



“IL&FS Investment Managers Q2 FY2013 Analyst Conference Call”

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Moderator

Ladies and gentleman good day and welcome to the IL&FS Investment Managers Q2 FY2013 Analyst Conference Call hosted by Dr. Archana Hingorani and Mr. Manoj Borkar. As a reminder for the duration of the conference all participant line 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. Should you need assistance during the conference call you may signal for an operator by pressing * and then 0 on your touch tone phone. Please note that this conference is being recorded. I would like to hand the conference over to Dr. Archana Hingorani, thank you and over to you madam.

Archana Hingorani

Good afternoon everybody and thank you for joining the call. We are here to discuss the H1 & Q2 results for FY2013. Pretty much similar performance to the last quarter.

Consolidated revenues are at Rs. 56.8 crores verses Rs. 58.2 crores for the last quarter, which is Q1 2013. The profitability was at Rs. 17.3 crores versus Rs. 18.1 crores. EPS was at 0.83. Expenses were at the same level as the last quarter Rs. 34 crores. Distinction from last quarters at the finance cost has been coming down slowly we had borrowed \$20 million in November of 2010, which we have been paying down over every quarter. Today that debt stands at \$8.5 million and it will be completely paid off by September 2013, a year from today.

The most important aspect of our business as you know while of course ensuring that we have good investments as well as undertake timely exits is to get the next round of fund raising going. We have in the market 3 funds: the Tara India IV, the PIPE Fund as well as the Middle East Infrastructure Fund. In the last quarter we had talked about how we were getting significant improvement in terms of response time for investing into the fund. Tara IV actually agglomerated an additional \$12.5 million as well as has soft close an additional 10, so let us say about \$22-23 million. However, we have not announced the first close because we are waiting for \$100 million mark to be reached which will probably take us beyond December. Most investors are not comfortable doing a close at a lower number. So we have decided to wait till we cross \$100 million but in fact the fund raising, while it has been very difficult as you all know. The ability to talk to investors has improved a little bit partly due to the fact that we are talking to investors who have direct relationship with the institution and partly because of the recent announcement changes; but I think before anybody jumps in and says, Yes, we want to invest in India. I am sure they would like to see these announcements translate into something more. So I think everybody's eye is on the winter session to see if actually the Government can take through all the things that it has committed.

Most important and exciting aspect I think for most people has been the retail announcement and if it does happen it has obviously great impact on all aspects of investments, real estate infrastructure as well as regular private equity. If this really goes through you know I think we can see a huge turn around in terms of response of investors to India. We have also been slowed down as you know for fund raising because of issues in the media which continue to be there regarding governance, taxation was an issue while it has been rolled back I think it created a lot of uncertainty for investors and they are nervous about India. Having said that if you look at the

other countries emerging market countries such as Brazil, Russia, china as well as the latest entrant South Africa everybody is going through the same process of slowdown in growth. So I think people have started realizing that all these emerging countries probably will give better growth than the rest of the World and despite the slowness they perhaps better equipped to take on investments. So while nobody is saying, No, I think people are waiting for the Government to really take action before saying Yes to India.

From our portfolio perspective we have approximately \$200 million yet to be invested from our infrastructure fund which we are deploying and another \$ 70 million odd from our second real estate fund. The fund is fully committed, so basically we are deploying money into the same transactions based on mile stones where-as in the infrastructure fund we are actually evaluating transactions both in India as well as in China, Malaysia, etc., to complete the investment cycle for this fund. The rest of the funds are fully invested and there is a larger focus on exits also. So during the quarter we actually did partial exits of about 100 odd crores from several of our real estate investments. No new exit has happened these are all continuing investment exit happening from real estate essentially linked to the residential project like cash flows are being returned back to the share-holders. That is all I have from my end, we welcome questions on the performance for this quarter. Thank you.

Moderator Thank you very much. Participants will begin the question and answer session. We have our first question from the line of Aashi Anand from Kotak India Focus Fund. Please go ahead.

Aashi Anand We were waiting as in I think leverage India fund has couple of exits in the pipeline. By when do we expect to actually conclude these and could we see exit of these happen in 3rd quarter and therefore could carry some through in 3Q.

Archana Hingorani Yes, some miniscule carry will come through actually. There are 2 transactions that are being exited in this quarter: As I mentioned even earlier in the last call, one of the investments is going through various Government related permissions and they are still to get the last leg of that permission. So I am quite certain we will finish it this quarter given that we started seeking permissions almost 6 months back. The second one is in documentation so we should be seeing in this quarter couple of exits from leverage India fund.

