



IL&FS Investment Managers Limited

Analyst Call to discuss Q3F11 & 9MF11 performance, along with a detailed scan of the business environment.

February 11, 2011

Dr Archana Hingorani, CEO, IIML: Good afternoon everybody. I hope by now all of you would have seen the third quarter and the nine months ended December 2010 results. As you can see, the results are flat at Rs 50.77 crore of consolidated PAT for the nine months. This is essentially because the funds under management from the older categories have been falling. But, we have had SCB as a new fund coming. However, we also have change in Forex which has impacted us negatively in this year as compared to the last year. We had significant gains last year. All of that put together, we have our net performance which is on par with last year. In addition we also had a merger with Saffron, which has now been incorporated into the results.

I now want to touch upon the business operations of the company. We have three verticals – growth private equity, infrastructure and real estate. On the growth side, we have two funds that are active i.e. the Leverage India Fund and the Tara III Fund. Leverage India Fund is on exit mode. In fact, some of the fees reduction that are happening under revenue line are on account of exit from that fund. Tara III has been fully invested. We are almost done with growth private equity in terms of investment and if you see in the portfolio it's performing quite well. The fundamentals of most of the investments in the Tara and Leverage India Funds portfolio continue to do as per our expectations.

On the infrastructure side, we have one fund under deployment right now as well as a smaller fund which is in the exit mode. Both of them are doing well, we have some exits that have happened from our infrastructure fund. We have also committed to new investments in this quarter. Nearly 60% of the Standard Chartered fund which is focused on India, China and other parts of South East Asia is committed and absolutely on track and actually doing quite well. On the real estate side, we have two funds under management. First fund is fully invested, second fund is about 60% committed and is continuing to do investments.

I wanted to spend a little bit of time on the real estate piece primarily because of the views in the market about what's happened to real estate. But I think we should understand that as a fund manager we have

all these funds locked in for X number of years. So from an IIML perspective, the real estate sector, like any other sector at some point of time, is going through ups and downs. But, it does not impact our revenue base at this moment. And even in terms of the portfolio if you see, our portfolios at some level are risk averse. We are largely into residential – nearly 60% of the portfolio is residential and we are largely into metros. Plus about 60% of the portfolio is also under construction, so it is very well in advanced stages. In fact nearly 20% is also now being looked at for exits. So overall the performance of the real estate funds has also been on track.

Recent events notwithstanding, obviously there will be impact of the issues that have been highlighted in the media lately. But that does not as far as IIML is concerned create any issues in the medium term. As I mentioned, we have also been able to do quite a few exits. Over the nine months period, we have been able to do about 10 odd exits in various formats. In fact, two exits have been in the real estate space so we are starting to see exits even in that portfolio, which is quite encouraging.

As far as new funds under management, we are in the market currently for two funds, possibly 3 funds. Two funds being, one Tara IV for a growth private equity, for which we started road shows in December. The interactions with investors have been positive and we do expect to do a first close in the first quarter of FY2012. And the second fund is the IL&FS Milestone JV fund, which also received quite an encouraging response. We have couple of more funds of about \$200-300 million which will be announced shortly which should give us sufficient investment abilities across our various verticals.

A little bit on the Saffron merger. Since we completed the merger we now have the entire team moving into the IIML offices which happened last month and has been fully integrated. So we are working with them on the portfolios. One of the prime reasons why we looked at Yatra/Saffron as an acquisition candidate was primarily to be able to raise funds through the listed platform. And we have already started working on that and hopefully one of the funds that we raise in FY2012 will be on that platform. This means the Yatra platform would have a shorter turnaround timeframe as it doesn't take very long once you launch a fund in the market in the listed space. So this should also add to the AUM that we expect to garner in FY2012.

This is what I thought I would share with you all. If there are any questions happy to take it.

Moderator: Thank you very much. We have the first question from the line of Ami Shah from LKP Securities. Please go ahead.

Ami Shah: I wanted to understand do we have some kind of contributions from Saffron in the current quarter, right?

Manoj Borkar, CFO, IIML: Right.

Ami Shah: Sir, can you share those numbers, income at the top line level as well as bottom line level? How much has Saffron contributed?

