IL&FS Investment Managers Limited

First Analyst Conference Call

August 4, 2010

Moderator: Good evening ladies and gentlemen. I am Vishwanath, the moderator for this conference. Welcome to the IL&FS Investment Managers Limited Conference Call. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would like to handover to Dr. Archana Hingorani, CEO of the company. Thank you and over to you ma'am.

Dr. Archana Hingorani: Good afternoon everybody. Welcome to the first analyst call that we are having for IL&FS Investment Managers. I am joined by the company's CFO, Mr. Manoj Borkar. We would like to take you through the business as well as certain developments that have taken place in the recent past. The idea of this call is to start off a dialogue by which we can provide greater insight into the business that we are doing.

Essentially, we are focusing on growing ourselves as being one of the largest Indian entities focused on alternative asset management, which is a more deeper word for private equity. As many of you know and some of you have met us in person, we have scaled up the business significantly over the last 4 years.

Four years ago, we essentially had one vertical which was the private equity growth vertical. Essentially, that was the vertical that did all kinds of investments, except real estate because that was not allowed. But today, we have transformed ourselves into three distinct verticals – the growth private equity piece, the infrastructure private equity piece and the real estate private equity piece.

Many of the funds that we have raised have been done in the challenging environment that we faced in the last 2 years, essentially on the back of having significantly good investor base and the LPs that we have our mark – key pension funds, sovereign funds, etc., who have been there with us for a reasonable period of time, and during the financial crisis, we have been privileged to be associated contributors who have not disappeared or gone away overnight. We had maintained relationships as well as continue to have contractual obligations that everybody is fulfilling on all our funds.

The business environment as you all may know has been obviously very, very challenging. In our business, fund raising takes a long period of time, anywhere between 9 to 18 months. Then, deploying it into the right project takes time and of course exiting is critical so that you can raise more funds and be able to continue the business. Now, in all three aspects, I think it has been challenging. But, if you see we have had significant growth in the last 3 years in terms of funds raised. Critical question is how you get to the next level.

It is a combination. One is of course you need to perform on the investments that you have already put in as well as you need to be able to grow the platform. In terms of performance, given that the economy has turned around in the last 8 to 10 months, we have been focusing on healthy exits. And we are seeing significant traction there, especially in the growth private equity piece as well as I would say in the infrastructure piece.

In Real estate, as you may know, all our funds are or most of our funds are largely FDI. So, many of them are locked in, and this is the reason why we need to be very, very sensitive to providing exits in order to grow this business significantly. For all practical purposes, India as an investment destination for real estate has not seen exits that can give confidence to investors to put in more money, so our focus is more on an exit strategy on the real estate side.

Coming to how you grow the business – we started off with one fund which then broke off into two and today we are three verticals. The intent is to be able to continuously grow the platform through two strategies. One is to keep breaking up the sectors that we are focusing on, so for example in the growth private equity vertical we eventually broke it down into growth and infrastructure. Real estate, while we started in FDI, we branched out into yield products alongside Milestone, so that was a different genre of capital that we brought in and our ability to access it.

Similarly, we embarked on an Asia platform which we raised for the first infrastructure fund focused on India, China, and South East Asia. We are also now well entrenched in Dubai, given our branch office for the last 18 odd months. This gives us ability to raise funds in that region as well as access new investors that can invest in our existing fund.

The second piece that is very important from a growth perspective, especially for a firm like IIML is the ability to grow inorganically. I think that is critical to how we can consolidate our position, and while there was a dream sequence in our thinking process, perhaps 3 to 4 years ago that we should be able to access listed funds, listed markets, grow larger by working with other entities. It came into greater fruition only when the global financial crisis hit the market, where we saw a lot of ability for IIML, as a firm, because of being there for the last 15 to 16 odd years, to be able to get into somebody else's shoes – especially in India where, you know, understanding the Indian environment is important.

Now, having said that, it was very difficult to achieve that objective because a lot of it was hesitation on both sides, where you know the buy and sell prices as well as what was behind those portfolios was a little difficult to assess. So, while we wanted to do it, we never found a proper opportunity when the market was its complete low point.

In our quest to see how we could work together with other fund managers, either for doing co-investment opportunities or to see, because now there are enough funds in the market, one of the better forms of exit has also been selling to third-party fund managers. During the course of these interactions, we have in the last 10 months come across various opportunities across all our three verticals where we do see ability for us to participate jointly or to grow inorganically. That is where we came across Saffron, which is exclusively focused on real estate asset management.

