



**“IL&FS Investment Managers Limited Q1 FY13
Results Conference Call”**

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Moderator: Ladies and gentlemen good day and welcome to the IL&FS Investment Managers Q1FY2013 Analyst Conference Call. As a reminder for the duration of this conference, 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 this conference, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Dr. Archana Hingorani. Thank you and over to you.

Archana Hingorani: I welcome you to the conference call for Q1. Let me start off with the financials first and then we will talk about the operating environment. From this quarter onwards as per SEBI requirements, we have also started reporting previous quarter which I would like to remind you is not comparable, because it is normally always better than all three quarters. So we are going to continue our comparisons on a like period quarter-wise analysis.

To begin with, the quarter performed as was planned which is pretty much Q-on-Q like last year, a mild improvement in the bottom line of about 5%. Consolidated revenues were up at 10%, 58.2 crores. The increase of 10%, some of it comes from our ability to earn dollar income. Other income has also improved. Some local subsidiaries have started showing better results. Consolidated expenditure including interest depreciation and amortization was up by 8%. Movement in dollars, again on the negative side has impacted for the cost portion of it and there have been some marginal increases in employee cost. We have kept employee increment on a tight leash ever since last year. This year also we have just announced an increment of an average of 10% for the firm. Last year, it was at 12%.

Consolidated net profit as I said is up at 5%, 18.1 crores. We are expecting that based on small fund raising successes that we do target for this year, we should be able to maintain the outlook as of last year. Consolidated EPS for this quarter stood at 0.87, compared to 0.84 for like period last year. Environment, I think most of you are much more aware of what is going on since you all track capital markets. Last quarter has been the worst in 9 years and obviously the situation does not go well when you are out in the market trying to raise money. In addition with GAAR as well as other regulatory measures not coming into place, we already have investors who are nervous not wanting to look at India. In fact many people have started question the reason for the India to be part of the BRICS story when it really is not performing. This all adds up in the minds of investors. However, that does not mean that investors are not looking at India, we are still getting good traction with investors in the sense that they all are willing to look at India based transactions especially for the funds that we are raising right now, one of them in particular, we hope to have some kind of a close in this quarter ending September. There are other long-term institution investors who are obviously moving away from the typical fund model and are also looking to have direct relationships with fund managers like us. What that would mean is supplemental addition to revenue model for us which we have been trying to focus on directly with investors who want to look at specific assets and obviously, there would be much more involvement of those investors in managing those assets. But in our head , it could be incremental business model to what we

already do. Of course, the Euro zone has not helped; everyday things keep changing over there that is on the fundraising bit. But in terms of investing, I think it is probably the best time to invest. There is a huge shortage of capital in the country, wherever we have the ability we have monies right now in infrastructure and real estate and we are avidly looking to deploy capital. Real estate is fully committed, but still we are trying to make sure that the investments that we are committed to are coming to us at the best deliverable valuation. On the infrastructure side, we are keenly looking at investments. Infrastructure, please remember we do investments in India as well as in Asia. We have actually invested in the last quarter in an Indonesian company on the infrastructure side. Exit markets, again continue to be very challenging, but we have had some success even in this quarter based primarily from the cash flows that we obtained in the real estate space largely, which is bringing back returns to LPs in our various real estate funds. We have managed to exit roughly 65 crores in the last quarter and then investments of about 250 crores odd.

Again exit traction as I said is there, but it is long term within every exit instead of being a traditional 3-4 months, the time period has stretched to 6 months upwards. It is a function of two things, one of course is the fact that the buyers, if you are on the buyer side and you are becoming more and more diligent about the kind of assets you are buying, you are taking longer. On the other hand, you also have the whole regulatory environment that has changed and in some instances, you need to go back to government to redeploy capital back out of the country which is adding on to the ability to exit quickly, which means longer timeframe, which means although you may have locked in particular asset values to exit at, the timing becomes uncertain and therefore the returns can be impacted even after you have agreed up on with the future investor. As I mentioned last quarter also, we have two funds under active marketing one is the Tara India Fund IV, which is the growth private equity fees and an offshoot of that is the PIPE fund both are in the market. One of them, specifically Tara, we have targeted and are close to announcing a close in this in the coming this quarter. We are in the process of completing documentation and due diligence with investors.

