



Private Equity

IL&FS Investment Managers Limited



ANNUAL REPORT 2015

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr S M Datta
Chairman

Mr Ravi Parthasarathy

Mr Bansi S Mehta

Mr Jitender Balakrishnan

Mr Arun Saha

Mr Vibhav Kapoor

Mr Shahzaad Dalal

Mr Ramesh Bawa
Managing Director

Dr Archana Hingorani
Chief Executive Officer &
Executive Director

Mr Milind Patel

COMPANY SECRETARY

Mr Sanjay Mitra

BANKERS

HDFC Bank Limited

STATUTORY AUDITORS

M/s Deloitte Haskins & Sells LLP
Chartered Accountants

INTERNAL AUDITORS

M/s Patel & Deodhar
Chartered Accountants

SECRETARIAL AUDITORS

M/s Mehta & Mehta
Company Secretaries

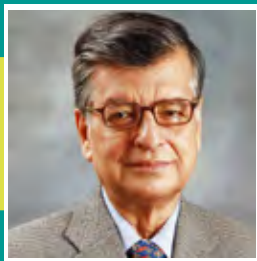
REGISTRARS & SHARE TRANSFER AGENTS

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Tel : +91 22 2594 6970 Fax : +91 22 2594 696

REGISTERED OFFICE

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Tel : +91 22 2659 3531 Fax : +91 22 2653 3056

CHAIRMAN'S REFLECTIONS



Mr. S M Datta
Chairman

Dear Shareholders,

When one examines the global and the Indian economic outlook, opinions are diverse, the growth expectations inconsistent across geographies, and the data often contradictory. For instance, the Indian GDP growth numbers look healthy, especially after the revision in the base year and the change in methodology of its computation. However, growth in industrial production has been erratic, the credit offtake has been subdued, and the growth in trade has been below expectation. Nonetheless, both China and India continue to evoke interest of both strategic and financial investors, given their underlying growth potential

Therefore if one assesses key 'objective' parameters, the country is in an advantageous position. Softening of inflation, driven by falling global commodity prices, especially that of crude oil, has been a huge relief. So has been the relatively higher degree of control on the twin deficits – the current account and the fiscal. The positive impact of these developments cannot be overstated. With the inflation under control, the Reserve Bank of India has already announced three rate cuts, aggregating 75 basis points since January 2015. And more are expected during the course of this fiscal. This reversal in the interest rate cycle is bound to spur investment. Capital formation is also expected to gain pace on the back of the initiatives to strengthen the manufacturing base through 'Make in India', through focus on increasing ease of business, by taking steps to reduce hurdles facing the infrastructure sector, etc. The swift action taken on the issue of coal block cancellation by conducting auctions in a transparent manner is a case in point. Not surprisingly, the rating outlook of India has improved, with the rating agencies upgrading the country outlook to 'positive'

These developments augur well for your Company. The improvement in the macro-economic environment will have a cascading impact on Corporate India's capital requirements. As before, Private Equity, being the port of first call for many emerging businesses, will benefit. And with the possible tag of the fastest growing economy in the World, it would be difficult for Private Equity Fund investors to ignore India. Detractors could argue that many challenges still confront the Indian economy and that the revival in growth would take longer than expected. At a global level, the economy is still fragile, and subject to multiple factors/ downsides - there is a possibility of renewed economic turmoil in Europe,

a Fed tightening cycle could unfold sooner and more aggressively than expected, and new geo-political fault lines may emerge, which can derail the global growth trajectory, which in turn could impact India


Some of this may indeed turn out to be true. My view on this – if there is uncertainty, we need strategies to thrive in it. And if, as I believe, we are directionally on the right growth path, then we need new products to capitalize on the opportunities which would emerge therefrom. Towards this goal, we have expanded the IIML businesses to include debt funds as well as integrated investment banking led private equity transactions focused on opportunities arising from stressed assets. This expansion allows your Company to enter new areas of business created by external circumstances such interest rates, the longer economic down cycle etc. This expanded canvass will be spearheaded by Mr. R C Bawa, who has taken charge as the Managing Director. He has had a long and illustrious career as part of the IL&FS's financial services group. I am sure that under his guidance, your Company would be well placed to implement the desired strategies. As a result, FY2016 will see a spate of fund raising activities in all verticals including infrastructure, real estate as well as debt funds

