



| Private Equity

IL&FS Investment Managers Limited

“IL&FS Investment Managers Analyst Call”

July 27, 2011

SPEAKERS: DR. ARCHANA HINGORANI – CEO, IIML

MR. MANOJ BORKAR – CFO, IIML

IL&FS Investment Managers Conference Call

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Moderator: Ladies and gentlemen good day and welcome to the IL&FS Investment Managers conference call hosted by Genesis Burson Marsteller India Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference please signal an operator by pressing "*" followed by "0" on your touchtone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Dr. Archana Hingorani. Thank you and over to you madam.

Archana Hingorani: Good afternoon everybody. Thank you for joining us on this call. We are here today to discuss the Q1 Results, which I am sure are already with you. If you note the revenues on a consolidated basis are Rs.53 Crores up from just like quarter last year by 23% and PAT at Rs.17.3 Crores down 3% from the like quarter last year. However I think the last like quarter may not be a direct comparison because it does not include the acquisition numbers, which happened in Q2 of last year. So one needs to keep that in account in the revenues have also gone up so have the expenses both in an amortization all three in line with the fact that we did the acquisition last year.

As far as operating performance goes we have done fairly well both in terms of investments, which if you recall we have three funds that are under deployment Tara III, Real estate fund II and infrastructure fund, Tara III today stands fully deployed we did two investments in this quarter. We have about 150 million odd available from fund two real estate, which should be fully deployed by December. Similarly we have about 200 million plus available in the infrastructure fund, which will also get fully deployed by the end of this year meaning December.

So on the investment side we have a very good pipeline we should be able to complete those targets. On the exit side I think we have started the year fairly well. We had four exits in the first quarter, three of them partial, one full exit and three partial happened to be in the real estate space, which is

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very encouraging for us long-term real estate business as you know that this sector is not giving too much return back to investors.

On the operating front monitoring etc., we have a large portfolio. We have more than 100 plus investments today, which are in management mode. Over there life is not as easy, continuing pressure inflation interest rate specially the last round of 50 basis points, world economy is not doing well I think intrinsic businesses are going to see some slowdown, which is also some manifestation of the fact that we have not had significant policy decisions from the government for the last six months.

We have put all of that together and on the underlying investments existing investments there is significant amount of work that IIML needs to do in terms of maintaining the ability of these underlying investments to do well. Similarly on the fund raising process we have a very active pipeline this year for fund raising. Please remember we started fund raising in January of this year in line with the fact that we would have completed more than 75% of older funds in those categories, so we launched Tara India Fund IV as well as the joint venture with Milestone.

We recently in March launched the pipe fund all three are on the road. We have had some success with the Milestone fund at about \$50 million with the Tara fund at about \$40 million and Pipe Fund is fairly new but we do expect a \$40 to \$50 million close for that fund by September or early October.

We also have two to three funds in active pipeline on the infrastructure side, which will all start getting marketed in the second half of this fiscal; however, as I mentioned even last time on the call there is a significant time lag in terms of investors agreeing to come into new fund partially due to the financial crisis, partially due to the fact that they themselves have more severe stringent processes of how to evaluate new fund and of course also to do with the fact that in some total in the last five years return generated out of India have not been as per expectation meaning they have not been the 25% they were promised they are much better than

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international markets. They are getting 2% to 3% returns. India is showing 12% to 15% returns but I guess that 12% to 15% although very good compare to other markets does not stack up to the 25% that was expected and it is natural that did not happened last two to three years because of the financial crisis and the economic conditions we ourselves have not been exempt.

So all told for the fund raising process is on very active. A great amount of focus for the company on it but it will take some time to mature. That is what we have to present to you today. I am happy to take specific questions on numbers as others anything else that you may have.

Moderator: Thank you madam. The first question is from the line of Anuj Anandwala from Parag Parikh Financial. Please go ahead.

Anuj Anandwala: Could you just give us the top-line and bottom-lines for Saffron for the first quarter?

Archana Hingorani: Yes, the top-line was 83 million.

Manoj Borkar: The expenditure is roughly around 59 million.

Anuj Anandwala: Okay and what is the bottom-line.

Manoj Borkar: Bottom-line will be 24 million.

Anuj Anandwala: Okay sir and one other thing is with regards to the other income there is a steep jump in the first quarter what can we attribute this to?