On the PIPE Fund, we have had a fair bit of success in talking to Middle-East investors, which is what I have mentioned the last time. However, given that this is the Ramzan period, we are not able to quickly close this quarter. Probably starting September, we will start to see some closings happening on the PIPE Fund.

The third fund that we are targeting is the Middle-East fund which is right now just starting to start marketing for the fund, again it is in the Middle-East, so we will have to take the Ramzan period into account before starting full-fledged marketing. While the operating environment continues to be severely challenging, there are ambiguities in the macroeconomic and fundamental aspects of the economy which need to be corrected, which is I think moved on from being just a short-term problem to a medium-term problem. It has been going on for the last 18 months and we have not seen anything to reverse the trend. However, many of the companies that we have invested with, their fundamentals continue to remain strong which indicates that if the government acts as soon as possible, there is a significant chance of a turnaround. Long-term story obviously is there. So while it looks positive from two years

down the line, currently it does look quite challenging. Hopefully, we will have better news for you in the next quarter once we start to see some of our funds close. Thank you.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of BP Rajesh from Banyan Capital. Please go ahead.

BP Rajesh: On the investment side, what was the earning AUM at the end of this quarter?

Archana Hingorani: 2.45 billion.

BP Rajesh: And then as you seem to be exiting more than the new funds coming in, do you see the management fee income sort of stabilizing in the next quarter or the quarter thereafter?

Archana Hingorani: See, the way I am seeing it is, yes, we are having some exits come out, so there is a fall in AUM at one level, but we are also getting small trickles of capital coming in during this year plus the fact that we do have an exchange rate advantage. If you put all of that together that is the reason we think that we will have a stable annual number very similar to last year.

BP Rajesh: And then secondly, as you talked about a couple of funds that you are in the middle of raising, so with respect to Tara, will it be the second close or this is the first close, which I think is roughly about 60 million or so?

Archana Hingorani: Yes, it will be the first close; it will not be the second close. We have been holding on to make it a first close to show that the number is relatively good enough to start, investing a smaller number does not make sense.

Moderator: The next question is from the line of Viraj Mehta from Equirus. Please go ahead.

Viraj Mehta: I have a quick couple of questions, one, you mentioned Tara IV that you are trying to raise, what would be the quantum of the first close?

Archana Hingorani: It is a little bit unpredictable at this point in time .

Viraj Mehta: Yes, but I was just checking what is the ballpark number?

Archana Hingorani: Ballpark should be around 60 million USD.

Viraj Mehta: And with the kind of exits that we are seeing this year, would it be fair to assume that there will be shrinkage in the total AUM that we will be managing by the end of next year than what we were by the end of FY12?

Archana Hingorani: Probably not, that's what I was trying to explain. The new funds that are coming in are not going to be of the same revenue capacity as the old funds because the trend is towards lower fees, right. So while the AUM, I think will cancel out. The income from the fresh funds will be

a little lower, but because we also have an exchange rate advantage, net we will get compensated in a manner that the revenue profile remains pretty much the same.

Viraj Mehta: So what would be on an average our management fees on the complete total AUM of say \$3 odd billion?

Archana Hingorani: Well as of date, it is around 1.4%.

Viraj Mehta: And you see that going down over a period of next 2-3 years?

Archana Hingorani: Let me explain, on the infrastructure and real estate side, we were never at 2% because infrastructure and real estate funds being large, you always have a graded structure where larger investors pay smaller fee and smaller investors pay the top end, 1.75% – 2%. Now, this same trend is now walking into growth private equity where first time and larger investors are demanding that they should also get similar treatment as counterparts in other areas of fund management. Now, for us our business model is not terribly skewed to growth private equity. So, while yes we are raising new funds in the growth piece, it will have a similar profile now going forward in terms of fee structure, which is that earlier what used to happen is that in growth private equity because fund sizes were small, you could manage to convince investors to pay a 2% fee, that is no longer the case because they know that their counterparts get lower fees for larger amounts and therefore that same trend we are expecting in the growth private equity side. So, my expectation is that on the growth private equity fee, instead of 2% average fee, just on that fees, not overall, you will see a trend of about 1.5% fees coming into play, because your larger investors are paying smaller fees.

