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IL&FS Investment Managers Limited

"IL&FS Investment Managers Limited Q2&H1 FY2014 Earnings Conference Call"

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CHORUS CALL®

MANAGEMENT: **DR. ARCHANA HINGORANI – CEO & EXECUTIVE DIRECTOR, IL&FS INVESTMENT MANAGERS LIMITED**
MR. MANOJ BORKAR – CFO, IL&FS INVESTMENT MANAGERS LIMITED

Moderator Ladies and gentlemen good day and welcome to IL&FS Investment Managers' Q2&H1 FY 2014 Earnings Conference Call. Joining us on the call today from IL&FS Investment Managers are Dr. Archana Hingorani – CEO & Executive Director; and Mr. Manoj Borkar – CFO.

As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference please signal an operator by pressing * and then 0 on your Touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Dr. Archana Hingorani. Thank you and over to you, ma'am.

Archana Hingorani Good afternoon everybody. Let me start by wishing all of you a very Happy Diwali. I will begin by focusing on the results and then some underlining features of those results as well as our view on what is going on in the economy. To begin with the results for the quarter were up at 6% under various parameters including income, net profit before tax as well as PAT. Income was Rs. 58 crores with a profit before tax of Rs. 26 crores and PAT of Rs. 19.4 crores. All of this as I said all three numbers were around 6% up little better than last quarter. The key factor that has resulted in this minor improvement in numbers is the exchange rate which obviously impact on our business one is if it is the income profile you are looking at obviously that is a positive because in rupee terms we are earning a little bit more than earlier. In terms of marketing of our funds it is a negative impact because obviously any fall in rupee results in returns being poor.

As far as the results are concerned we have had a strong play of improvement in exchange a rate which has led to profits of about Rs. 19.4 crores. A factor that because of the fluctuation in exchange rates there is one thing that we have focused on to ensure that we have stability in incomes going forward. As you very well know the business model for the company is largely annuity based where we are pretty certain of our cash flows in terms of the fees that we generate barring exits because of the severe uncertainty that happened in August and September of this year we took a call to ensure that we have enough visibility on our earnings in rupee terms as a result we have ensured that we have a rupee-dollar convertibility at 65 to the dollar for the rest of the year. This provides great level of certainty on the cash flows for FY14. In addition I also wanted to talk about the key question that most people ask which is the fundraise. Clearly fundraising of large amounts with anchor investors has been severally challenging.

We are currently aggressively marketing our infrastructure funds where while we do have keen interest there has been no closure in terms of financial terms. Financial terms in most new funds are severally being negotiated in the sense that management fees that we are seeing going forward could drop by 50% essentially because of the exchange rate volatility and the performance of the underlying funds even though many of our exits have been at 20%

and 22% kind of returns all our terms they have no meaning because of the sharp fall in exchange rates.

Because of the fundraises being so far and protracted we also parallel started to diversify our investment base and in the last six months we have been able to – there are several investors from across the world who have made direct investments in to the country and clearly because of the last five years of changes in the economic cycles have not been able to manage these investments very well and keeping that in mind we are started going to all the geographies where IL&FS, IIML as well as the group operate which includes the Middle East, Hong Kong, Singapore and London and targeting investors individual or direct investors from those countries for their direct investments to try and see how we can manage those investments for them in India and in the last 6 months we have been successful in willing two investors all of these names. Currently this mandate has been given to us by individual investors with the large ticket size investments in India as a result we have two investors for whom we have started to manage investments on their behalf. Small beginning this has resulted in $0.5 million of new income for us this year.

We intend to pursue such investors more aggressively given that they have had some success there. In addition to obviously creating enough ability to raise funds going forward. A key change even though we have had exchange rate volatility has been that in the infrastructure space most of the investors are global investors who while understanding the performance at the ground level being what it is which is in at least in the infrastructure portfolio quite decent are willing to ignore the exchange rate fluctuations because they are global investors and probably end up cancelling exchange rate volatility because of the investments worldwide and those are the ones that are really coming back up specially now that the exchange rate has stabilized and we are seeing great interest from all of them and we are quite hopeful that we should be able to work with them in the next two quarters to come up with a fund that is of a meaningful size. Other than that marketing for the infrastructure fund as I said both for the Middle East region as well as the Asia fund is at a significantly high level. We expect some traction on the Middle East fund by the end of December and perhaps for the other larger infrastructure fund by the end of next quarter.

Economically I do not think I need to explain too much to you but most of you are more familiar with what has happened but even if we look at our own portfolios be it in the regular private equity space or in the infrastructure space as well as the real estate space there is a significant lack of debt capital especially working capital for running of regular businesses which is severally impacting even some of our better run companies which is obviously a challenge not only for the portfolio company but just indicative of what kind of struggle each of the companies has been going through in the last two to three years.