We started off on a relationship where we were trying to do a deal together and that is how we learnt about their people, their team, vice versa, and during the course of that interaction, we were able to come with a framework where we realized that both of us had advantages to offer to each other. Our primary attraction to wanting to have something of this kind has been of course the talent pool. In the asset management business, the only asset that you have is talent and it has been very, very difficult in the real estate space to get people who understand real estate as well as understand how to run investments. Putting a combination of these sets together has been a very big challenge not only for us but I would think everybody else who has participated in real estate, and I think this gives us a ready talent pool of 17 people joining us to strengthen our real estate practice.

The second important aspect which we really found quite attractive was the fact that one of their funds is listed. It has ability to provide us access to perpetual capital. It gives us access to a new breed of investors, and mind you, these are not just regular retail investors, but we have a very, very select breed of institutional investors who participate in listed markets. This is something that we have not had. We have had an aspiration to want to have these kind of investors as part of our LP base, and this gives us ready access to that, and I am certain that it also will provide us ability to use this platform not only to raise fresh money but also to be able to use it to effectuate timely and optimal exit opportunities for a lot of our investee companies.

We have after careful consideration and working with them for the last six months – given the complexities of the transaction, given that it is multi-jurisdictional based, we have India, Mauritius, Amsterdam, London involved, and significant regulatory aspects to be covered during the next 30 to 45 days. What we have released to the stock exchanges is the best that we could have done at that point in time, and I am afraid that is the best that we can do even today, primarily because we need to complete significant regulatory approvals. We are quite confident that we will get them, but there is still some time to complete them, and because of the sensitive nature of the fact that this also happens to be listed and there are other fiduciary responsibilities within the

Saffron Group, we also have tightly worded confidentiality clauses because of which I don't have anything further to tell you, but we definitely know that we are going to be able to complete this merger in the next 45 days. We will come back with full details at that point in time. It is going to be value accretive obviously. We are taking on US$400 million of additional funds under management, so that should help us improve our PAT numbers.

If you see our Q1, it has been very similar to Q1 of last year. Two things happening there. One, there have been exits that have been happening slowly on the growth private equity side, which have been balanced by the new Standard Chartered ILFS private equity infrastructure fund that we raised. So, those incomes have pretty much balanced each other out except for the fact that we also had on a notional basis if I convert the dollar revenues and PAT that we have outside in Mauritius to India. Due to the foreign exchange fluctuations, the performance has been flat. Had it not been for that, it would have been probably up by about 7% to 8%, but it is primarily that we have not raised any fresh funds this year.

So you are going to see very similar performance on existing funds and accretion of course through this route as well as our plans to raise two specific funds in the next two quarters. One of course which we have already announced is the growth private equity piece which is almost out of funds. So, we will be in the market very shortly for about anywhere between US$300-400 million fresh raise.

We are also looking to deepen our yield real estate product. So far, we have only been focusing on the Indian domestic market for providing this yield asset. It has significant success both in terms of the investors that we have been able to collect as well as ability to exit. We have been able to show significant track record, and our conversations with our international LPs tell us that they would very much like to see a product like this. So we are working on a new real estate yield product for international markets which will also add to the funds under management during the course of this financial year.

We will be happy to take any questions now.

Moderator: Thank you very much ma'am. We will now begin the Q&A interactive session. Participants who wish to ask questions, please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press *1 now. First in line, we have Mr. Aliasgar from Elara Capital.

Mr. Aliasgar Shakir: Good evening ma'am. Just wanted a couple of things. I believe you have bought Yatra Capital. I just wanted to confirm if Mr. Ajoy Veer Kapoor would be on the company's employees list?

Dr. Archana Hingorani: Absolutely. We have merged the two entities, so all the employees that work in that firm will be part of our entity now.

Mr. Aliasgar Shakir: Okay, and just one more query I had. Is Euronext a listed fund or I mean the listed fund is close ended or it is perpetual fund?

Dr. Archana Hingorani: This particular fund is close-ended, but because it has a listed platform, it provides us the ability to raise fresh funds to follow on, to rights issue, etc.

Mr. Aliasgar Shakir: Alright, alright, yeah, that is it from me. Thanks ma'am.

Moderator: Thank you very much sir. Next, we have Mr. Neeraj Marathe from HU Consultants.