Viraj Mehta: So anyways that will take down the number from 1.3% that we are currently getting ?

Archana Hingorani: In the marginal right, because you are probably on the whole for the year, full year earning fees will not be more than \$100 million right. That in a pool of 2.4 should not make that much of an impact.

Viraj Mehta: Yes I know, as in overall chunk, it's much, but the incremental delta would be lower as well?

Archana Hingorani: That is correct.

Viraj Mehta: Also what I wanted to understand is currently how many people would we have in our team, I mean the pool size?

Archana Hingorani: I think last count, we were about in total across all pieces, which is we have an international piece, we have an India piece, International piece etc, we are about 80 people.

Viraj Mehta: Why I was asking is, are we recruiting, would we add it to our bottom-line or at least still now we are on freeze?

- Archana Hingorani:** See, what we have been doing in the last two years, we have not added any new people. We have instances where some people have left and we have not replaced. We were doing over the last 18 months or so where we actually didn't recruit from outside, we just started adding responsibility to people who have capacities and were much more capable.
- Viraj Mehta:** So is the headcount for the entire company coming down over the last two years?
- Archana Hingorani:** If you look at the fact that we didn't replace people, yes, that will be correct. But I am saying that we have been doing that for the last 18 months. I don't think it is possible to continue that strategy any longer because capacities are completely full and if there is anybody who is leaving for a better career somewhere else then we do see that we will be doing replacement. We don't think that we need to do anymore additions, where there is still sufficient ability within the team but if there are any exits, we will do replacement from now onwards.
- Viraj Mehta:** Sure, because what I was trying to understand that with the kind of business that we are in for any additional capital that comes into the business, the number of people will not go up in the same ratio. So, I just wanted to understand from your side, do you see the same way that currently we would get \$2.4 billion as you said, right? Now, if that goes to let's say over a period of 3 years close to \$4 billion, the environment improves, everything improves, would the headcount increase in the same way?
- Archana Hingorani:** The headcount will never increase in the same way because you already have a very strong base. The last time headcount went up in a meaningful way was when we started the real estate vertical.
- Viraj Mehta:** It was between 2005 and 2008 that the headcount went up drastically, right?
- Archana Hingorani:** Correct, so we don't expect to be increasing headcount by any significant number at least in this fiscal.
- Viraj Mehta:** Yes, but I was just trying to understand the overall business part of it, because in this fiscal, I don't see many things changing anyways.
- Archana Hingorani:** If your question is, are we going to dramatically go from 80 to 120 in the next 2-3 years, the answer is no.
- Moderator:** Thank you. The next question is from the line of BP Rajesh from Banyan Capital. Please go ahead.
- BP Rajesh:** Couple of quick questions. In terms of the exits, what was the average IRR generated on these exits? Where I am going with it is that what will be the carry that will flow?
- Archana Hingorani:** In fact it is a difficult question to answer, the exits actually are from three different funds. So really I cannot answer that question for you. Average exits, they have been all the way from zero where we have returned full capital, but could not get any return further than that, all the

way from that which is a very small number to approximately 20% odd return. So, it varies completely depending on which transaction it is.

BP Rajesh: So I guess is it fair to assume for the next three quarters, there will not be any carry income coming into the P&L?

Archana Hingorani: Okay, so let's go back to what we discussed the last time. The only fund that is becoming eligible for carry and you have to go fund-wise, you cannot say that there have been four exits, so where is the carry, it has to be fund wise. The only fund that is gestationally mature for a carry is the Leverage India Fund. We had discussed this the last time and I had mentioned that we are waiting for the next set of exits to be able to get into carry mode. The investments that have been targeted for those exits are currently awaiting regulatory approvals to exit out. Once that happens we will be in carry mode. It will not be a large carry because it is just starting off. But we will be touching carry numbers, starting this perhaps in last quarter of this year.