Manoj Borkar: The Saffron merger was completed sometime in the month of November and the merger was effective from August. So there is a longer than the quarter financials which we have got incorporated in this quarter and roughly around Rs 15 crore added to the top line and after the amortization in terms of the intangibles which were acquired as a result of the merger we will have roughly around Rs 1 crore which would have got added to the bottom line after tax.

Ami Shah: And sir incremental employee cost that we show from Saffron?

Manoj Borkar: Incremental employee cost will not be material because the team what they currently have is small and they are in the process of having the integration with the existing IIML real estate teams. So from a going forward perspective, it will not be that material. But going forward, the cost will be lower than that.

Ami Shah: Sir, going forward you see the cost quarterly would be lower than Rs 15 crore odd? So basically I am trying to understand is how much has the employee cost increased excluding Saffron and how much Saffron has added onto it so that to understand the trend line of the employee cost.

Manoj Borkar: The employee cost for Saffron is roughly around Rs 3.5 crore.

Ami Shah: Any other incremental cost which has happened I am trying to understand how it has panned out at the EBITDA level?

Manoj Borkar: They have only rent and employee cost.

Ami Shah: Okay. In the recent few months I mean, share price has significantly moved down. Are you noticing any kind of changes in the shareholding pattern, any key investors who have exited that company if you can share that data?

Manoj Borkar: So we have a varied share holder base so there is no specific large holding which we have from a FII perspective. But, I don't think there is any specific big share holder who has exited, there has been sporadic people who have accumulated in the short run which have exited but on the long term basis I think the bigger share holders are still very much there.

Ami Shah: A little bit more on Saffron. What do you think could be incremental EPS and how EPS accretive would Saffron be, down the line or we don't look at it that way?

Manoj Borkar: Basically we are looking for raising more funds on that platform. So along with whatever little bit gets accreted because of this acquisition we will have more coming from the new funds that we will be adding over the next few years. As Archana mentioned we are targeting a new fund on the same platform in FY2012.

Ami Shah: Okay. So more benefit would be in terms of raising new funds not in terms of existing profitability correct?

Manoj Borkar: There will be something coming out of this but more will be on utilizing that platform to raise more and more funds in a very short period of time.

Ami Shah: Basically, whatever margins that are reported for these five months would be maintained for the current existing funds?

Manoj Borkar: It will have some economies coming out of the cost that we will see on the integration, but otherwise it will be more or less the same.

Ami Shah: And so how is the carry structure for Saffron?

Manoj Borkar: Saffron has a similar carry structure as what we have in all our funds. So it is almost the same that you have a 20% carry which comes to the manager after a hurdle.

Ami Shah: Okay. And hurdle also will be similar to us?

Manoj Borkar: It is in the same range.

Ami Shah: Okay. And any other acquisition or investment opportunities for us on cards?

Archana Hingorani: No, we are just trying to digest this one now.

Ami Shah: Okay. That's it sir. Thank you.

Moderator: Thank you. The next question is from the line of Rakesh Tarway from Motilal Oswal, please go ahead.

Rakesh Tarway: Just wanted to know about this amortizations charge, is this one time or regular charge?

Manoj Borkar: This is the regular charge.

Rakesh Tarway: Okay. And the other thing is that interest expense is there in this P&L? What is the debt you have taken?

Manoj Borkar: This was a debt which was acquired offshore for the purposes of the acquisition. \$20mn was acquired at Libor+400bps.

Rakesh Tarway: Okay. One more thing, Dr. Archana was mentioning about the Yatra platform helping in fundraising. I didn't get it. What does it exactly mean, what are you trying to say there?

Archana Hingorani: What I was trying to say was that when we looked at various options of what we would like to amalgamate into our platform. The reason we looked at Yatra was because it's a listed entity with the ability to do multiple fund raising in that entity. So our focus in the near term would be to also start raising capital through that entity. In an unlisted space, when you go out to raise funds, it takes anywhere between 9 to 12 months in a good economy and good view point and takes anywhere between 9 to 24 months if everything is going slow. If you raise money through the listed entity then the time period once you share the perspectives etc, it doesn't take more than 3 to 4 months. So our idea is to be able to while continuing our main strategy of accessing unlisted investors, we would also now start looking at the listed platform to raise new funds.