A few of these strategies, as I am sure Mr. Bawa and Dr. Hingorani would talk about in this Report, are already in the works. When implemented, these new forays will enable us to strengthen our leadership role in the Private Equity industry

With Regards,

Mr. S M Datta
Chairman

June 19, 2015



“...if there is uncertainty, we need strategies to thrive in it. And if, as I believe, we are directionally on the right growth path, then we need new products to capitalize on the opportunities which would emerge therefrom”



R C Bawa
Managing Director

FROM THE OFFICE OF THE MANAGING DIRECTOR

“...substantial amount of work has been done by the team to get us to this juncture, and that more importantly, there are a lot of avenues which the team has the potential to explore”

Dear Shareholders,

It gives me great pleasure to be writing to you for the first time. Your Company is truly unique in the Private Equity Fund Management space. It has been at the forefront of the Private Equity in India over the last two decades, and it is indeed exciting to be part of this venture

Over the last couple of months, I have interacted with a cross section of your Company's stakeholders. An important constituent are the offshore fund investors and onshore banks and institutions. The India story seems to be back at the center of investor's mind space and there is a palpable sense of anticipation and willingness amongst these investors to be part of the interesting times which lie ahead. India is at a sweet spot of strong leadership, improving governance, strengthening fiscal indicators, and an environment of softer interest rates which drives up business confidence and would be key to re-igniting the capital expenditure and consumption cycle

As a natural outcome, we are witnessing an improved Private Equity environment. Private Equity Funds allocated to the Emerging Asia region grew by 8% in CY2014, in contrast to the overall global numbers which fell 9%. In India, funds raised in CY2014 were 1.7 times that raised in CY2013. On the investment front, deals increased by 28% to \$15.2 billion - inching closer to 2007 peak levels of \$17.1 billion. Against this backdrop, we expect that our constant focus on engaging fund investors with new fund products and investment formats will bear fruit

The other important constituent of our stakeholders are your Company's employees. I believe that substantial amount of work has been done by the team to get us to this juncture, and that more importantly, there are a lot of avenues which the team has the potential to explore. For instance, infrastructure is eminently amenable to a stable yield play. Infrastructure debt funds are key to extracting yields and have a significant potential to re-finance debt of operating infrastructure projects. IL&FS has been a pioneer in



establishing such funds – it raised India's first infrastructure debt fund in February 2013. Since then, it has, in partnership with Life Insurance Corporation of India, already raised two such debt fund schemes, with aggregate commitments of US\$ 220 million. These closed ended schemes, with maturities of 5 to 12 years, have received highest rating of "AAA idf-mf" from India Ratings. Contributors to these schemes are marquee Indian banks and institutions

I believe that there is immense potential for such debt funds, and that we have in-house capability to mine this opportunity. Hence, with view to exploit synergies and build shareholder value, we have decided to integrate the infrastructure debt fund practice with IIML's private equity business. This coupled with new initiatives like focusing on the investment banking led private equity transactions would lead to significant value creation over the medium term

Lastly, the most important stakeholder is you, our shareholders, and I would like to thank all of you for being part

of IIML's journey. Tremendous shareholder value has been created over the last decade. The last couple of years have however been challenging; your firm faith in the Company, despite the headwinds which we have faced, is a source of motivation for us to reach new heights. I believe we are now standing at a point from where we enter into our next round of growth, which would be, as before, if not more, a rewarding experience for all of your Company's stakeholders

With Regards,

R C Bawa
Managing Director

June 21, 2015





Dr. Archana Hingorani
Chief Executive Officer & Executive Director

NOTES FROM THE CHIEF EXECUTIVE

“...the last couple of years have also been fruitful in terms of our ability to showcase successful divestments. This facet is as important for your Company as is raising new funds, as both aspects feed off each other.”