BP Rajesh: Okay, so if I just do the back of the envelope calculation at 1.4 management fees and I want to make sure I am getting this Math right, with 2.4 billion, you probably be doing about 34 million of management fees for the year, is that the right way to think about top-line?

Management: Yes, I think that should be fair.

BP Rajesh: And let's assume that everything else being constant and you producing about 40% EBIT margin, is that the sort of kind of numbers we can continue to expect or there are some one type catch-up items in the expenses that could come up because of the fundraising and other things that have not been discussed?

Archana Hingorani: Fundraising, until and unless you abort a fundraise that expense never comes to the P&L, for prudence, we always take it out quarter on quarter and we write it back as soon as the fund is raised. So, I don't expect such an event to happen. So we are expecting that as and when these funds close, you would be able to write it back and the fact that we are taking it out from the P&L on a consistent basis, so there are no surprises on that aspect.

BP Rajesh: So when the write-back happens that will be happening on your legal and professional expense line item or some other places?

Management: Mainly on legal and travel.

BP Rajesh: So, what I am hearing is that overall even though the AUM has come down materially from the last fiscal year end, given what you have in the pipeline and the way things are progressing, this could be a more profitable year?

Archana Hingorani: No, I think there are two corrections there; first, AUM has not come down materially. Earning AUM was 2.6 last year and it is 2.4 right now, so it has not come down materially. Our gross AUM is the same which is what gets reported in the paper at 3.2. But the earning AUM has been 2.6 which is now 2.4 and I don't think I would venture to say that we will be much more

profitable as I said earlier. We expect that because of the small raises and the small successes that we have in fundraising and the fact that we have been able to be on the right side of the exchange rate, we expect profitability to get maintained.

BP Rajesh: And then in terms of the current figure of un-deployed fund out of this 2.4, and 2.4 is the one which is earning fees, so should I assume that about 800 million is still to be deployed?

Archana Hingorani: No, I don't think you have understood the definition of gross. Gross AUM is actually a misnomer as far as the P&L goes. It is an industry measure of what is the track record of the fund manager. Therefore, if you ask anybody they will give you the gross AUM number, which basically says that from start of our practice, what is the total dollars that you have had under management, but from a P&L's number that 3.2 has no validity. What is valid is the earning AUM and that earning AUM includes funds that have not been committed. The business model of private equity includes fees on anything that is yet to be committed until a certain period of time. So we are earning fees on all those numbers. We have the capacity still to withdraw another 150 in the real estate space and approximately 200 in the infrastructure space.

Moderator: Thank you. The next question is from the line of Arpit Ranka from Tactica. Please go ahead.

Arpit Ranka: Just a quick question on the exits that you have had, so in the press release you have said that you have 650 crores of exits including full and partial, in the initial comments you said it is 65 crores. I just want to clarify that.

Archana Hingorani: It is 650 million, it is not 650 crores.

Arpit Ranka: And out of this 650 million, what will be full exit and what will be partial?

Archana Hingorani: There was one full exit, but that is not the right way of looking at it. The way the real estate exit happen, they happen every quarter. So it is not like this quarter we did one full exit start to finish. These are all trickles of capital that are coming back because of sales.

Arpit Ranka: I think to be able to understand the carry calculations a little better, so if you just sort of boil down to LIF Fund you said in the exit mode, so in the fund we have had about 27 investments and we are fully invested and we have had about 10 exits. So, would it be possible for you to share the IRR of this what percentage of 153 million of the capital base was deployed in this investment?

Archana Hingorani: I don't have all the details ready with me, but I can tell you that the return as of date on this fund is about 45%. But as we have been struggling to do exits in the last 1-1/2 year, some of the exits are still very good, but because of the elongation of time, our expectation is that on overall basis the return in rupee terms will be around 17%-18%, so we go down from 45 all the way to this number.