Mr. Neeraj Marathe: Hello? Good evening ma'am. Thanks for taking this con-call because I missed the AGM this year. Just had three questions. The first question was you had already announced two new funds that you would be launching over the next two quarters.

Dr. Archana Hingorani: Correct.

Mr. Neeraj Marathe: Just wanted to get a general sense as to the kind of domain expertise that we have, I mean, are we looking at other sectors, you know, such as healthcare or any other sector or anything we are looking at?

Dr. Archana Hingorani: See, I will tell you, what we would like to do. Yes, we have domain expertise in a lot of things. We have considered should we do a health fund, should we do an IT fund? We have burnt our fingers early on in the past, but I would say that was more because you know the market was immature. We had done those sector specific funds in the early years of our life. Now, do we want to do those sectors specific funds today, probably not, but we probably definitely want to break it up into more sectors, so for example we are actively look at seeing whether there is eminent sense in doing an exclusive fund only for the clean tech space, and I don't mean just clean energy, it could be clean waste. It could be anything that is carbon related. It could be gadgets or machines that help you get to a clean stage, you know, or should we look at something that focuses exclusively on, for example we have done a real estate yield fund. A similar stage has reached in the infrastructure space where you know there are lot of projects today where people don't mind, you know, if we were to give them a yield product rather than an equity product.

So, you know, we may want to consider that. So, we are looking at every piece and trying to dissect it into seeing whether or not if we are going to break it up, will it yield a fund that is sustainable from you know, it is not just a one-time fund, and you can go on raising different successive funds to it. So, that is the key criteria and we are doing that across all our verticals.

Mr. Neeraj Marathe: Okay, okay, fine, good enough. Second one was, can you just tell me the rough, you know, average management fee that you charge per year on the total portfolio?

Dr. Archana Hingorani: See, management fee on average should be about 1.5%. Yeah, because large portion of our funds are the larger funds right and larger funds have a lower fee.

Mr. Neeraj Marathe: Okay, fine. The third one if I may ask, I just wanted to have a sense, if you can give it with a very simple illustration the exact calculation and the concept of carry profit, that is one, and second is, whatever carry profit that will come when the funds get closed and when the money gets distributed back, how it is going to be shared, I mean, will the entire carry-forwards come to the company and effectively the shareholders or the management team and employee also get certain share, I mean.

Dr. Archana Hingorani: Sure, sure. There is a simple model across all our funds where we have to give 100% of the capital back. So let us say it was only Rs 100, I first have to return Rs 100. Then, normally there will be a hurdle rate which is anywhere between 8% to 11%. So let us say the total money earned by a particular fund after it has exited all its investments largely is Rs 120 for the case of argument.

So, Rs 100 you already returned, Rs 8 is your hurdle rate, you return Rs 8. You are left with Rs 12, and Rs 12 normally gets shared 80:20 – 80% to the contributors and 20% to us.

This 20% comes to the firm, but when you are doing the fund raises, any contributor who gives you money wants to ensure the particular team, not the entire firm, but a particular team that is going to work on it and get a significant portion of the carry. Of course they would like it to be 100%, but in an institutional framework that can't happen. So, in our case, when we started raising our first real estate fund which was back in 2005, we went in and got specific board decision. Invest 70% of the carry we provided to the team and 30% goes to the house which is basically all the shareholders.

Mr. Neeraj Marathe: Okay, okay, to compare with, the example that you gave, after 8% which is the hurdle rate, Rs 12 was remaining. Out of this, Rs 12 that remain, 20% would be what comes to the company.

Dr. Archana Hingorani: Correct.

Mr. Neeraj Marathe: So, that is Rs 2.4 rupees approximately comes to the company. Out of which 70% goes to the management team and 30% shareholders.

Dr. Archana Hingorani: Correct.

Mr. Neeraj Marathe: Okay, fine, got the point. That would it be from me. Thank you ma'am.

Dr. Archana Hingorani: Thank you.

Moderator: Thank you very much sir. Next, we have Mr. Pankaj Agarwal from Execution Noble.

Mr. Pankaj Agarwal: Good evening ma'am. Have you seen any pressure on this management fee over the last two years?