FY2013

₹5.4bn

FY2014

₹9.7bn

FY2015

₹11.7bn

Increasing Yearly Realisation from Liquidity Events

Dear Shareholders,

Over the last couple of years, the investment community has had a guarded, more circumspect view on global and local issues that impinge on the private equity environment. In my previous communication in last year's Annual Report, I had talked about a challenging environment, and the need to protect and preserve value. This year, I write to you with the greater sense of conviction on the path that lies before us. This assurance comes from the positive newsflow on the economic front, backed by what we are hearing from offshore private equity fund contributors. And while the gap between conviction and certainty will have setbacks and delays, I believe time has now come to graduate from preserving value to enhancing it

An early, small albeit significant indicator for the change in perception has been the First Close of our fourth generation Private Equity Fund. The Fund had been on the road for fund raising for a considerable time; the winds on change blowing from New Delhi played an important part in getting us to a stage where we now have deployable funds and are active in the market, looking at fresh opportunities

Bolstered by this success, we have now put together a fund product for the infrastructure space and are working full steam on two alternate real estate and infrastructure focused funds on the listed platform. Cognizant of the bias of offshore investors towards higher cashflow predictability, the investment thesis for these new products would encompass stable, operating assets in addition to our traditional focus on growth investments. The fund structures would accordingly be formulated to ensure efficient yield extraction. We will mine our existing relationships as also work with strategic placement agents / gatekeepers in various target geographies to reduce the fund raise timelines

In addition to our existing fund verticals, we have also initiated work on broadening our fund offerings. We have a clear and present advantage in the infrastructure space on the back of our parentage as also on account of our investment experience across three dedicated prior vintage infrastructure funds, one of which has been fully divested, and the other which we expect to fully divest from during the current fiscal. Leveraging on this, we are now integrating the infrastructure debt fund business into IIML's operations. Upon this enhancement, we will have the capability to service the entire spectrum of private infrastructure, an area which is both huge and which holds promise for significant growth. It is in this context that we are privileged to have Mr. Bawa to guide us through this new stage of your Company's growth. Needless to add, integration of the debt fund business within IIML will aid in driving your Company's financials

In parallel, we are also putting together a portfolio of assets, investment into which calls for significantly higher level of capital commitment. We will leverage our investor base to put together a consortium which invest into these pre-identified assets. These investment banking led private equity transactions will aid in smoothening our revenue curve, which till now has been contingent upon fund closings. Fund closings are dependent on multiple factors and typically do not occur within a financial year. This limitation gets addressed by focusing on strategies which have a shorter time to market

Looking back, while times had been challenging, the last couple of years have also been fruitful in terms of our ability to showcase successful divestments. This facet is as important for your Company as is raising new funds, as both aspects feed off each other. This year we generated reverse cashflows of ₹11.7 billion. Comparable figures from the previous two years have been ₹9.7 billion and ₹5.4 billion respectively. Credit for this remarkable performance goes entirely to the team of fund managers, who relentlessly pursued every strategy in the book to ensure timely and value accretive exits. Some divestments completed during the fiscal are presented in the next section of the Annual Report. These are but a sampler to the effort which has gone into the 24 divestments which we undertook during FY2015

The coming year is full of expectations; we hope it offers us opportunities to enhance the value of our portfolio, to establish successful connects with our investors, and to rollout our new initiatives; all means to the end for what we strive to achieve viz. a consistent growth in stakeholder's value