- Arpit Ranka:** Okay and the remaining exits if you go through, what are the expectations for the exits for us to be able to close the fund or sort of go through exits in all the remaining investments?
- Archana Hingorani:** That is what I am saying, so you will end up with an overall return of about 17%.
- Arpit Ranka:** No, the timeline, will it take one more year or couple of more years?
- Archana Hingorani:** The fund life ends in 2014, if I am not mistaken. Like in any fund, there will one or two investments that will drag all to the end, but a substantial number of exits are expected in the next 12 months.
- Arpit Ranka:** And if you have to translate this rupee return of about 17%-18% into a dollar return, because I am assuming that our hurdle would be in dollar instead of rupees. So what would be the impact?
- Archana Hingorani:** No, we are lucky in this fund, this fund has a rupee hurdle rate, for the unified fund, so the hurdle rate was defined in rupees, so it will be relative to the 17% number and not to any other number.
- Arpit Ranka:** And also just to extend the IRR into the quantum of carry that we can expect, is it fair to say that since we put up this fund in 2004 and since we will be exiting in 2014 and you are paying IRR of 17%-18%, so should we sort of extend this IRR over 10 year period or this is truncated from the day the investment is made till the day the exit is made, how do you calculate that?
- Archana Hingorani:** Yes, it is from the day of investment to the day of exit. It won't be over a 10-year period. Average holding period for investments will be around 6 years. So on an average, it is a 6 year return.
- Arpit Ranka:** And for the 6 year time line for average holding period would extend across the front?
- Archana Hingorani:** No, every fund is going to be different. It is not necessary that all funds have a holding period of 6-7 years. Some of them are 4-5 years, some of them are 7-8 years, so it is unfair to say that all of them are around 6-7 years and this particular fund is around 6-7 years because we have lost 2 years, so all other funds are not at the same maturity level.
- Arpit Ranka:** Is it safe to assume that average would be for the 3 billion that the investment that we have made with fund which will be exiting over the years, the average holding period if you have to just sort of use that, I think 6-year figure would be appropriate or you think one should reduce that number or increase that number?
- Archana Hingorani:** No I think 6-7 is fair.
- Arpit Ranka:** In this case, the revision from 45% current IRR to 17%-18% suggests that we sort of had some very good exits in the earlier period and also had a benefit arising out of the investment

period of 2004-2006, a lot of investments are made. But subsequently we have made a lot of investment in the heady period of 2006-2008-2009 .

Archana Hingorani: In this fund I think largely all the investments were completed by 2006. I don't think the entry points were an issue. The issue has been that we have been hit by two cycles in between. So the exit market has not been there, more than anything else

Arpit Ranka: This is one of the funds which is coming up for redemption, the next big one which would be coming up in probably 2014-2015 is real estate fund. So I am just trying to understand what is the outlook there in terms of just assuming that the situation continues to be today in terms of exit environment, what would be the realistic IRR expectations that you would carry and also is that a hurdle rate in rupee or dollar for this fund?

Archana Hingorani: For those all the funds after Leverage India fund, the hurdle rate is in dollars because unified fund structures went out of circulation. We couldn't do any more unified structures. I don't know how to answer your question about what are our expected IRRs, only because they are in dollar terms, dollar has appreciated significantly against the rupee. There is an expectation that it will come down to a much cleaner number, if you want trade patterns to be maintained etc, as well as inflation to be what it is, because of which, most of the exits are full portfolio exits, which probably happens in 2014-2015, very difficult to answer that question at this point in time, as to what will be the IRR in dollar terms.

Arpit Ranka: Right, I totally understand that, but the thing is just trying to understand because we keep on reading the difficult conditions in which some of these funds sort of have write-downs of more than 80%-90% of the principal and go through the exits just because we are at the fag end of the fund cycles. So just trying to understand that assuming the dollar continues to be where it is and we are in 2014-15, what would be the rupee, just a ballpark figure in terms of, would the IRR be able to fall below the hurdle rate, would that be a possibility according to you? So how are you reading the situation assuming that things don't go wrong and also sort of negating the FOREX movement?

Archana Hingorani: All I can tell you is that currently none of our funds is below NAV, they all are above NAV. So we do expect that we should not be in a situation where we are selling assets at 80%-90% discount to where we enter. If the situation continues and the dollar becomes worse, let's say it becomes 58-59, yes there is a chance that some of our funds may not see carry because although for example, we are earning 24% IRRs on some of our investments we sent out from the last quarter, but if you translate it into dollar returns, it was only 12%. So if this situation continues and worsens, yes there is a possibility. But as of date all our investments are valued by third party at numbers that are above NAV.