Rakesh Tarway: Okay. One more thing, you had an investment in DB Realty. Have you already existed out of that or they are still there?

Archana Hingorani: No, we are under a lock in period.

Rakesh Tarway: When does the lock open ma'am.

Archana Hingorani: I think it is some time end of this month.

Rakesh Tarway: Okay. Thanks a lot.

Moderator: Thank you. The next question is from the line of Gyanesh Changlani from Intime Spectrum Securities, please go ahead.

Gyanesh Changlani: I would like to know what was the investment amount in DB Realty and the cost of it in that fund.

Archana Hingorani: I am sorry, those are privileged information I cannot share that with you. It belongs to the fund.

Gyanesh Changlani: Okay. So could you share with me what would be the roadmap with regards to the exit from this investment?

Archana Hingorani: Well it's obvious that it's listed, but the price has fallen. So clearly I am not looking to exit it today. We will have to wait, that's clear to us. And we know the portfolios of the company in the sense that all the projects that are underlying and they are as of now doing all right. Most of them are residential and under construction. So clearly there is inherent value there. So we will take a call on it as and when we see the right time to exit based on our expectations on the return.

Gyanesh Changlani: And there were reports that your representative has quit as the independent director. So are you planning to replace?

Archana Hingorani: No, actually we cannot. The reason he has resigned from the board is because we no longer can be independent post listing. After some time you need to resign because you can no longer be a nominee director on the board of a listed company. And that's the reason he has resigned and therefore there will not be any replacement either.

Moderator: Thank you. The next question is from the line of Grishma Shah from Envision Capital, please go ahead.

Grishma Shah: I just wanted to know the current asset under management and how much has Saffron added and you have highlighted your plan to add another \$200-300 million, so what will it culminate to in Q2 FY12?

Archana Hingorani: See as of date we have \$3.2 billion. It includes \$400 million of Saffron. We have a few funds being raised. So our expectation is that by the end of Q2FY12 we should have around \$300 to \$400 million additionally.

Grishma Shah: And if I look at the employee cost, it's almost like a 50% rise. So any significant reason for such a sharp jump in the employee cost?

Manoj Borkar: Yeah. This is mainly because we have also got the cost of Saffron for the five months effective after the merger. That is sitting in this amount of Rs 15 crore for the quarter.

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

Anuj Anandwala: Could you give us a brief on what is happening in the Middle East JV with Gulf countries that you had in the last quarter. We were told that it's going to start in the calendar year.

Archana Hingorani: It has started. Actually the JV, we have setup the joint fund in the sense we have completed the paper work between the two entities and we have actually also done a lot of soft marketing to a lot of large institutions in the region. We should be launching the fund officially sometime in April. It is behind schedule primarily because of the Middle East region being in a state of crises. And we have talked to a lot of investors and we do expect to be able to launch it shortly.

Anuj Anandwala: So when will this \$400 million raised through the JV come to us?

Archana Hingorani: If we start raising it in April it will take at least nine months.

Anuj Anandwala: Yeah, regarding the amortization amount you said that it is going to be on a regular basis up to what time of period would this occur?

Manoj Borkar: This was basically based on the useful life of the fund. This is for a fairly reasonably long time, over the remaining life of the fund.

Anuj Anandwala: Right. But the entire fund you were talking about or how does it work?

Manoj Borkar: General private equity funds are as long as 10 to 15 years. So, over the remaining useful life of that particular fund.

Anuj Anandwala: Yes. Okay, thanks a lot.

Moderator: The next question is from the line of Jigar Walia from Ohm Group, please go ahead.

Jigar Walia: I have got a few questions, one is just a clarification the current quarter number includes five months of Saffron performance in terms of revenue and cost?

Archana Hingorani: That's right.

Jigar Walia: And there are no one-offs.

Archana Hingorani: Correct.

Jigar Walia: Ma'am as far as the new road show is going on, in terms of the fee structure it remains the same?

Archana Hingorani: For the growth equity that's trends have always been 2%. So that is the same. In real estate, the trend about was never 2%. So it is always in a 1.5% range. That's where it will be.

Jigar Walia: Great. And in terms of the hurdle rate, these also remain the same over a period of time?