With Regards,

Dr. Archana Hingorani

Chief Executive Officer & Executive Director

June 23, 2015

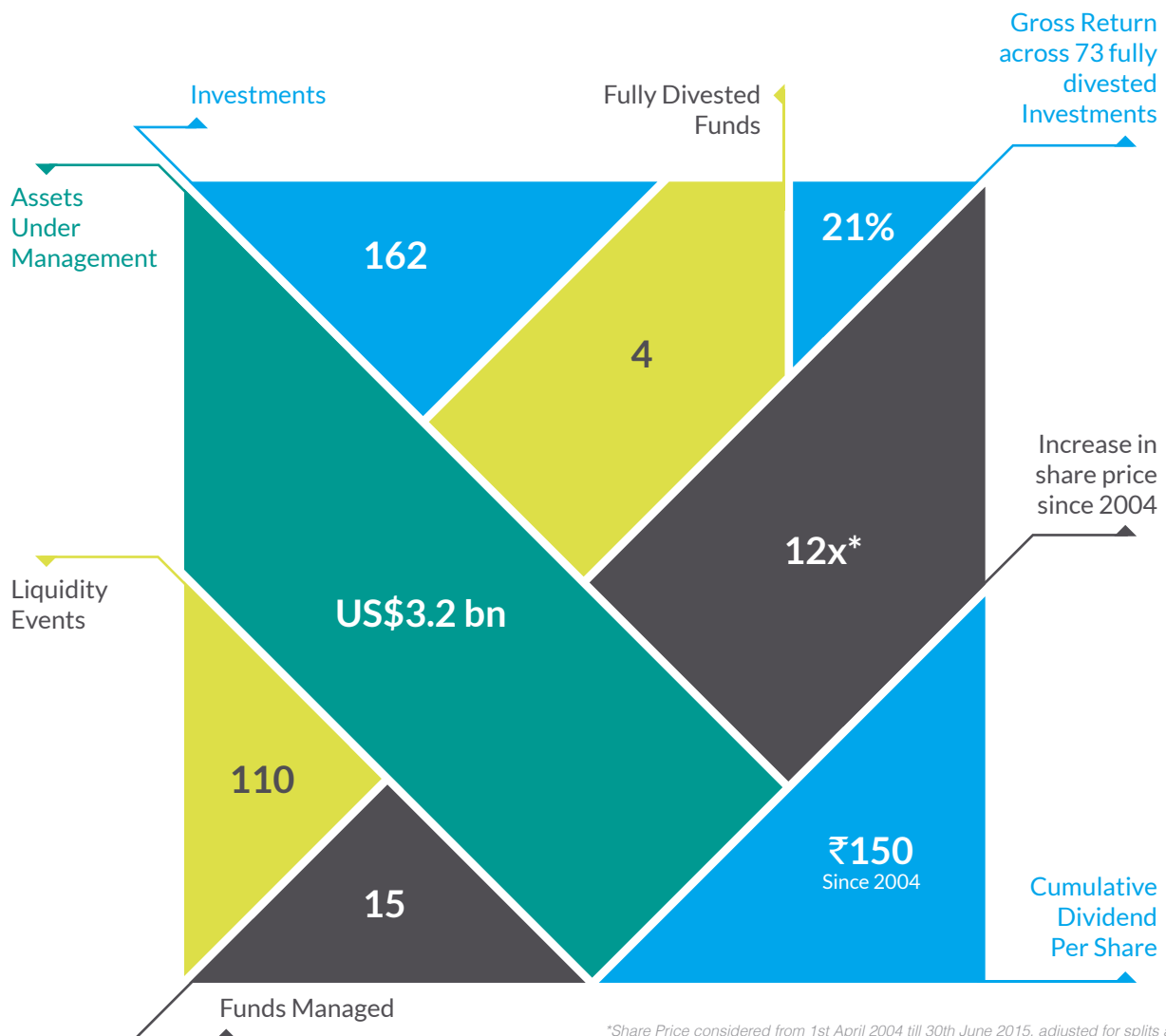
FINANCIAL HIGHLIGHTS

Delivering Performance

(₹mn)

Particulars	FY2011	FY2012	FY2013	FY2014	FY2015
Total Income	2,012	2,247	2,269	2,229	2,087
Total Expenses	1,107	1,294	1,258	1,222	1,122
PBT	905	953	1,011	1,007	965
PAT	690	735	766	725	730
PAT(%)	34	33	34	33	35
EPS *(₹)	2.3	2.4	2.5	2.3	2.3

* Face Value of ₹2 per share. Adjusted for 1:2 Bonus Issuances in FY2013



*Share Price considered from 1st April 2004 till 30th June 2015, adjusted for splits and bonuses