So portfolio management is taking significant amount of resources of the company. Exits while not as robust as the last quarter. Last quarter you have to remember was Rs. 500 crores due to lot of work that was done in the previous quarter so we had a Rs. 500 crores equivalent exits. This quarter we had about Rs. 150 crores worth of exits again spread across all three spaces infrastructure, private equity and real estate at I would say reasonable returns anywhere between 18% and 22% which obviously creates a good background for explaining our ability to manage portfolios in really bad times but as I said there is also this over-hang of where is the rupee volatility stay, will it comeback when the QA tapering starts and more importantly will it come back if the elections of 2014 are indicative of a new government that may or may not have the right capacity to take the country forward.

So while as I mentioned there are lot of large ticket investors that are keen to relook at India given that it is cheaper to invest now many of them are also while agreeing that they want to invest in India, wants to seek some positive indicators of what the country could look like post election. So keeping all of this in mind obviously our fundraising while it continues has not been resultant in any closing to this quarter.

Lastly, I would say that because we are seeing a whole host of new investors bringing their attention back to India we feel that FY15, and FY16 should be very strong positions for us in terms of fundraising specially because we have had pretty good run in terms of exit vis-à-vis what has happened to the rest of the market. A recent study showed that there are more than 75% of funds that were raised from 2004 to 2010 which are still to be exited and from our perspective are 2004, 2005 vintages have started generating exits. So we see we are better positioned as and when especially with institutional investors as and when markets allow greater positive look at India.

A last point. All of you would have heard about the announcement made after today's board meeting of a bonus issue of 1:2 a small explanation as to the reasoning behind it. There has been a feature, if you noticed the balance sheet and the profitability of this company we started seeing a huge disparity between standalone and consolidated from 2007 onwards. This happened when we raise our two large real estate funds and the ability to bring back these incomes right away and align standalone and consolidated was not clearly available. It included the fact that we had loans on the company in Mauritius as of September 30th all those loans have been cleared given that the company follows a dividend policy of giving out as much as possible since we do not require capital. We will make sure that whatever is possible in terms of bringing back to the standalone numbers will be done form now onwards in keeping with that and wanting to keep our dividend policy the way it is which is maximum pay outs we have as a board decided to have the bonus issued.

That is all from my end. Welcome any questions.

Moderator Thank you very much, ma'am. Ladies and gentlemen we will now begin the Question & Answer Session. We have our first question from Vivek Joshi and he is an individual investor. Please go ahead.

Vivek Joshi There is two questions. One is that in the last quarter three was a news that the entire promoter's stake has been pledged for IL&FS Investment Managers', so I just wanted to know that were the assets always under charge and this was like a new disclosure or it has been crated a charge and created an investment managers for the first time?

Manoj Borkar Let me take this. See IL&FS always has been issuing debentures and those are generally based on a floating charge on all their movable assets. Now, movable assets are not necessarily that these are pledged so it is based on the asset cover and all this while they had debentures but I think they have been advised that since they are covered under the charge it is better that we please disclose and this is the first time that they have disclosed it. And going forward we have done that for all their holdings in the listed entity. So this is a floating charge on the assets and it is not a pledge in the sense what everyone perceive it to be. So if for example if you look at that IL&FS in between a couple of months back had purchased additional stock also in IIML so that is not negative from that point of view.

Vivek Joshi No, I just want to understand so basically you are saying that it was always there was a charge but because of disclosure changes and whatever it has been reporting…?

Manoj Borkar Yeah.

Vivek Joshi And my second question is I did not understand the need for a bonus issue because since your business does not require balance sheet strength to kind of raise funds you could have easily done like a if you had more cash to payout so you could have done a Rs. 3 dividend next year or whatever so I could not understand the reasoning for increasing the share capital of the company.

Manoj Borkar This is more of a board decision but the signal what the board wants to give it this is sufficient floating stock in the market rather than we have been just looked at just as stock as a dividend yield stock currently. So see in terms of the board it will just to give maximum out to the shareholders earlier it was try two buyback which has never successful we had done two bonuses subsequently also and it has helped to have a lot of liquidity in the market so that there will be more of institutional shareholders also looking at this time and as a policy of the group there is no interim dividend which is paid out so that is the reason the board had decided for the bonus.

Vivek Joshi In the last call it was expected that per share dividend was expected to be roughly the same the profitability, the revenues are expected with the same as of last financial year. So that is bonus issue mean that we are going to see like a 50% jump in bonus or the amount is going to be remain the same so we can assume that it is going to be like now a Rs. 1 dividend or whatever that matter is registered?

Manoj Borkar I will not tell you the numbers but as Archana mentioned in her opening remarks we had a offshore debt which has been fully repaid as of September so there is enough cash availability in the system at the offshore level and definitely based on tax efficiencies the same would be reflected in to the standalone profit such that the difference in the standalone and the consol profit is minimal so that is the basis based on which a higher dividend paying capacity based on the cash flow availability will be possible.

