mohit Bansal** I have couple of questions, when you say the funds get extended, does that affect your fees than your carry?
- Dr Archana Hingorani** Carry is not a function of fund extension, it is a function of what return you make. So that is something to do with what the overall net return you provide to the investors. In terms of fees of course the budget was 10 years. So when you go back and say I want 11 years, most investors will agree but they will not agree to the same fees. In fact if you go back to the older funds that we used to have, we used to normally extend funds beyond funds life gratis, we used to not charge fee at all but in those days your functioning was such that you could easily predict what exits would happen. But especially in the last few years where economics have not been great for exits, almost all funds that get extended in the market are normally at half fee. So that additional income which you have not budgeted.
- Mohit Bansal** In this 9 month period for the financial year, will you be able to give a break up of the total fee earned and the total carry in the total income that you have made?

Dr Archana Hingorani As of now there is no carry. We have not had carry. You don't get carried that way, once you have exited 100% of that fund, that will carry its return.

Mohit Bansal So carry comes in the last?

Dr Archana Hingorani Yeah, in the end.

Mohit Bansal Okay so this 3.2 billion of AUM, you make fee from the entire AUM or?

Dr Archana Hingorani 3.2 Mohit, is the fund raised as of date from whichever funds are under management. Then obviously over time, you get exits and you don't induct everything, so there is a reduction fees because of that. So as and when exits are happening, we are getting a reduction in fee. So today earning AUM if you ask, what is the earning AUM is what Manoj answered in the beginning is a 1.79 billion.

Mohit Bansal So what would be the rough approximate percentage in terms of fee that you make on this?

Dr Archana Hingorani 1.5%.

Mohit Bansal One last question, this year has been tough in terms of obviously fund raising and incremental profit, does it affect employee redemption because obviously you will not be able to give them the kind of bonus that they expect because the exits have not been done.

Dr Archana Hingorani Valid question but I think it's probably not the best market for exiting and going to another firm. I don't think there are that many out there.

Mohit Bansal Because there have been news in the market that competitors have been able to raise funds especially IDFC and others.

Dr Archana Hingorani Yeah but you have look at kind of fund they have raised and what percentage fee etc. **Mohit Bansal** So you are not seeing any big exits in terms of employee turnover, there has been really no exits in the last 5 years. We had a consistent team and it remains to be the same. Although you are right that they see the increment being very marginal. If you notice our increments have been anywhere between 7 to 10% in the last 3 years

Mohit Bansal And this 1.7 billion, you expect this to increase next year?

Dr Archana Hingorani Absolutely otherwise you only see a drop, which is not the intent, obviously we have these various funds in the market which we want to raise and clearly, there has been issues in terms of, its no longer about what kind of transactions you have done or what exits you have done, its more about

Mohit Bansal Any target you are going to share in terms of fee earning average AUM for the next year?

Manoj Borkar It is roughly around 300 million at least.

Moderator Our next question is from Vikas Agarwal. He is a private investor. Please go ahead.

Vikas Agarwal One small question, you talked about managed assets, what are the terms or what are the broad terms, you said most of it is geared towards the carry portion. So one what is the carry that you share, whatever you can share with us and 2) what is the lifecycle of these funds?

Dr Archana Hingorani Lets take an example because I don't think I can say that this will be true about all transactions because we have done a few, but that doesn't mean that you will get the same model everywhere. Average life of these 2 – 3 transactions that we signed up with couple of common investors is perhaps around 4 years, if you look at it from an ability to start generating profits but these are all long term assets. So they probably will need actually 8 – 10 years of full term development. So as soon as cash flow starts, our end of getting equivalent of fee carry whichever way you want to call it, our significant payments start when we achieve certain milestones. I am just taking one because every transaction is different, the one that we are dealing with, if we can find this particular one I am talking about happens to be in real estate space, so if we find a buyer rather a developer for helping to develop the site, then that day itself we get certain percentage of the agreed fee and post that on a regular basis, as and when sales, etc., are happening at the site, or milestones are being achieved at the sites, we start getting payments. So if you achieve what the investors are looking for, the largest achievement would be to bring in the developer because that's when all your money starts kicking in and if you achieve that, then the next few milestones or whatever over the next 4 – 5 years is pretty much certain because it is linked to being able to generate the cash flows.

Vikas Agarwal Just in terms of what you get to share, as carry, what is the economic fees we are talking about on this billion dollars? What is the range of economic fees?

Dr Archana Hingorani I am just trying to think the way what I can tell you is going to make any sense because it's not like that saying the value of that asset today is \$1 billion, jointly of the 3 assets, that doesn't mean that as and when you do the transactions, you will get a percentage of 1 billion. Percentage of the cash flows that are available in the, so what kind of ranges are we talking about in the next 3 – 4 years, perhaps would be about \$5 million.

Vikas Agarwal Each year or this is over 4 years?

Dr Archana Hingorani Over a period of 3 years it is approximately 5 million. and our idea is since we started this line of business just 2 quarters ago, once we understand the nuances of it, because it is more of a involved role, normally when we do investments we already have a developer. We are not trying to look for one. So once we get to understand that business model, we will try and accumulate this on a more regular basis into the financials and revenues lines.

Vikas Agarwal And these three transactions that you have done are predominantly real estate transactions?

- Dr Archana Hingorani** Because it is two investors and three assets and we have put it together for them. So right now it's in the real estate space but as I said it doesn't stop us from doing a similar thing on the other transactions, which is what we are right now also marketing for.
- Vikas Agarwal** And you haven't dedicated any separate staff for this. This is out of your real estate fund?
- Dr Archana Hingorani** Well no, we have dedicated a few staff that we have hired in to the assets which are being paid for by the company. So we are not adding more staff. We have our own staff which is obviously sitting everything plus all the relationships with developers are with the investment professionals and not outside. So they are doing that leg work but all the technical and all of that stuff we need, all of that is being made part of SPVs that are bringing in those staff. So additional cost is not there on the company.
- Moderator** As we have no further questions from the participants, I now hand the floor back to Dr. Archana Hingorani for closing comments.
- Dr Archana Hingorani** Thank you all for joining the third quarter results and we look forward to meeting you in 3 months from now with the final results. Thank you.
- Moderator** Thank you very much. Ladies and gentleman, on behalf of IL&FS Investment Managers, that concludes this conference. Thank you for joining us and you may now disconnect your lines.