Archana Hingorani: They are anywhere between 8% to 11% depending on the interest rates in the market as well as the risk view of the investors, so that doesn't change that much.

Jigar Walia: And just to understand the strategy with Yatra, it is a listed company which will raise equity based on the plans that the company has. So there would be a dilution based on the plans scenario which will happen?

Archana Hingorani: No, what we plan to do is issue multiple classes of share, which means that the previous issue that was focused on a particular fund ideas, that does not get diluted by the new funds.

Jigar Walia: And the fund will then give the AMC to IL&FS Investment Managers so then that gets the fees and whatever the carry is there, we get it based on the holding in the fund?

Archana Hingorani: No, not based on the holding in the fund. We get the carry for the entire fund. As the manager, we will get the carry that we would normally get in any other fund.

Jigar Walia: Okay. So there won't be any like inter-company transactions and netting off.

Manoj Borkar: We are not share holders of Yatra. We are the fund managers of Yatra.

Jigar Walia: Do we invest into projects or we are investing only at corporate level?

Archana Hingorani: Well I think that's a question only aimed at real estate. Because in the other categories, if the guy is doing business only through one entity so you always invest in that company. But in real estate most of our investments, in fact our preference, is direct investment into the project so that we have more control over what happens to it.

Jigar Walia: And are we a little slow in terms of deployment for the second real estate fund. Behind schedule generally I mean as compared...

Archana Hingorani: No, we are not behind schedule. We have deployed \$900 million. Final close was in December 2008. So it's been two years our investment period is three years, we are on target. It is not behind schedule.

Jigar Walia: Okay. And does it generally matter when markets are bad does draw downs become an issue at any point of time?

Archana Hingorani: So far we have not had that problem at all in any of our funds. They all have paid up on time.

Jigar Walia: Okay. And so the new fund that we are targeting, earlier we used to target mainly larger sovereign clients and I think we have lot of sovereign investors in our earlier funds. Is that changing right now with new funds?

Archana Hingorani: No actually it hasn't changed. In fact, I would say nearly 85-90% of the money that we have, continue to be institutional. We had done a small experience testing with one of our funds in 2008 to see what was the benefit of accessing that market. Obviously there are benefits, but it comes with this risk of not being able to do draw downs on time incase individuals cannot garner the resources. So you run a risk with that. So clearly our bend of mind is towards continuing to raise funds from our original investors which are primarily institutional.

Jigar Walia: Most of our project investments are stakes in the projects or are they fixed income types?

Archana Hingorani: No, we are investing in equity. So these are all equity stakes.

Jigar Walia: Okay. I have a few questions on employee compensation. They have a regular pay hikes year-after-year in generally in terms of inflation?

Archana Hingorani: See, we did not do a pay hike in FY10, given the general market conditions. A 5% hike was only given to employees of very lower cadres. So really there was no increase. In this fiscal we did an average increment of 15% - an equivalent of 7.5% for each year.

Jigar Walia: Okay. And do they have a variable element over and above carry?

Archana Hingorani: There is some performance bonus that comes in every year but you will see that over time that is going to keep going down as when we get closer and closer to carry. So at some point in time, carry will replace bonus.

Jigar Walia: Now that we have Saffron team and it was a small team that has moved in so their existing premises would have been vacated and we would be saving on that.

Archana Hingorani: Well, their existing premises got vacated and they came into ours right, so we had to increase the space here. So, there is not much in that.

Jigar Walia: Okay. Thanks a lot.

Moderator: Thank you. The next question is from the line of Amit Bagaria from Angel Broking, please go ahead.

Amit Bagaria: Out of this \$3.2 billion for AUM, what amount is invested in real estate?

Archana Hingorani: Well I think the way you need to look at it is invested is not relevant from an AUM and fee earning perspective. To answer your question though, about \$1.8 billion funds under management is focused on real estate.

Amit Bagaria: Now, we are sitting in the 2011 right now. So by 2015 that is five years from now what is the AUM target that we should have?

Archana Hingorani: I think your guess will be better than mine especially because when the market has changed significantly in the last one and a half years for fund raising. We can talk about this year our focus is already on the two funds in the market, we want to take out two more funds so hopefully we should be able to add over the year \$600-700 million additional into FY2012.

