



| Private Equity

IL&FS Investment Managers Limited

“IL&FS Investment Managers Q2 FY12 Analyst Call”

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SPEAKERS:

DR. ARCHANA HINGORANI – CEO, IIML

MR. MANOJ BORKAR – CFO, IIML

Moderator: Ladies and gentlemen good day and welcome to the IL&FS Investment Managers Q2FY12 analyst conference call hosted by Genesis Burson Marsteller. As a reminder for the duration of this conference, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. 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 ma'am.

Archana Hingorani: Good evening all. Thank you very much for joining this call. I know it's a holiday for a lot of people.

Let me start by talking about the quarterly results. They are not materially different from Q1 which is as per expectation. Revenues were at 54.5 crores with PBT of 23.6 crores and PAT of 18.1 crores. Pretty much in line because you were expecting as well as that as you all know Indian economy as well as the international economy is quite challenging. So we are very pleased that we have a sustained income line as well as profitability which we have been able to maintain. Thanks to the increase in revenues in some of our subsidiaries as they are performing quite well despite being able to do some exits which has resulted in lower revenue base, but it has been cancelled by the improvement that you had in some of our subsidiary level operations. I thought let me begin by talking now about what we currently do. Our current operations and how that is performing. If you may know that we have a variety of funds under management which include 2 Growth Private Equity Funds, Leverage India Fund, and Tara-III. We also have four real estate funds, Fund-I, Fund-II and the two that we acquired through the acquisition last year and on the infrastructure side we have two more funds focused on infrastructure.

Now in all of these funds, our existing investments are quite important given the fact that the last few years have been quite severe in terms of change in inflation, economic changes in India and worldwide which has obviously impacted a lot of areas of business in India, but if you look at our portfolio barring the listed companies that have already listed although they are fundamentally doing very well and you do see stock market prices not reflecting that. So a little bit of stress on both kinds of investment, but overall, the portfolio is substantially healthy and we are working towards making sure that it stays that way as well as it helps to get to the next level of exit. Even on the exit front, I would like to point out that while it's been very-very difficult to get into exit mode given what has been going on in India. We have been quite effective in the last two quarters in completing some exits especially these have been in the real estate space which was until now a little difficult to exit from as many of our projects are now starting to show cash flows as well as construction activity.

Exits in this quarter have resulted in almost \$20 million worth of capital plus profit being returned back to investors. This includes exit from the Leverage India Fund as well as Real Estate Fund-I and Fund-II over the last six months. New transactions again we are in a nice space both in the real

estate and in the infrastructure verticals where we do have money to deploy and the last six months have been active as in we have been able to look at attractive deals given that the valuations are quite subdued in all assets of the economy. So we are doing well on that front also. This brings us the last piece which is fund raising, which has been the most challenging given the international environment with crisis multiplying over each other including the US, recent European ones on Portugal, Greece, Italy, etc., the Middle East, increase in fuel prices. I think you put all of that together the investor base that we have is equally concerned about their own problems at home as well as trying to figure out where he should be deploying his money worldwide. On the India front, I don't think there is any doubt on this. There has been political malaise happening over the last six months. No action resulting in many investors trying to see what is the right avenue for investment and who should invest with and especially at what time should they invest. So while they are avidly looking at India given inflation, given all the scams that have happened, I think it's a very slow process. Each one of them is trying to look at it more carefully. So while it has been slow we continue to see interest. There have been no new Fund closing other than what happened in the last quarter. There has been no additional closing as of yet, but we do expect over the next two quarters to probably get to another \$50 to \$60 million. This is not what we were expecting, but it has been quite slow. So this is where we are in terms of what we have been doing over the last six months and especially over the last quarter. I will now open it up for question to the audience.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Gaurav Jalan from Avant Garde Wealth Management, go ahead please.

Gaurav Jalan: Hello, two questions one is on your returns, I just wanted to know if your returns are dollar denominated so does the rupee depreciation hit you anyway?

Archana Hingorani: Well yes because when you return money back, you know your hurdle rates are based on dollar return. So yes that will get impacted, but it depends on every fund and every transaction because the exchange rate keeps changing plus in some funds not all we have been able to do some kind of hedging, so it's not necessary that the exchange rate impact us, but yes its dollar denominated.

Gaurav Jalan: Okay thank you ma'am, one other question, I just wanted to broadly understand. You have an asset based today and you are obviously going into fund raising but for your current asset base, when those funds stop, when you stop generating management fees from those funds because if I understand correctly in the PE industry typically after about 4-5 year, I mean even if we haven't closed the fund and return the money back to investors, you stop earning the management fees.

Archana Hingorani: No that is incorrect. As long as you have invested and you have not yet exited, the management fee continues. It has obviously an impact on return because you know if you are eating away management fees, then the money that you are going to give back is lower, but it's not like you know after five years, it stops. When it stops is as and when you do exit, so assuming that our funds are anywhere between 8-10 years so average life of an investment is perhaps anywhere between 4-6 years. So at that point in time, let say in the fourth year you return some small money then that

particular piece of investment no longer attract management fee, but if you combine all the funds that we have under management, I would say that you have the ability to have revenues stream at least for the next four to five years without having to worry about that they are going to stop. I am not saying that they won't dwindle, they will because if you do exit, then obviously you are giving money back so the revenue base will be coming down, but it's not going to come down in any significant manner at least in the next 8-9 months. The only fund where we are going to start seeing significant number of exit is Leverage India Fund which is already in exit mode. You are seeing that and hopefully if not in the following quarter then definitely by the first quarter of next year it will be fully divested from a capital plus hurdle rate prospective and it will then start giving back some kind of carry also to the fund manager. So the short answer to your question is that you know average four to five years of income is pretty much there for us.

