



IL&FS Investment Managers Limited

“IL&FS Investment Managers Limited Q2 FY2015 Earnings Conference Call”

November 5, 2014



IL&FS Investment Managers Limited



MANAGEMENT: **DR. ARCHANA HINGORANI – CEO & EXECUTIVE DIRECTOR**
 MR. MANOJ BORKAR – CFO

Moderator: Ladies and gentlemen, good day and welcome to the IL&FS Investment Managers Limited (IIML) Q2 FY15 Earnings Conference Call. Joining us on the call today from IL&FS Investment Managers are Dr. Archana – CEO and Executive Director and Mr. Manoj Borkar – CFO. As a reminder, all participant lines will be in the listen only mode. 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 ‘*’ then ‘0’ on your touch tone 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, Madam.

Archana Hingorani: Good afternoon everybody, thank you for joining the call. We are here to discuss the Q2 FY2015 results, consolidated revenues were at Rs. 48.6 crores, very similar to last quarter which was around Rs. 50 crores. Profitability is at Rs. 15.85 crores as compared to Rs. 15.33 crores, again very similar, slightly higher. Consolidated EPS is at 50 paisa for Q2 as compared to 49 paisa for Q1 FY2015.

Highlights for the quarter basically, I think we all understand that our business is significantly impacted by how the economy is doing, which is what impacts all our investments and of course more importantly, also triggers whether or not fresh capital is being provided to the country. Many of us have seen that the stock markets have been quite buoyant and fair amount of capital has come in. We have also seen a lot of interest in large transactions in private equity; we have seen Flipkart with a billion dollar investment. We have also seen JVs in real estate as well as infrastructure with large sovereign funds, and all of them have preference for a direct model. All of this obviously competes with our own business but we see very strong traction in the next year or so, especially for private equity. During the quarter, we have had a fair number of on track exits I would say. We have done about Rs. 177 crores during the quarter accumulating to approximately Rs. 484 odd crores for the half year of exits. Most of these exits have been in the form of profits so in terms of AUM, it is pretty much the same earning AUM US\$ 1.6 billion, is where the AUM is and that was exactly what it was even in the last quarter. So primarily, all the exits have largely been profits and a very little of principal going back which has allowed us to maintain the revenue line. Of course, the fact that we have been able to lock in a little better pricing on the exchange rate has also helped keep the revenue top line constant. In terms of fund raising, we are basically looking at full throttle fund raising plans for all three verticals as all of them are in some level of exit mode which allows for track record to be in place. Specifically we had talked about The Tara Fund raising in the last quarter. It has investors to the tune of US\$ 60 million, some of them are sovereign funds and Government related entities who are looking for regulatory approvals. We are expecting to announce a first close with them sometime by the end of November, if all documents are in place.

The second fund that we had talked about in the earlier analyst calls was The Middle East Infrastructure Fund, where we have principal commitments of US\$ 50 million, surrounded by a co-investment model in which we are trying to invest in 2 transactions. We expect that by the next quarter we should be having AUM in that fund of about US\$60 million. Put together, these

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2 funds, I would say by the first quarter of next calendar year, we should have US\$ 100 million fresh capital but I would like to remind everybody that against that fresh capital, we are also doing fair amount of healthy exits and our expectation is that these exits will also result in AUM depletion and with US\$ 100 million coming in, would pretty much cancel each other in terms of revenue impact. Of course the good news is that it will not go down but it also means that it is not going to be incremental in terms of growth for which obviously we need to focus on the larger funds in the infrastructure and real estate verticals, which is what we are trying to gear up for today. Our sense is that you will be able to see results of significant change in AUM only in FY 2016 while the efforts are on at all levels to create different kind of structures including doing direct investments on behalf of investors, creating some fund formats, creating a portfolio which can be fully seen, that you already select all the investments and let the investors look at it and then bring them into the funds. We are doing this; both in the infrastructure and the real estate verticals but I see full fruition and a significant addition in AUM to happen only in FY2016, as we are also losing AUM to exits. That is my summary for this quarter and we are happy to take questions.

Moderator: Thank you very much, Madam. Ladies and Gentlemen, we will now begin the question and answer session. Our first question is from Dikshit Doshi of Whitestone Financial, please go ahead.

Dixit Doshi: You said in your Annual General Meeting that there are a couple of funds where you are awaiting a FIPB approval, so is this the same; this Tara and Middle East Infra fund?

Archana Hingorani: That is correct; we are waiting for regulatory approval, as I said it is a mix of our own approvals as well as that of; because they are coming from regulated entities outside of the country, they themselves are also waiting for approval, so this is largely related to both of these funds, that is correct.

Dixit Doshi: So apart from this US\$ 100 million, you are not seeing any addition in next 6 months?

Archana Hingorani: I would think that there is going to be addition but I think it will more co-investment which will; perhaps be additionally another US\$ 100 million. It will not be more than that.

Dixit Doshi: In terms of exits, what is your plan for next 6 months and if possible for FY16?

Archana Hingorani: I cannot tell you FY16 because we are really focused on triggering our FY 2015 exits and our sense is based on the discussions we are having with investee companies that like this half year where we have exited approximately Rs. 480 odd crores, my sense is that it will be very similar to about Rs. 500 odd crores.

Dixit Doshi: For next 6 months.

- Archana Hingorani:** That is correct. Please remember that, that is the total, so it is not principal. It is principal plus profit, which will be another Rs. 500 crores.
- Dixit Doshi:** Okay, and few months back there was some news that IL&FS is planning some US\$ 1 billion environmental sustainable infrastructure fund. The news was that it will manage by their private equities' division, so are we going to manage that fund?
- Archana Hingorani:** Yes, as I mentioned in the infrastructure vertical, we are doing various strategies and including the group being involved in creating those strategies, so yes there is a conversation going on but it is a US\$ 1 billion platform to be done over time, so my sense is that while the group is gone out, that was what the news item was about, if you recollect. So yes, it is on the anvil and when it happens, we will be the Fund Manager.
- Dixit Doshi:** So the fees in that will be very minimal, right? How much could be?
- Archana Hingorani:** See, because it is an effort that we are basically trying to convince Scandinavian countries about the potential of technologies strategies in the environment and sustainable space and given that they do not have that much potential for growth seeing how they can invest their technology in India and obviously we can create a fund for that so my sense is that, I do not have a full sense of what the fee can look like but perhaps it will be in the range of 75 basis points to 100 basis points.
- Dixit Doshi:** And just one general question; we have been hearing quite a lot about HDFC or even The Piramal Group have been raising funds on the infrastructure side, so what difficulty are we facing because being such a brand name of the group and being in the business from quite long? I think we are getting it very tough to raise the funds from last couple of years.
- Archana Hingorani:** Sure, coming to the Piramal Model in the infrastructure space, that is a joint venture, in which case it means IIML does not have a role, joint venture can be done with IL&FS, it cannot be done with IIML as an investment manager because I am not a joint venture partner in that sense.
- Moderator:** Thank you, as there are no further questions from the participants, I now hand the floor back to Dr. Archana Hingorani for closing comments.
- Archana Hingorani:** I think we have explained the financials and we spoke to see people in the next call which will be in April.
- Moderator:** Thank you very much, 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.