Manoj Borkar: See other income is basically if you look at the consolidated results in the income which is there in the subsidiaries also get merged and on a comparative basis like we did not have the Saffron entity in the Q1 we did not have the Standard Chartered JV in Q1. So this is more of the consolidation effect of the additional two JVs one JV and one subsidiary.

Anuj Anandwala: Thanks a lot. I will come back if I have more questions. Thank you.

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Moderator: Thank you. The next question is from the line of Amit Ganatra from Religare AMC. Please go ahead.

Amit Ganatra: Yes, in the opening remarks you mentioned that the rate of returns that international investors have experienced from India has been around 12% to 13% but in your business module would not you mentioned that your IRRs have been basically greater than 25%?

Archana Hingorani: Yes, that is historical going forward what they were looking at correct. Historically yes we have given 25% gross and when I said 12% to 13% that is on a net basis so what you see in our presentation is the gross return because it differs from in fund-to-fund has to what the net returns. Normally gross returns are around 25% the net returns are around 20% to 21%. So when I am saying 12% to 15% it means that on a gross basis they must have generated are 17% to 20%.

Amit Ganatra: So incrementally it is not basically last one or two-year experience for you also has been 17% to 18% I mean the gross returns?

Archana Hingorani: No, it has not we have been able to get around 20% plus returns but I am just saying that we are going by what has happened worldwide but specific investments is not what they are going to look at.

Amit Ganatra: I mean on the other hand I mean looking at your track record relatively you should be better of right in terms of your ability to raise funds.

Manoj Borkar: Yes, from the track record point of view yes, past performance is there but as Archana mentioned it will be the current economic scenario based on which you will be able to manage some exit and for the older investment definitely we will target more than 25% but it all depends on the market scenario.

Amit Ganatra: Second question was on the revenue. You mentioned something about how revenue accrues to you. There is it mentioned that the IIML shareholders will do 6% of the profits that accrue over the hurdle rate, so is it basically 6% of the profit share. Who basically gets the rest?

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Manoj Borkar: As a business model we have an annuity sort of a model, where we get management fees regularly over the life of the fund and we have a share in the profits above a particular hurdle rate, which is different for each of the funds and that share of profits is around 20% of that profit above the hurdle rate and as for the policy currently being adopted by the board, 70% of that carry for the team and 30% goes to the shareholders. So that is what it is.

Amit Ganatra: So 30% of 20% is basically will lead to 6%. Thanks a lot.

Moderator: Thank you. The next question is from the line of Dimple Seth from SKS Capital. Please go ahead.

Dimple Seth: Just wanted to know what is the amount of fund raising that you are expecting for the whole year?

Archana Hingorani: Very difficult question to answer. As I said we have three funds already in the market. All of them have a target of \$300 million each, so if all of it was to happen within the year, it could reach \$900 million but I very much doubt that we will be able to collect all of it in this year given how slow it has been. So it is very difficult to answer that question. Our target is to at least try and see if we can get about \$200 million by the end of this year additional to what we already have.

Dimple Seth: If you could throw as to when the scenario where interest rates of increase and even the REPO rate and everything has increased how is it affecting our business?

Archana Hingorani: As I said it is not affecting our business directly in the sense that if you know that we have an annuity locked in contract from that perspective it is just not an issue from an IIML perspective but as I mentioned earlier we do invest in all companies that are in a mid market space and these companies rely very heavily on bank debt. So obviously when there are such increases that are happening, It just makes it difficult to run those businesses on the same margins that they were having earlier. So that definitely is an issue, which is an issue for the rest of the economy. So when you are going into-

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you already have investments that are existing. It will take longer to get to the target set for them in the first place. That is where the issue is. From our business perspective that is where we are seeing the biggest challenge.

Dimple Seth: Madam, how many funds and have you exited in the investments over the last six months?

Archana Hingorani: As I mentioned in my call in the last quarter we have done four exits, one from the growth private equity space and three partial exits in the real estate space.

Dimple Seth: Going ahead do we expect the 25% IRRs return?

Archana Hingorani: It will depend. It is not that you get 25% IRR on each investment. What we have seen thus far we are around 21% to 22%. Some of them have them higher, but I am saying on an average that is where it is.

Dimple Seth: Do we hope to sustain this runrate?