Archana Hingorani: Thank you. The next question is from the line of Aashi Anand from Kotak India Focus Fund. Please go ahead.

Aashi Anand: Archana, couple of questions on LIF, in the last quarter actually, you were expecting to be able to complete one exit by July?

Archana Hingorani: Yes we were, but I will comment on that, that is one investment that has been sitting with FIPB for the last 4-5 months now, not under anybody's control and until and unless, they don't release the approvals, we cannot consummate transactions.

Aashi Anand: So based on what we are currently seeing, we are kind of expecting to be able to exit this by the end of the year?

Archana Hingorani: No, I wouldn't go that far. In fact we have a FIPB meeting coming up ready very shortly in the next 2-3 weeks and once that happens, we should be able to get it out. It is just that everyday there are some new changes that are happening in regulation affecting certain sectors and this particular sector has been impacted by FIPB saying that now we will play a role in exits etc, since it's adding timelines so then you can exit and obviously if you add the timeline you are also impacting IRRs.

Aashi Anand: So basically either in the next quarter or the following quarter, we are quite confident of being able to actually exit the investment ?

Archana Hingorani: Yes, in this particular investment definitely by this quarter and if we lucky there are 2 or 3 others happening, perhaps close in the next quarter.

Aashi Anand: The second question on LIF is do we have a catch-up clause for the carry or how exactly is that?

Archana Hingorani: No LIF does not have a catch-up clause.

Aashi Anand: Okay, so what is the hurdle rate?

Archana Hingorani: Hurdle rate is 7% rupee.

Aashi Anand: So we basically earn 20% profit share after 7% rupee hurdle rate of which the team will take 70%.

Archana Hingorani: That is right.

Aashi Anand: And if I heard you right, the fund life ends by 2014, so to a large extent, a substantial amount of the carry that is coming from the fund should actually come in over FY14?

Archana Hingorani: Yes, that is a fair statement.

Aashi Anand: Perfect, just coming to real estate real estate Fund I, I just wanted to understand how much of capital have we now returned?

- Archana Hingorani:** I had explained this the last time also, Fund I has a debtline on it. Currently that is being re-fixed with the exits until and unless that doesn't get completed. We don't get to return any capital to investors.
- Aashi Anand:** oh ok so its repayment of debt.
- Archana Hingorani:** Yes.
- Aashi Anand:** And just lastly, I just wanted to confirm, Tara IV, you mentioned is expecting to have a first close at around \$60 million?
- Archana Hingorani:** Yes, fingers crossed. Every time, it comes to this place and it goes back, because some investors get nervous, so let's just hope that does happen. And my hesitation in putting a number is that tomorrow morning it will be in the press, because some person attending will go out and say and it is just very difficult when it does not happen, that is my hesitation. But at the kind of target price, fund size we have, so that we can start investing into transactions and then bring in newer investors.
- Aashi Anand:** It is a challenging environment. Anyways all the best, hope to see a good fundraise and carries coming through.
- Moderator:** Next question is from the line of Tushar Pendharkar from Right Horizon. Please go ahead.
- Vinayak:** Hi this is actually Vinayak . I have sort of listened to all the questions that have come, have been following how IVC has been doing and we had a chance to meet Manoj a few months ago. At that point in time, the sense that we got from that meeting was correctly that IVC is facing through all the macroeconomic sort of headwinds including all the anti-tax stuff which is going on from the government, so lack of clarity on that space . So, my question really is from a strategic point of view, 24-36 months down the road, is there a possibility where IL&FS is actually looking at pushing a lot of growth private equity from a strategic perspective, because one is you have rupee at wherever it is at this moment, so you could actually see a good set of international capital coming into the growth private equity segment and two is more importantly because of where the markets are, the real estate portfolio that you have at this moment to come out with new structures on the real estate side, would be a little in terms of the amounts of funds that you currently have. So I just wanted to pick your thoughts on that?
- Archana Hingorani:** So the question is the mix going to change between growth, real estate and infrastructure. See, growth has always been a very prolific in the number of investments we do, but a very small portion of the total AUM primarily because of the way we define growth at the mid market, so we have never aimed large sized funds. So, will growth private equity exceed the real estate portion of funds under management, perhaps not. But clearly in our heads, where we are seeing much more ability, opportunity, and ready funds available is in the infrastructure space, obviously we have the expertise and the ability. This is one space where investors are still not

shy of putting money to the table. Growth private equity on the other hand is very, very crowded. So while people recognize you as a good fund manager, there are so many others that it always take more time than normal to raise the growth private equity piece. So my sense is that over the next few years, you will see multiple products for the infrastructure space gain more importance in our mix of funds under management.