Vivek Joshi So basically you are saying that we are expecting more profitability or just a cash flow has improved hence the dividend payout might be more I just want to understand?

Manoj Borkar Yeah, that is what. So cash flow will improve which may result in to a higher payouts to the shareholder.

Vivek Joshi And what is the AUM as of 30th September?

Manoj Borkar The AUM in terms of the income earning AUM what we have currently based on the current existing dollar rate is around $1.75 billion.

Moderator Thank you. We will take our next question from Manjeet Buaria and he is an independent investor. Please go ahead.

Manjeet Buaria I had a query more from the operation side. I just wanted to know the current investment team basically, approximately what percentage of the current investment team has been with the company for the last 5 years since 2004-2005 so may be 5 to 8 years?

Archana Hingorani Manjeet that is a very easy question to answer. There has been very little turnover in the company. Last big exit of any individual of consequence goes back at least 5 years now. So I would say the turnover of employees which are consequential to the business is less than 5%.

Manjeet Buaria And I had one more query. The end times of an assets basically they showed the business know how management and advisory contract I think this is the contracts you enter in to with your limited partners if I am not mistaken? Or is it with your parents like just wanted some understanding on this issue?

Manoj Borkar No, That understanding is not correct. If you recollect the company had done an acquisition of business overseas from the Saffron through in respect of certain contracts for managing funds. So those are reflected as intangible in the balance sheet of the company.

Manjeet Buaria Just to understand the contract which are the advisory contracts going ahead in what possible circumstances there could be a write-down in this contract is what I wanted to know?

Manoj Borkar See these are amortized over the estimated useful life of the contract. So if you look at the income side also there is an amortization which is there. So currently based on the useful life those are evenly amortized and if at all there is any requirement at any point in time we could be assessed and if there is a requirement at that point it will be considered. So that is the policy.

Manjeet Buaria Yes sir, this is something I get from the schedule there are notes to accounts. But what I wanted to know that are such circumstances like anywhere common or it is anyway extremely rare circumstances there was a right down required in these advisory contracts?

Manoj Borkar As of now there is no such thing which is possible.

Moderator Thank you. We have a follow question from Vivek Joshi, he is an individual investor. Please go ahead.

Vivek Joshi Manoj, the rate receivables seems to be always going up. So is it just a function of no exit happening and is it likely to go up for the remainder of the year?

Manoj Borkar Yeah, I agree that it is more related with the exit because as you see the funds are passed its investment period it is only fully invested and generally as a policy we generally keep around a year or year-and-half fee abeyance for the future fees but once we are passed that it fully comes out of exit. So currently all the fees are from the fund and as and when we improve on the exit we will be recovering that. So there is nothing in that sense as a bad debt or anything so it is more of a timing issue.

Vivek Joshi And another thing is that is the – I believe you have only one fund which has a leverage IIRF I , right?

Manoj Borkar Yeah.

Vivek Joshi Is that debt over or the debt still remains on that?

Manoj Borkar The debt I think will be paid out before March 2014 it is very small amount which is outstanding as of now.

Moderator Thank you. Our next question is from Ashutosh Dalvi, he is an individual investor. Please go ahead.

Ashutosh Dalvi I just wanted to know about the present funds that are in the markets what are the status on that what kind of funds have we mobilized in to that?

Archana Hingorani You mean the IIML funds which are in the market?

Ashutosh Dalvi Right.

Archana Hingorani So there are two key funds which are in the market which is a 300 million Middle East fund for infrastructure and 500 million Asia Infrastructure fund which are extremely active given that infrastructure investors are more keen to invest in India at this stage than any other category.

Ashutosh Dalvi We gave got some pipe fund also couple of quarters back?

Archana Hingorani Yeah, both of them we had launched both actually as a strategy for our growth vertical we had split the funds in to two parts which was unlisted and listed and I have explained the last time we have capital base of about $50 million now that is not something that we would like to use as a fund strategy because $50 million means I can make only very small investment which is not the strategy of the fund. So we are getting investors institutionally from India now we just received our approvals from one of the larger insurance companies to get into that fund basis that we will raise the India leg and then try and announce the first close at around $75 million to $80 million. So that will happen in the next quarter but in terms of quantums being raised I think the first two funds that I mentioned are the ones that are priority.

Ashutosh Dalvi Are we getting any good funds in to this funds, which are in to market as of now?

Archana Hingorani That is what I said there is a huge interest in those funds so our focus is in trying to close those as soon as possible.

Moderator Thank you. As there are no further questions from the participants I now hand the conference back to Dr. Archana Hingorani for closing comments.

Archana Hingorani Thank you all for joining today. I know it was delayed due to the last announcement and I wish all of you a very Happy Diwali and a good holiday.

Modcon Thank you very much, ma'am. Ladies and gentlemen on behalf of IL&FS Investment Managers that concludes this conference. Thank you for joining us and you may now disconnect your lines.