Gaurav Jalan: Okay so one last question, in terms of your fund raising, are you facing any negotiations with investors where they actually want higher hurdle rates or lower fees, etc., I mean it's that an outcome off the current fund raising environment?

Archana Hingorani: I have heard a lot of people say that, but actually at least what we have closed and the discussions we have had, nobody is saying that you know the structure is not correct okay or we want a hurdle rate that is higher. What I think will happen and I think it's a natural cause and they have been there in the real estate and the infrastructure side of the fund management business where the amount that investor puts in determine the fee, so let say your fee base for everybody is for the sake of argument 2% then if somebody is putting chunky money then he will negotiate with you and say that it is going to be 1.5% and not 2%. That is easily possible, we have not seen that as yet, but I am just saying that that is probably the trend, but you know it's nothing new. It is already being there in the other parts of the business. It's only that in the growth private equity, because private equity funds are much smaller in size, right. So there is not that much negotiation in terms of pricing and hurdle rates etc.

Gaurav Jalan: Okay thank you.

Archana Hingorani: Yes.

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

Anuj Anandwala: Hello.

Archana Hingorani: Yes Anuj.

Anuj Anandwala: Could you firstly give me some breakup of the Saffron, what kind of top line and bottom line has come in for the current quarter?

Archana Hingorani: Sure, Manoj you want to do that?

Manoj Borkar: Yes, Saffron for the half year top line is around 17.2 crores and the bottom line after tax and amortization would be around 3 crores.

Anuj Anandwala: Okay, ma'am regarding the interest part, if I am not wrong the last conference call you had said that you would be paying around 2 million dollars of interest every quarter, so is this...

Archana Hingorani: Actually we had said every quarter was 1 crores okay.

Anuj Anandwala: every quarter would be 1 crore.

Archana Hingorani: Yes.

Anuj Anandwala: Okay, so for the current quarter you have repaid around 1 crore.

Archana Hingorani: Yes we pay principal also right, so.

Anuj Anandwala: So what would be the total amount that you have repaid?

Manoj Borkar: We have repaid around \$4.5 million out of the \$20 million loan.

Anuj Anandwala: Okay and the last thing on the amortization what would be the amortization amount for the current quarter?

Manoj Borkar: Current quarter roughly around 3.4 crores.

Anuj Anandwala: Okay and then could you please throw some light on your Middle East fund that is happening, how far has it reached what kind of outlook do you have from the Middle Eastern market?

Archana Hingorani: As I said fund raising has been slow, so it has also been equally slow because the kind of investors that are there are probably less mature than the rest of the world, so yes we are in the market, but we have not reached the stage specially with that fund, reached the stage where we can say that you know we are closed to doing a closing.

Anuj Anandwala: Okay and what would be the net earning AUM as of the first half, would it be a 2.4 or little less?

Archana Hingorani: About 2.4-2.5, somewhere there.

Anuj Anandwala: Okay. Thank you ma'am. That's all from my side.

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

- Anuj Anandwala:** I just wanted a clarification that there is a new item in your expenditure which sub advisory fees, what would be that pertaining to?
- Manoj Borkar:** We have a joint venture with standard chartered, which gets consolidated so it is on account of the consolidation and the sub advisory fees which is paid by that JV to the other JV partner.
- Anuj Anandwala:** Okay.
- Archana Hingorani:** Earlier actually this is not a new joint venture. It was there earlier.
- Manoj Borkar:** Yes that is what, when we started from the last quarter.
- Archana Hingorani:** But we didn't have ownership at that point in time, okay so we recorded as ownership because of that you are saying this.
- Anuj Anandwala:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Shreyas Bhukhanwala from Sushil Financial Services, please go ahead.
- Shreyas Bhukhanwala:** Ma'am just want to know like how many exits are still remaining in the leverage funds?
- Archana Hingorani:** In Leverage Fund, should have at least another 12 companies basically the large portfolio of about 26 companies odd. So there should be about 12 companies.
- Shreyas Bhukhanwala:** And probably we should be done with them by Q1FY13 max?
- Archana Hingorani:** Q1FY13, no you will start earning carry in Q1FY13, but you still be exiting.
- Shreyas Bhukhanwala:** Okay, the carry would start probably by next first quarter of FY13. And on like totally in number, how many exits we have done in this quarter?
- Archana Hingorani:** This quarter we have done four partial exits and all them have been in real estate. Last quarter was a mix of Real Estate and LIF where we exited Continental to Warburg, so that was the big one last quarter and this quarter it has been four partial real estate exit.
- Shreyas Bhukhanwala:** Okay. Thanks Ma'am.
- Moderator:** Thank you. Anyone who has a question may press * and 1 on your touch tone phone. As there are no further questions, I would now like to hand the floor over to Dr. Archana Hingorani for closing comments.

Archana Hingorani: Thank you all for joining on the call. I am happy to take any questions if you guys have, please let us know separately. Thank you.

Moderator: Thank you. On behalf of Genesis Burson Marsteller that conclude this conference. Thank you for joining us. You may now disconnect your lines.