Vinayak: So would it be safe to assume that the landscape in terms of how you are operating in the next three years would be weighed equally between real estate and the infrastructure space?

Archana Hingorani: I think that is a fair assumption.

Vinayak: And as a corollary of that, would we therefore be safe enough to assume that the managed AUM or whatever, I heard the miscalculation of the people to assume 3.2 versus how much you are in the earning AUM, whatever that number is, will it be safe to assume that you would get to a level, where you actually hit organically an AUM exceeding 3.5 on an earning AUM basis, 3.5 to 4 billion or medium-term timeframe which is typically three year ?

Archana Hingorani: I don't know if we can say that, only because once the older funds are going to be exiting, right, so you really need to grow at a significant faster pace of funds agglomeration in order to manage the down numbers that you are getting from funds under management. So can I say today that my 2.4 earning AUM in three years time will become four? I think there is a distinct possibility and that possibility comes from the ability to break down the product into various categories. If you notice over the last few years, how have we grown the AUMs. It does not come from the same strategy. It is impossible to grow the same strategy materially and organically within over a 2-3 year period, because the way funds are structured you have to invest it before you can raise new money, therefore if there is a lull of 2-3 years between every fundraising a typical genre of funds that you are raising. So if you see what we have done, we split up the growth private equity first into growth and infrastructure so that they became two different products and then we are able to cater to different categories. Then we added real estate, so that was new. We have done small bit, again if you have notice we have split up growth now into two pieces, hopefully, we should be able to succeed on that platform. Similarly, in the infrastructure space as and when we have the ability, right now we are investing once we are done with investing, we will start raising new funds and those new funds in my head will have to be catering to different kind of requirements, different kind of products in the infrastructure space. If you do that, yes then you do have the possibility of going from let's say 2.4-2.5 earning AUM to about 3.5-4. If you are not able to do that then you still go under strict model that this is my blanket infrastructure fund, this is my blanket real estate fund, so on and so forth then possibly, the ability to grow to that large a number would be difficult.

Vinayak: So one last question is in terms of inorganic growth, you acquired Saffron a few quarters ago, so I would imagine that in the next maybe three to four quarters that would have been completely digested. So, is there a possibility that inorganic sort of growth, I am not saying are you looking at anything at the moment, but what I am saying is, is that a management credo in

terms of you are open to sort of looking at growing AUM by doing an acquisition which can fit, particularly in the infrastructure space, because what I see is going forward the macro is most suited where the most money would come in infrastructure?

Archana Hingorani: Okay, let me answer that question a little differently. Our acquisition strategy has been to fit, yes it gives you inorganic growth, but it has to come with a particular strategy in mind, it has to fill a gap that you may have. So in that sense right now, yes, they were not looking at any opportunities. If there were any opportunities that came up which filled certain gap, of course we would look at them. Would it be in the infrastructure, very unlikely possibility because there are very few players in this space and since we have sort of a significant presence here, I am finding it difficult to imagine that there will be opportunity within the Indian framework which allows for acquisitions of infrastructure fund.

Vinayak: So, nothing in the overseas that will interest you in the asset management?

Archana Hingorani: I wouldn't go that far as yet, we are still a specialized India player. Yes we have started Asia infrastructure through our last fund. We are trying to do Middle-East growth through a separate fund. Are we ready for an acquisition? I haven't seen any opportunities, not that they don't come, there are lot of opportunities available worldwide. We haven't seen anything that makes sense for us.

Moderator: Thank you. The next question is from the line of BP Rajesh from Banyan Capital. Please go ahead.