Dr. Archana Hingorani: Good evening. Quite honestly, we have not, but the larger the funds get, automatically you will see that the fee will start getting lower. That is why I mentioned that our real estate funds and our infrastructure funds, because they are much larger in size, the fee structure is lower. You know, anywhere till US$300-400 million, I think 2% is justifiable because every fund has an outfit cost, etc. And so LPs are quite comfortable, but once you cross that US$400 million mark, then they know that you don't actually need this kind of money to run a fund of this nature.

Plus if large pension funds and LPs are coming in, and they come in as anchor investors, especially because many of them put in US$100-200 million per contributor, they do expect that you are not going to charge them 2%. So naturally if you are going to do larger funds, you will have an average rate of about 1.5%. Having said that, given the way that the market is and given that there has been significant noises for regulating the PE sector world-wide – Europe, US, etc., where slowly new rules and regulations are coming in, I think the environment is getting to be much tighter.

So the guys who are high on corporate governance probably would be able to sustain this. Next, of course, there is going to some give and take on the management fees because times have changed and people are whole lot more careful. It is not yet happening to any of the funds that we have raised, but that is not to say that we are not expecting it. We do expect that there will be some push back in terms of fees.

Mr. Pankaj Agarwal: Okay. In terms of carry, you know, carry income, I was reading somewhere that you know the investors are more willing to pay like 1/10 structure rather than 2/20 now. Is it happening in your funds?

Dr. Archana Hingorani: See, all the funds that we have today are 2/20 structures, nearly 2/20, meaning 2% can change to 1.5%. But if you are asking is it that we are expecting this to become 1/10, we are in the market to do soft launches, and we are not expecting that trend to come in at least for now.

Mr. Pankaj Agarwal: Moreover like you know the valuation in listed space has gone up significantly over the last one year. So, probably, you know, the expectations of the promoters might have gone up in the last one year in terms of valuation.

Dr. Archana Hingorani: Correct.

Mr. Pankaj Agarwal: So, while you know, doing a deal you know how do you make sure that you know despite giving higher valuation, you will still generate good returns for your shareholders and for your investors?

Dr. Archana Hingorani: Correct. So, I guess, what is important here is that you make sure that the valuations that you get into are reasonable and reasonable is a function of what is going on in the market, and India, even in the early 90s, I remember, was an expensive market. It has always been an expensive market. The key to ensuring that you have investments that are healthy and optimal from an investor perspective is of course that you need to have reasonable valuation. If those valuation expectations are different, we always have resorted to performance related structures which say that okay only if you achieve ‘X’, will we be able to give you ‘Y’ valuation.

The other way to do it is of course is that we have consistently been ensuring that the teams that we have on the ground also brings in significant amount of deals on their own which are not intermediated, they are not coming through an investment banker, which obviously makes it easier to have a valuation discussion which can be optimal for both sides, and third which is key according to me, I mean, valuation can be, you know, you may want to give up a valuation 5% to 10% here or there. What you don’t want to give up on is the quality of management. If that is what you are comfortable with and you know that you can work with them, key is being able to work with them and not, you know, realizing 6 months or a year down the road that you can’t stand each other. We focus more on that, and I think if you look at our track record, even today, even after we have been exiting in the last 1 year, we consistently have been able to achieve 25% gross and upwards of 2 multiple, which is what we normally promise all our investors.

Mr. Pankaj Agarwal: Okay, and do you just invest in these companies or do you also work with them you know achieving their targets like putting your persons on the board, something like that?

Dr. Archana Hingorani: See, all investments that we do necessarily we will be on the board. There may be some instances where we may not choose to be on the board as a board member because of regulatory or other reasons, but we will definitely be an observer in those instances. 95% of the time we will be on the board as a board member and as part of our documentation, we also make sure that we participate in all important decisions. Having said that, while you have it documented, the key to participating in decisions again is the relationship, so we actively work with the management.

We will not go in and say that I am going to come and run the company, that is not our style. Our idea is to pinpoint management that have the expertise, so we will work with them strategically, help them in any financial aspects, help them in recruitment, help them in connecting them to other investee companies that we have in our portfolio which has similar lines of business. We will do all those things, but we will not do the day-to-day operations, so that is the difference that we have from perhaps other private equity fund managers.

Mr. Pankaj Agarwal: Okay, thank you ma'am. That is from my side.

Dr. Archana Hingorani: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Shalabh Agarwal from Sundaram BNP.