Aasih Anand Would it say given the fair to say that, I am not saying exactly how much time that we have left but given those facts we will be closing in the next 1-2 years that we likely to see continued exits and therefore possibly over the next 7-8 quarters, more quarters should actually where we see carries rather than not. As in would that be a fair statement.

Archana Hingorani Yes, that is a fair statement.

Moderator Thank you. Our next question from the line of Mr. Rajat Budhiraja from Banyan Capital Advisor. Please go ahead.

- Rajat Budhiraja** Quick question on the Earning AUM, what is the number for this quarter?
- Archana Hingorani** I think it is 2.3 billion as the Earning AUM.
- Rajat Budhiraja** Just to clarify on Tara when you were describing in your opening comments you have raised the bar to about 100 million to close to..... So out of that 22 has been committed so far or is it-
- Archana Hingorani** No, approximately 60 has been committed, that 22 I was talking about were in this last quarter.
- Rajat Budhiraja** So there is a gap of about 40 and your expectation is that it will get done later this quarter.
- Archana Hingorani** Yes, there is actually a gap. In that 22 as counted were soft commitment so actually including the soft commitments we were around 75. So there was a gap of about 25 right now.
- Rajat Budhiraja** So just about the macro level you know since the last call as you have been talking to the investors and you said a little bit about that in your opening remarks but has the fund raising got any better in Europe specially or were exactly are you seeing both positive responses on Tara's side other PIPE fund and infrastructure funding is there.
- Archana Hingorani** So actually the infrastructure fund is specifically a Middle East fund focused on the Middle East market. So the fund raise obviously is being started in that region because people understand the concept much better. So our first protocol for the Middle East fund is in the GCC region where we are seeing a fair bit of response to that. Similarly on the pipe fund there is again greater response from the Middle East market as versus the Europe and US markets. And on Tara we have a mix of both European and American investors looking at it.
- Rajat Budhiraja** In just looking at the depreciation amount on the financials for this quarter, it seems this amount up a little way but when you look at the fixed asset they actually went down.
- Archana Hingorani** Basically the impact of the fluctuations in foreign exchange more than anything else. I think none of the parameters have changed whatever small changes you have seen is all linked to changes in Forex.
- Moderator** Thank you Sir. Our next question is from the line of Shreyas Bhukhanwala from Sushil Finance. Please go ahead.
- Shreyas Bhukhanwala** Just want to know-what is the fund raising done for pipe as well as infra Middle East fund?
- Archana Hingorani** No you have not missed out anything, I have not mentioned the numbers because the Middle East fund we just started the fund raise last month but we have seen pretty good reaction to it because we did a lot of pre-marketing for this fund since it is the first time we are going into that region. So we do expect a first close I can't hazard a guess on the amount but we do expect to do a first close by March of this year. And on the pipe fund we are still in the fund raising mode, we

have not seen any-thing that tells me that I can give you a number. Perhaps in the next 2 quarters we should see a first close on that one also.

Shreyas Bhukhanwala

And then madam, exit fund we had 2 exits right in this quarter.

Archana Hingorani

Actually we didn't have 2 exits. We had actually 5 partial exits but they are the same as earlier. So what is happening is all of them in the last quarter where from real estate pool of investments and all of that is related to projects that are coming on stream and the cash flows that are coming back. So there are no fresh exits happening but cash flow is continuing to come from the older exits.

Moderator

Thank you. Our next question from the line of Mr. Gaurav Jalan from Avant Garde Wealth Management. Please go ahead.

Gaurav Jalan

I just wanted to understand the AUM replacement cycle better, so the leverage India fund that is going to wind up over the next year or is it the next 2 years or how much on AUM are we going to lose there. And the current fund raising and the pipeline things go according to plan. We expect to be able to replace that AUM and grow the over-all AUM. Just if you could outline your thoughts there

Archana Hingorani

Right now I think our target is to keep replacing AUM. I think the leverage India funds we still have 2 years. We have 43% principal returned. It is a \$153 million fund we still have to return the remaining 60%. So that is another \$90 million, which will go out over the next like say 18-24 months and the replacement will be slightly better than that.

Gaurav Jalan

And currently if I look at your revenue result the percentage of the AUM is roughly running at about 1.75% if I am doing the math right. So does that include some carry income or is that mostly the management fees that we have taken.

Archana Hingorani

No, it is pure management fee with very little other income from you know treasury or whatever but there is no carry in that.