BP Rajesh: I believe your real estate fund II is the largest, am I correct? I am just trying to recall that, it is 800 million or so?

Archana Hingorani: That is right, it is the largest.

BP Rajesh: So when does that start to sunset, is it beyond 2015 or is it also in this timeframe between now and 2015?

Archana Hingorani: It is 2016.

BP Rajesh: And what is the hurdle rate in that?

Archana Hingorani: It's 11% Dollar Hurdle

BP Rajesh: My second question, just you had mentioned in your opening comments that you are starting to advise, I believe your LPs who want to directly go invest alongside with you. Is that the right description for the other business line that you are working on?

Archana Hingorani: No, we are not starting to advise our existing LPs. What I was mentioning was that while we have been on the road, there are investors who are not our existing LPs, who have not yet been to India, are keen to be in India, but particularly have never done the fund model

internationally and that is the reason they have struggled to come into India as of date. And are now thinking about emulating whatever models they have outside the country which are basically co-managed model, where they also participate in the decision making and so do we, which is a slightly different model and it is an add-on model and if we can add that to our AUM under management, it will just diversify the profile a little bit.

- BP Rajesh:** And what will be the fee structure in those kinds of arrangements?
- Archana Hingorani:** It's too early to tell. Clearly, it will not be the fee structure that you get in a fund profile, they are always lower, but it is early to tell, I don't want to hazard a guess.
- BP Rajesh:** What is the sort of market rate, is it 15 bps or 100 bps? I am just trying to get a sense, what that could be potentially?
- Archana Hingorani:** It can be anywhere between 75-150 bps. It depends on what the deal is, how big the deal is. If they are committing to you 500 million then it will be closer to 75, if they are committing 200, it will be closer to 150, it depends on the size of the funds etc.
- BP Rajesh:** I know it is tough time in the fundraising, but good luck with that and at least we are cheering from the sidelines for you guys.
- Moderator:** Thank you. The next question is from the line of Viraj Mehta from Equirus. Please go ahead.
- Viraj Mehta:** Just wanted to know when you mentioned you acquired Saffron Capital a few quarters back, what was the valuation at which you acquired the funds?
- Archana Hingorani:** Actually, it has not been a few quarters, it has been a little bit more than that. We acquired it in November of 2010 and at that time, the valuation was around 8% of AUM.
- Viraj Mehta:** And I just wanted to understand, we close to have now 60 crores on our balance sheet in the latest annual report, the cash on the balance sheet, because the business that we are in we generally would not require any kind of capital, so, are there any tangible plans to do with that cash or what are we looking at in terms of usages?
- Manoj Borkar:** 36 will go for dividend payout out of this.
- Archana Hingorani:** See we have as much as possible dividend policy. We don't keep any cash flows back until and unless it is necessary for funding anything that we require. So even at this time, we have done the maximum dividend. Most of it will go towards that and the rest we do need, because we do have a loan on our book which we need to repay, for that.
- Moderator:** Thank you. The next question is from the line of Aashi Anand from Kotak India Focus Fund. Please go ahead.

- Aashi Anand:** I just wanted to understand what are we likely to do with the carry, are we looking getting back to India and pay it off as dividends and what will be the tax implications of the same?
- Archana Hingorani:** Yes, well it will be similar to what we did in AIG, which is we have brought back the money to India. Yes you will have to pay long term tax on it.
- Manoj Borkar:** But we will get a set off to the extent for what is paid to the team, they charge against that income. So the net only is what could be liable for tax.
- Aashi Anand:** But would it be at the corporate tax rate of 30-33% or is it a different tax rate that applies to it?
- Manoj Borkar:** See, it will range between 20%-30% depending on how we structure to get it out. So, there are ways to get it out, but as we reach there, we will work out what best is there, because today offshore subsidiary could also look at dividend payout where the tax rate is 15% for that.
- Moderator:** Thank you. There are no further questions at this time.
- Archana Hingorani:** Thank you all for participating. We hope to see you next quarter hopefully with a fund closed under our belt.
- Moderator:** Thank you. On behalf of IL&FS Investment Managers, that concludes this conference.