Mr. Shalabh Agarwal: Good evening ma'am. Just a couple of questions. First of all, on this acquisition of Saffron fund. Just wanted to get some more color in terms of their fee structure and how they compare with what we charge to our LPs and you know I basically understand that in this business, the philosophy of investing could be very different from team to team, so how does that gel with the team of the Saffron Fund, and thirdly on that, in terms of what stage the fund is in terms of how much has been invested so far. Have there been any exits so far and how much is uninvested portion of the entire fund that we are taking?

Dr. Archana Hingorani: Sure. Yes, the teams have significant synergies. The investment philosophy is pretty much in line. In terms of management fees, they are like any other fund, average 2%. So, the kind of funds that they have are very similar to us.

Teams also, as I said earlier, because there was synergy and we were able to work together on prior transactions, that is how we got comfortable. So yes the team's philosophy, the view on how to do things is very similar. Having said that, I think they are also very much looking forward to joining our practice so that we can, because of our experience of so many years, I mean, at the end of the day, they started the real estate practice and that is all they know about private equity. They have not actually gone through a full cycle. We bring that skill set to the table for them.

They have done no exits so far. So, that would be one of the things that we get actively involved with them. In terms of funds that have been deployed, about 75% across those funds have been deployed. There is roughly another US$70-75 million available for fresh investments.

Mr. Shalabh Agarwal: Okay, okay, and within real estate, is there any difference in the kind of deals that we have done through our real estate funds and what Saffron does in terms of subsectors or in terms of asset classes?

Dr. Archana Hingorani: Very mild differences, you know, India has been a new sector for real estate, so everybody tries to do opportunistic investment across all sectors, but the thing that stands out about them that they have had the ability to do more retail. They have done residential and retail, let me put it that way. We have done more of residential and commercial, and in residential I believe that what we have done is far more richer in the sense that we have done transactions across the space, SRA, new development, green, everything. So, it is a much wider basket of transactions that we have done, but clearly they do bring skill sets in the retail space which we don't have as much of.

Mr. Shalabh Agarwal: And here also the life of the fund is same 6 to 7 years?

Dr. Archana Hingorani: That is correct.

Mr. Shalabh Agarwal: Okay, okay, and also wanted to check how we would be funding it, all from internal accruals?

Dr. Archana Hingorani: As I mentioned, the nuances of the transaction are under privileged and confidential information, so that is where we will definitely come back to you in the next 45 days to answer all these questions.

Mr. Shalabh Agarwal: Okay, okay, and just wanted to touch upon the quarterly numbers that were, you know, you also highlighted initially about the Standard Chartered Fund because it was an expectation that the fee income from the Standard Chartered Infra Fund should have started coming in, but you said that was offset by the exit in the other fund. So, was that the Leverage India Fund that was exited completely?

Dr. Archana Hingorani: No, it is not exited completely. What is happening is that, yes, the Leverage India Fund is exiting piece by piece in an orderly manner, and as those, obviously once that money goes out, you don't earn fees on it. On the other hand, we have had an increase in AUM through the Standard Chartered Fund, so the revenues and therefore numbers have improved. But if you put these two aspects, the minus and a plus together along with the exchange rate changes, which if you convert into rupees show a negative impact vis-à-vis anything else. I think the key is that when you convert on a notional basis the dollars into rupees, you are seeing a flat picture.

Mr. Shalabh Agarwal: Because the SCI Fund was almost 4 times the kind of Leverage India Fund in terms of size?

Dr. Archana Hingorani: No, but this is not the first quarter that the Standard Chartered Fund has come into the revenue base, right. It started sometime last year, so the additive factor is not accretive on a quarter-on-quarter basis.

Mr. Shalabh Agarwal: Okay, okay, and the last thing I wanted to check is on the balance sheet there was some debtors which have been added, some Rs 27 crores of debtors which are shown.

Mr. Manoj Borkar: These debtors are basically from the Mauritius subsidiary which has been realized in the subsequent month of April. It's a recurring debtor which is there.

Mr. Shalabh Agarwal: Right, and this ICD is to the IL&FS Group, this Rs 32 crores?

Mr. Manoj Borkar: Yes.

Mr. Shalabh Agarwal: Okay, okay, and we earn interest on that?

Mr. Manoj Borkar: Absolutely.

Mr. Shalabh Agarwal: Okay. Great sir. Thank you ma'am for taking my questions and all the very best to you.

Dr. Archana Hingorani: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Rajeev Thakkar from Parag Parikh Finance.