Archana Hingorani: Let us just put it this way that the targets that we have set for ourselves this year, the exits that we would like have that kind of result.

Dimple Seth: If you could throw light on the number of exits you are going to make over the financial year?

Archana Hingorani: Again difficult to assess because sometime you will sign a document and it still does not happen we are done four this quarter we should expect overall over the years to do totally about ten exits.

Dimple Seth: Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Ashi Anand from Kotak India. Please go ahead.

Ashi Anand: I have few questions. First of all on the fund raising, you mentioned 40 million in Tara IV and 50 million in the Milestone JV. Have these been the first closes which have been taken?

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Archana Hingorani: We have taken them, but you know we do not really want to announce them as first closes because that sort of potential investor who is ready to come in the next one or two months then shies away from it and says okay whenever you have to do the next close I will come in. So we obviously decided that kind of behaviours so that is why while we have closed from a technical perspective in order to be able to recognize the cost that have already happened for those funds will not going around saying that this is the first close because we would like some people to continue to come in.

Ashi Anand: So we are likely to do multiple closers for these funds?

Archana Hingorani: That is right.

Ashi Anand: Perfect. You have kind of mentioned the \$300 million was your original kind of targets that you had set on each of these funds. Now the global environment and the domestic environment have both changed quite significantly. Realistically how much do you believe are likely to be the kind of final closes?

Archana Hingorani: I think realistically we will get to those numbers. The question is how long will it take. If you remember in 2007-2008 when we raised funds it was 9-12 months. But that paradigm is not there anymore. So I am saying that you will get to that number but it will not be within this fiscal.

Ashi Anand: So it could take around 20-22 months?

Archana Hingorani: We are hopeful that it should be over in 18. Rather than the original 12 that used to happen earlier.

Ashi Anand: But the targets are to reach around 300 Tara IV, JV with Milestone and the Pipe fund?

Archana Hingorani: That is right.

Ashi Anand: Excellent. You kind of mentioned two infra funds just to clarify one is the Middle East Infra Fund and one is the Domestic Infra Fund, right?

Archana Hingorani: That is correct.

Ashi Anand: Fine and the Domestic Infra Fund have you yet taken a call on how we are likely to go with StanC or are we likely to go alone?

Archana Hingorani: This is going to be a domestic fund so on that particular one we are going to go by ourselves. We want to change the business model a little bit in the sense that we do not want to be a me too fund because there are so many others who are also offering infrastructure money. We want to do it a little differently. The one that we have done is Standard Chartered was focused only on core opportunity because the pension funds are invested in that particular fund only who want to do core and that restricts you from doing other infrastructure opportunities so this particular fund will be much broader with a slightly better ability to do many infrastructure sectors, so we are not going to be doing this with anybody. We will do it in-house and we have soft launched this fund not formerly launched it. We are taking it around to domestic institution investors right now, and based on that feedback we will then go out and announce it officially and put it out in the market.

Ashi Anand: Given the fact that the space is a much larger space though it is very early, but what kind of targets could you have on both of these funds in the domestic and Middle East Fund?

Archana Hingorani: I think we should be conservative in target may be 400-500 million a piece.

Ashi Anand: Even the Middle East should be that large?

Archana Hingorani: Yes, it should be about that should be more like 400 and the India one should be more like 500.

Ashi Anand: Fine. Just while we are kind of raising funds are we getting pushed back on fees, because what we are hearing in the market is that LPs are getting very stringent about at least the management fees because they are trying to get those down?

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Archana Hingorani: If you see the ILPA provisions etc., that have come out yes, there is a pushback but what we have closed that far we have not had that pushback.

Ashi Anand: What is closed so far we have got it on broadly similar lines to what we had earlier?

Archana Hingorani: Yes.

Ashi Anand: Fair. Perfect. Just a few other questions, on exits on real estate would it be possible to give us the three partial exits. What was the total quantum that we actually managed to raise from this exit?

Archana Hingorani: You will have to wait for a minute.

Manoj Borkar: We will come on that.

Ashi Anand: Just in terms of guidance our going forward for both real estates and for real estate fund one and for Tara what are our expectations in terms of by when do we expect to return all capital and over what timeframe should we expect to see carries starting to flow through?

Archana Hingorani: On Tara III we get fully invested so I think carry is sometime away.

Ashi Anand: Tara that we are currently exiting, not on the new Tara?