Amit Bagaria: Okay. But as a company do we have any target that this is our five year vision?

Archana Hingorani: See it is nice to say that we have a vision and a target but the structure of the investors is as such that I cannot raise my next fund in a particular sector till I complete 75-80% deployment of a particular fund. So it gets linked to that. So even if other than saying that I am going to invest regardless how the market is, which is counterproductive to the growth of your business it doesn't make sense to say that I am going to – in five years go to x AUM. And if you look at our growth pattern from 2005 onwards we were less than \$300 million and in 2011 we were at \$3.2 billion. So that gives us an indication. Did I have a five year plan that I would get to \$3.2 billion by 2011, the answer is no.

Because it is all linked to how you deploy funds and obviously what returns you are giving investors, so that they give you more money.

Amit Bagaria: Okay. Now secondly, if we go forward and raise more money on \$3.2 billion for any significant contribution, we need to raise money in the multiples of \$500 million. Now to deploy that chunk of money, the major sectors are real estate and infra. So can we assume that going forward the focus actually lies on infra and real estate only.

Archana Hingorani: No. I think if you see the way the portfolio is, it is more of real estate at relatively lesser amount of infra and growth private equity. And that is only because those funds got raised at a particular point in time when there were no other real estate funds so we have raised those funds. Whereas growth and infrastructure we still had money and we had to raise new funds. If you see the last few rounds you see more and more of infra and growth is being raised. So you will see those catching up. Such that they also start contributing more and real estate start contributing less.

Amit Bagaria: So in case of growth which was sectors are we actually focusing upon?

Archana Hingorani: We are quite sector agnostic. So if you look at our portfolio we have done construction, we have done logistics, we have done mobile related, we have done port related services, we have also invested in waste management, in cable network. So it's very, very diversified. Our idea is to be able to work with companies that we know personally. So most of the transactions that we do we try to do through direct relationships and not through intermediaries. This takes a little longer to build but clearly the return parameters and those are equally profitable vis-à-vis the other roads.

Amit Bagaria: Okay, perfect. And the last question is what is our policy for dividend. Do we intend to stick to the payout that we have been doing historically?

Archana Hingorani: Historically, our policy has been to dividend out as much money as possible which is not required, because this is not a capital intensive business. So if you see we will continue to have that policy going forward also.

Amit Bagaria: Okay. Thank you so much. Best of luck.

Moderator: Thank you. The next question is from the line of Samit Vartak from Axis Holdings, please go ahead.

Samit Vartak: What is the breakup in the income of the management fees versus carry?

Archana Hingorani: Right now there is no carry in the income schedule.

Samit Vartak: Okay. So is there any way to estimate what is the carry going forward?

Manoj Borkar: As I explained earlier, the carry structure is more back-ended for a fund. It's not carry which we get on a regular basis or every quarter. It's only after you return the entire capital together with whatever the aggregate hurdle and then you get into it carrying of the profits in the form of a carry. So it is not something which occurs regularly in the income line but as when you are fund start maturing you will always see this blip in your income line because of carry and as we are doing more and more funds we believe that over a period of time it should start coming to the top line on a regular basis.

Samit Vartak: Okay. So from the number of funds what is the maturing timeline?

Manoj Borkar: See we have Leverage India Fund which I think hopefully will get into the carry mode in FY2012.

Samit Vartak: Okay. And any estimate based on how the fund is doing on the IRR?

Manoj Borkar: The fund is doing reasonably well. It has achieved a good exit through market as well through strategic sale and we hope if the capital markets remain in a good condition notwithstanding what has happened in the last three months we should be able to get a good amount of carry out.

Samit Vartak: Okay. And beyond that which would be the next fund maturing?

Manoj Borkar: We have another small infra fund called Pan Asia fund I think that should get into some amount of carry towards the end of 2012 or maybe middle of 2013.

Samit Vartak: Okay. Thank you so much.

Moderator: Thank you. As we have no further questions I would like to hand the floor back to Dr. Archana Hingorani for closing comments, please go ahead.

Archana Hingorani: Thank you all for joining us. I hope this discussion was useful and you got to understand a little bit about how we function at IIML. I am sure we will be back next quarter to discuss the Q4 and full year results. Thank you for participating.