Mr. Rajeev Thakkar: Hello, good evening ma'am. I just wanted to get some details on the Saffron deal. Just I don't know if you could be able to provide it to me or not. Regarding the employees, you said around 17 of them would be joining IIML ma'am?

Dr. Archana Hingorani: That is correct.

Mr. Rajeev Thakkar: Okay, so how this affects the staff cost going ahead. Is it right to say that we consider it from third quarter or the numbers which starts going in from the second quarter itself?

Dr. Archana Hingorani: No, we are going to be able to show second quarter performance including the merger.

Mr. Rajeev Thakkar: Okay, thanks a lot ma'am.

Moderator: Thank you very much sir. Next, we have Mr. Hansar Singh from IDBI Capital.

Mr Hansar Singh: Yeah, good evening ma'am. Just wanted to know what is your sense on the real estate market, different micro markets like Bangalore, NCR, as you know that residential prices have gone up in NCR and Bombay. So, from house perspective, what is your view, which one you find, you know, much in terms of deals?

Dr. Archana Hingorani: See, from a house perspective, since the last 18 months, our view has been that we are only wanting to focus on metros. We will look at metros, we will look at residential specifically in metros. We may do some commercial. We may now start looking at retail because we are bringing in skill sets but otherwise we did not have a great focus on retail, but all of these stories we are more comfortable in the metro regions rather than the non-metros.

Yes, the prices have gone up, but you know, even when the prices fell both in Delhi and Mumbai during the last couple of years, still these markets were the ones that sustained themselves a whole lot better. Tier-II, Tier-III cities, you know, have yet to come back from their fall, so from a strategic perspective our house call has been that we will continue to focus largely on the metropolitan areas. We definitely are in complete love with Mumbai because you can do whatever you want, but in a year or couple of years at best, the market is so resilient it always comes back. So opportunities of course in this city are also significant, so it is of great interest to us. But besides that we are of course looking at Delhi, Bangalore, and Chennai.

Mr Hansar Singh: Okay, and I mean, about Saffron Advisors, can you share us the details about the consideration that has been paid, if it is possible for you to share?

Dr. Archana Hingorani: That is what I was mentioning that it is quite complicated and of course, we have this confidentiality clause. So, we will definitely come back, and I am sure that you will get to know what the full details are in about 45 days.

Mr Hansar Singh: Yeah, thanks ma'am. Thanks, bye-bye.

Moderator: Thank you very much sir. Next, we have Mr. Gyanesh from Intense Securities.

Mr. Gyanesh: Good evening. I would like to know what are the exits that you all have done this past quarter?

Dr. Archana Hingorani: Good evening. I think in the past quarter if you look at it, we have largely been able to exit in our growth private equity vertical. So, we were in JBF for a period of time, which we have completely exited from. We have been doing market exits from Gayathri, which is also investment in the Leverage India Fund. We have recently done a partial exit in Arch Pharmalabs.

So, those are the three. In addition, we have three IPOs coming out in the next 15 days; Ramkey Infrastructure, Gujarat Pipavav Port, and Electrosteel.

Mr. Gyanesh: Okay, and can you give me the percentage of carry that might have generated from these three assets?

Dr. Archana Hingorani: It is too early for carry. We have to first return 100% of capital, so the carry will kick in 2012.

Mr. Gyanesh: What is the impact of the Direct Tax Code if it is implemented, I mean, that in Mauritius, we have funds in Mauritius, and now I think the entity will be taxed because the management formed is in India.

Mr. Manoj Borkar: The structure is, we are only advisors to the Mauritius Fund. We have people sitting in Dubai which is the branch of the Mauritius entity, so they are the people who actually take decisions as a manager of the funds in Mauritius. We legally are only advisors to the Mauritius subsidiary that we have, so the structure point of view what will come out of the DTC is for everyone to see and react, but as of now, I don't think there is any need to worry for us at least because we have reasonable substance overseas.

Mr. Gyanesh: Okay. Are we going to bid for any further acquisitions, any idea what happened with the Axis PE acquisition?

Dr. Archana Hingorani: While so you have seen us little bit active, we participated in the Trikona bid, you know, we did not win it, which is okay. We also obviously participated in the Axis bid and it was in the press. It is still under deliberation. As and when it happens, I guess, both of us will know because it will be in the press before any of us know about it. So, we are very keen to participate in the Axis piece because that is, you know, in our backyard.