Archana Hingorani: You mean the Leverage India Fund

Ashi Anand: Yes, Leverage India Fund

Archana Hingorani: We expect a very miniscule amount of carry in the last quarter of this fiscal after which in FY'13 we should see some additional carry. So carry should start kicking in by the end of this fiscal.

Ashi Anand: How about in real estate?

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Archana Hingorani: Real estate I think we are still far away because we have have done partial exits you know the total corpus is \$525 million. Still some time away. I would say that maybe FY'14 is where you can see something in that.

Ashi Anand: Sure. FY'14 perfect, just one last question with relation to the exits. On any of our funds are we reaching a time when we are likely to be forced to exit or do we have enough time left on both leverage India fund?

Archana Hingorani: No we are very comfortable on all our funds nothing is ending really quickly. I think leverage India fund also it is still FY'2012 and of course we have the ability to extend if we need to but I do not think we are thinking of extensions for any of our funds. We are quite comfortable right now in achieving that, We should be able to give the money back within the stipulated lifespan.

Ashi Anand: Excellent. Just a couple of quick book keeping questions. If I am just looking at the Q1 results with the Q4 results the employee cost has gone up from about 11 Crores to about 13 Crores and depreciation has come down from about 7.5 Crores to about 5.7 Crores. If you could just explain these two line items?

Archana Hingorani: Depreciation has come down because one of the funds, you know, when you raise every fund we have placement cost that gets amortized, sorry depreciated over a period of five years. So one of the funds has completed that five-year period so we no longer have that depreciation cost.

Ashi Anand: So should we take the current quarter's depreciation as the likely depreciation going forward for this year?

Archana Hingorani: Yes.

Ashi Anand: Perfect and on the employee cost?

Manoj Borkar: Employee cost basically the Saffron cost would have got added in this particular quarter, which should not have been there.

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Ashi Anand: But should have been in Q4, right?

Manoj Borkar: Yes, but that was an additional number because it was basically for the eight months period, five months period I think. Are you comparing it with Q4?

Ashi Anand: If I look at my Q4 number my employee expenses were 11.1 Crores and Q1 FY'12 it has gone up to 13 Crores?

Archana Hingorani: Most of it is salary increment, which happened. Our salary increment on average was about 8%. So 8% increment is because of that. Further there had been an higher provision being made in the previous quarters for Gratuity and PRP. This was reversed as the PRP numbers were expected be lower. This reversal has therefore deflated the previous quarter's numbers. The combined effect of Increment payouts and reversal of excess provision has impacted the variance. We expect that all these factors having been adjusted we should see a return to a normalized run rate from next quarter.

Ashi Anand: Was there any bonuses in this quarter?

Archana Hingorani: The bonus is already taken care of.

Ashi Anand: Perfect. Thanks a lot.

Moderator: Thank you. The next question is from the line of Shreyas Bhukhanwala from Sushil Finance. Please go ahead.

Shreyas B: I just want to know when can we start accruing management fees for these three funds, which we have partially raised?

Archana Hingorani: You will see some accrual of fees from this quarter September quarter onwards.

Shreyas B: This 50, 40?

Archana Hingorani: 50 for sure and its entirety 40. It depends on how we are bringing in other investors.

Shreyas B: So as of now we closed the fund like say first closure, or second closure we start accruing management fees from those funds?

Archana Hingorani: That is correct.

Shreyas B: Thanks Madam.

Moderator: Thank you. The next question is from the line of Anuj Anandwala from Parag Parikh Financial. Please go ahead.

Anuj Anandwala: Madam regarding the debt if I am not wrong we had taken a 25 million offshore debt for Saffron?

Archana Hingorani: That is right. 20 million.

Anuj Anandwala: \$ 20 million and we had said that the repayment should have started from March 2011. Would it be possible for you to share the number as to how much has been repaid?

Archana Hingorani: \$3 million has been repaid going forward repayment plus interest should be about 2million per quarter.

Anuj Anandwala: 2 million per quarter repayment plus interest.

Archana Hingorani: Correct.

Anuj Anandwala: Thanks a lot.

Moderator: Thank you. Madam there are no further questions at this time.

Archana Hingorani: Thank you everyone for participating.

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Moderator:

Thank you, madam. Ladies and gentlemen, on behalf of Genesis Burson Marsteller India Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.