Gaurav Jalan

And this number, should it trend down as we raise new funds because you mentioned in the past that the fees are slightly lower on the infra fund etc., right. So would have meaning full difference going forward or should it been a.....

Archana Hingorani

A large part of our AUM currently has already trended down in the sense that when you raise big funds the fee is already less. So it is already part of our revenue profile already includes a lowest fee structure. The new funds that we are raising are all on the PE side which is a very small component, so I do not see the revenue profile changing materially because of these raises.

Gaurav Jalan

So this is one large bookkeeping question, what is the current inter corporate deposit that we have given out?

- Manoj Borkar** We have roughly around 30 crores ICD.
- Moderator** Thank you. Our next question from the line of Mr. Amit Arora, an investor. Please go ahead.
- Amit Arora** I just have a follow up question on this inter-corporate deposit. So I just want to understand what is the yield basically or interest you are getting on the inter-corporate deposits?
- Manoj Borkar** The average yield that we are getting is any-where between 10% - 11%.
- Amit Arora** What about current investments?
- Manoj Borkar** Including whatever we have in liquid mutual funds also is in the region of around 11%.
- Amit Arora** Would you not want to actually just square off your loan through these inter-corporate deposits, which would be better for you I think.
- Manoj Borkar** See the problem is we have a borrowing which is at the offshore subsidiary level and the cash available is at the India level. So it is not possible to just pay it off but if you really look at it actually even though we have cash here it is positive for us because the loan is at very low rate which is Libor plus some 300 basis points.
- Moderator** Our next question is from the line of Mr. Prakash from Kotak Mahindra. Please go ahead.
- Prakash Ramaseshan** Just looking at the ICD's on your domestic books and I am trying to understand whether that capital can be used for returns to share-holders either by dividends interim or final or by even buyback of shares. Because both of those in the long term will be beneficial to minority investors.
- Manoj Borkar** Prakash, we had a few years back twice tried to do the company buyback and I think both the times we had failed in terms of process in the sense it was at a priced and once we announced the buy-back the price was much above that. So we were unsuccessful in pushing out cash out of the system, currently which we have but if you really look at it from a point of view of the shareholders we are nearly paying out 100% as a payout on the dividend from the point of view what profit is available at the India company level. So that is the strategy which we have adopted at the given couple of bonus issues just to have a higher liquidity and higher pay-out.
- Prakash Ramaseshan** I do appreciate that some of your previous efforts at buybacks have not worked successfully even so given that you have cash on your books which is right now lent on ICDs. Our request would be that you continue to pursue those efforts, we never know in what market conditions they pay fruit actually.
- Moderator** Thank you Sir. Our next question from the line of Mr. Gaurav Jalan from Avant Garde. Please go ahead.

- Gaurav Jalan** Just a follow up question. The cash that is lying in the subsidiary, what is the plan in terms of utilization of that cash. Do you plan to remit it back to India? If yes, what are the tax implications and if not, is there any future use of that cash that we can use it for?
- Manoj Borkar** See at the off-shore level we had utilized whatever cash we had when we did the acquisition of Saffron in the end of calendar 2010. Subsequent to that whatever cash is available is pooled out as dividend into India and the last 2 years there is a tax advantage, in the sense dividend received from and offshore subsidiary taxed at 15% as against the full tax, that the company otherwise pays. So we have been using that mechanism to get the cash out at India level.
- Moderator** Thank you. Our next question from the line of Mr. Budhiraja from Banyan Capital. Please go ahead.
- VP Rajesh** Just a follow up question on the exit that has happened on the real estate fund. I am just curious like what is the committed capital now as opposed to 525 which was a total fund.
- Archana Hingorani** So, Rajesht actually the committed capital is unchanged because on this particular fund we also have a debt line, so that has to repaid first before we pay out committed capital. So from a revenue perspective nothing is changed on the real estate fund because we are earning fees on the entire 525.
- VP Rajesh** So whatever exits are happening are just going to reduce the debt line.
- Archana Hingorani** That is correct.
- VP Rajesh** And how much debt is pending on that?
- Archana Hingorani** About \$70 million.
- Moderator** Thank you sir. Participants that was the last question. I would now like to hand the conference over to Dr. Archana Hingorani for closing comments.
- Archana Hingorani** Thank you everybody for attending the call, I know it was a little earlier than normal but hopefully we will see all of you at the next call. Thank you.
- Moderator** Thank you. On behalf of IL&FS that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.