Mr. Gyanesh: Okay, so that process is still on?

Dr. Archana Hingorani: So, yes, we are on the lookout, and if there are other acquisitions, we will definitely look at them.

Mr. Gyanesh: Okay and what is the current amount of undeployed funds for IL&FS, all the funds put together?

Dr. Archana Hingorani: Okay, so there is approximately US$50 million in the private equity piece and under US$300 million in the real estate piece and another $300 million in the infrastructure piece. So, about US$650 million total.

Mr. Gyanesh: Okay, alright. Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Mahesh from Gala Bhanshali.

Mr. Mahesh: Good evening ma'am. Ma'am, are we looking for opportunities into the international markets?

Dr. Archana Hingorani: Good evening Mahesh. Yes, as I mentioned, we had made a very small foray in 2006 with a small US$45 million fund called the Pan Asia Project Development Fund, and based on the confidence that we got from it, that is when we decided to do the Standard Chartered IL&FS Infrastructure Fund, which is focused on India, China and South East Asia. So, we have already made that foray.

As a next step, as I mentioned earlier on the call, we now have a beachhead in the Middle East. We are planning to raise funds focused on that region. So, we will be focusing as the first step an infrastructure fund for the MENA region.

Mr. Mahesh: What can be the fund size, any measure?

Dr. Archana Hingorani: Middle East is a new market, so we will probably target around US$400 to 500 million.

Mr. Mahesh: Okay ma'am, and when are the carries going to happen?

Dr. Archana Hingorani: As I mentioned, carries in Leverage India Fund will be the first one to happen, which will be in 2012 and I think the real estate ones will start kicking in, probably towards the end of 2013 onwards.

Moderator: Thank you very much sir. Next, we have Mr. Kashyap Jhaveri from Emkay Global.

Mr. Kashyap Jhaveri: Good afternoon ma'am. I earlier missed on the sharing mechanism thing, 1.5% is management fees, then we return 100% of the fund to the investors.

Dr. Archana Hingorani: Yeah.

Mr. Kashyap Jhaveri: If I have heard properly the hurdle rate would be between 8 to 11 odd percent.

Dr. Archana Hingorani: That is correct.

Mr. Kashyap Jhaveri: And post that, the sharing happens in what ratio on a ballpark basis?

Dr. Archana Hingorani: 80:20, 80 to the investor and 20 to the firm.

Mr. Kashyap Jhaveri: Right, okay, okay, and of the total funds that we manage, I think the number would be about US$3.2 billion?

Dr. Archana Hingorani: Yes, it is US$3.2 billion today.

Mr. Kashyap Jhaveri: Okay, and of that, what would be the portion between debt and equity?

Dr. Archana Hingorani: No, all are pure equity funds. We do not have any debt funds.

Mr. Kashyap Jhaveri: Okay, okay, and you know, let us say there is a private equity guy who thinks that probably the gross return on a particular fund is XYZ%. Should one assume that the investors have been paid out the initial 100% of the investment?

Dr. Archana Hingorani: No, it just means that when I am saying gross return, I am just saying that I am aggregating all the exits that I have done and on a gross basis the word gross is because it is not net of management fee. Normally from the gross you need to minus anywhere between 400 to 500 basis points to get net.

Okay, so a fund that is doing 25% gross…..will probably do about anywhere between 20% to 21% net. And then on that net number is where you minus out your hurdle rate and then you start sharing 80-20.

Mr. Kashyap Jhaveri: Okay, okay. So, in many of our funds where we have said that, you know, let us say, AIG Indian Sectoral Fund where we say that the gross return is about 27% odd, that would be let us say something in the range of about 22 to 23 odd percent?

Dr. Archana Hingorani: Yeah, finally in the hands of the investors, it would have been about 23%.

Mr. Kashyap Jhaveri: Okay, okay, and you know, wherever there is let us say gross returns, there is a quite likelihood that carry can be taken by the management company?

Dr. Archana Hingorani: No, because if I say the gross return is 10%, then where is the carry. Gross return has nothing to do with carry. It is just a measurement.

Mr. Kashyap Jhaveri: Right, right, right, and if I heard this correctly, I think you mentioned that in Middle East there is I think one fund which is coming up, which could be about 400 to 500 million dollars?

Dr. Archana Hingorani: Correct.

Mr. Kashyap Jhaveri: Okay, okay. Okay, sure ma'am. That is it from my side.

Moderator: Thank you very much sir. Last question comes from Mr. Ami Shah who is from LKP Shares.

Ms. Ami Shah: Good evening ma'am. I just wanted to actually understand one thing about the acquisition that how is the organization structure of Yatra and what exactly I mean is the relationship between Saffron and Yatra. What exactly have we bought out, you know, because I have just checked up Yatra Capital on Euronext. It seems to be a big company and I think more than US$400 million is what they handle. So, I am just not able to, you know, figure out the exact structure and what exactly have we acquired?

Dr. Archana Hingorani: See, first of all, we have not acquired anything. We have merged. Second of all, Yatra is like a…think about it like a contributor, okay? So, it is a one big contributor whose money we are managing. So, Saffron is the asset manager to Yatra and we have merged with Saffron because of which we will be the fund manager for Yatra, as well as another unlisted fund which is called SIREF, which is another US$100 million. So, Yatra is equivalent of…..it is a Euro currency based fund, which is equivalent of US$300 million and another US$100 million is with Sires, that is how the total funds under management with Saffron, the investment manager, is US$400 million.

Ms. Ami Shah: Okay. Just one more thing, so whatever value that we see on Yatra which is traded on Euronext, is the same what we actually are managing now?

Dr. Archana Hingorani: No, that is just the NAV and that is based on trading, liquidity, ill-liquidity, etc. That has nothing to do with the value of the portfolio. The value of the portfolio will be as and when you exit and you return the money back and when it is re-invested, etc. So, that is some time away.

Ms. Ami Shah: Okay. So, basically the other thing that I wanted to ask you is that how old the funds are that we have acquired….we have merged with us?

Dr. Archana Hingorani: I think SIREF is less than…it is about a year old. Right and Yatra has completed three years.

Ms. Ami Shah: Okay. So, Yatra, I mean, next three to four years, it will be in the exit mode, right, or are they very long-term funds?

Dr. Archana Hingorani: No, no….as I mentioned earlier on the call, these are all seven year based funds with the ability to redeploy capital.

Ms. Ami Shah: Could you just elaborate this redeploy, because I am just trying to understand that how can this benefit us because it is listed?

Dr. Archana Hingorani: There are two aspects to it, one is of course, when we exit, that money can be re-invested. Second is that, as and when we want to raise fresh capital, we can use that platform to do either a follow-on issue or a rights issue or do a new class of shares. We can aggregate very quickly. It would take less than two months to add a new capital base through that structure.

Ms. Ami Shah: Okay. So, then in this kind of a fund suppose say when we have a carry or when the fund kind of expires, how is the distribution of carry would be done, I mean, is it going to be through dividend kind of a thing or the fund will cease existence after that number of years? Is it going to be through dividend kind of a thing or the fund will cease to exist after that number of years?

Dr. Archana Hingorani: It won't be distributed, because the carry is to us. Carry is not to anybody else, okay. So, the carry will come to the fund manager. Right, so it will come to us at whatever point in time we try to exit from, fully it gives 100% of that particular tranche back, the carry will start kicking in.

Ms. Ami Shah: No, if you take it from the investors' perspective then?

Mr. Manoj Borkar: If you trade it on Euronext, if they want they can always liquidate on the stock exchange. It is just like any other fund where you have to return the money, the best part is they have a trading platform where they can go and sell the shares.

Ms. Ami Shah: But as ma'am said in the call earlier also, it is a close-ended fund, so on the expiry the fund would cease existing, right?

Mr. Manoj Borkar: No, the fund will continue to reinvest. There is an investment cycle of 7 years. So you complete that, then whatever funds are returned have the ability to be reinvested. It need not be returned to the shareholders of Yatra.

Ms. Ami Shah: Okay, okay, I got the point. The other thing is how much will the employee cost addition would be?

Mr. Manoj Borkar: Numbers as Archana mentioned is something that we will not be able to disclose at this point in time, so I think in the next 45 days we should be able to come to you with the full details on the merger.

Ms. Ami Shah: Okay, okay, that is it from my side, thank you.

Dr. Archana Hingorani: Thanks.

Moderator: Thank you very much ma'am.

Dr. Archana Hingorani: We would like to thank everybody for joining the call, and we look forward to doing many more of these in the ensuing quarters. Thank you.

Moderator: Ladies and gentlemen, thank you for choosing WebEx's Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.