



Private Equity

IL&FS Investment Managers Limited



# 2017

ANNUAL REPORT

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

**Mr S M Datta**  
Chairman

**Mr Ravi Parthasarathy**

**Mr Bansi S Mehta**

**Mr Sunil Mehta**

**Ms Shubhalakshmi Panse**

**Mr Hari Sankaran**

**Mr Vibhav Kapoor**

**Mr Ramesh Bawa**  
Managing Director

**Mr Milind Patel**

## CHIEF EXECUTIVE OFFICER

**Mr Krishna Kumar Gangadharan**

## CHIEF FINANCIAL OFFICER

**Mr Manoj Borkar**

## COMPANY SECRETARY

**Mr Sanjay Mitra**

## BANKERS

**HDFC Bank Limited**

## STATUTORY AUDITORS

**M/s Deloitte Haskins & Sells LLP**  
Chartered Accountants

## JOINT AUDITORS

**M/s B S R & Associates LLP**  
Chartered Accountants

## INTERNAL AUDITORS

**M/s Patel & Deodhar**  
Chartered Accountants

## SECRETARIAL AUDITORS

**M/s Mehta & Mehta**  
Company Secretaries

## REGISTRARS & SHARE TRANSFER AGENTS

**Link Intime India Private Limited**  
C-101, 247 Park, L.B.S. Marg, Vikhroli (West), Mumbai 400 083, India  
Tel : +91 22 4918 6270 Fax : +91 22 4918 6060

## REGISTERED OFFICE

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Bandra Kurla Complex, Bandra (East), Mumbai 400 051, India  
Tel : +91 22 2653 3333 Fax : +91 22 2653 3056





**S M Datta**  
Chairman

# CHAIRMAN'S STATEMENT

Dear Shareholders,

The past couple of years were challenging for the Indian economy due to general slowdown in world output, systemic bottlenecks hampering domestic growth and subdued level of capital formation. However, consistent efforts by the government to usher in transformational reforms and initiatives has improved confidence. This is reflected in robust FDI inflows, buoyant stock markets, improved ranking in ease of doing business and forecast of India being one of the fastest growing economy in CY2017

CY2016 will be considered as a watershed year in India on account of two path breaking events, namely Demonetization and GST. While these initiatives would lead to a degree of flux in the short term, they are expected to integrate India's large informal sector with the formal economy in the long term. This will generate several beneficial effects such as increased tax to GDP ratio, better efficiencies and enhanced transparency

Despite an uncertain global economic situation and emergence of various geo-political stress points, India's GDP is expected to grow at 7.1% in FY2017 aided by normal monsoons, lower commodity prices, increased public investment and improving exports. However, this is lower than 8% growth achieved in FY 2016. This reduction is largely ascribed to the residual effect of demonetization. In addition, private sector investment continues to be lackluster due to overleveraged balance sheets and cautious lending by banks due to high NPA levels. However, the overall growth indicators are intact and with improved fiscal management and consistent monetary policies the economic environment is expected to be conducive to further growth. The country is expected to grow at 7.1-7.5% in FY2018, which would be amongst the fastest globally

However, the key ingredients to sustained growth would be revival in private investment and increase in consumption demand, which would require further easing of the monetary situation. All inflation indices have moderated over the previous years, which provides scope for interest rate reduction. If these trends continue, interest rates could soften in H2 FY2018, provided food inflation shows a downward bias on account of normal monsoons. Further, the Reserve Bank of India and the Government are aligned in resolving the banking sector stress. This should result in resolution of large NPA accounts and coupled with calibrated recapitalization of banks should act as a major catalyst in reviving the capex cycle

The current domestic scenario provides ample opportunities for Private Equity investment to diversify into areas such as distressed assets, investment trusts, public private partnerships in new sectors, start-ups in e-commerce, digital and telecom space and other niche areas such as education and health. Given the broad spectrum of options available and different risk-return profiles of each avenue, it is an exciting phase for the industry as a whole. Amongst these options, the focus for your Company would be to address the opportunities in the infrastructure space, by leveraging the IL&FS Group's strengths in infrastructure development and financing. Today, opportunities in the infrastructure space span across management of stable, operating assets to investments into new builds, specifically in the renewable power sector, and to addressing the capital need of stranded infrastructure assets

The Company, for the past two years, has been diligently working on developing specific business lines around these themes. These efforts are expected to translate into revenues during the current year. In addition, the Company is striving to complete planned divestments across its three verticals of real estate, infrastructure and growth-private equity. Given the challenging liquidity scenario in Corporate India, some of the divestments expected in CY2017 have got delayed. The Company expects to step up the pace of divestment during the current year, and divest a substantial portion of its portfolio. This would lay the ground for fresh capital raising, largely focused on the infrastructure sector

Dr. Archana Hingorani, who served with distinction for 11 years, has left the Company. I take this opportunity to congratulate Mr. Krishna Kumar Gangadharan on his elevation as the Company's Chief Executive Officer. I believe that all our stakeholders would extend him the same encouragement and co-operation as they have done to his predecessor

With Regards,

**S M Datta**  
Chairman

July 5, 2017



**// The current domestic scenario provides ample opportunities for Private Equity investment to diversify into areas such as distressed assets, investment trusts, public private partnerships in new sectors... //**





## FROM THE OFFICE OF THE MANAGING DIRECTOR

**R C Bawa**  
Managing Director

Dear Shareholders,

The year gone by was largely positive for India. The Indian economy attained an encouraging growth rate. Higher business confidence was supported by reduction in interest rates, increase in foreign direct investments and announcement of major initiatives targeted at increasing public spend. However, at the global level, the first half of FY2017 witnessed 'Brexit', with resulting uncertainty in the European Union, and further increased geo-political tensions in Middle East. The outcome of the US general elections was also unexpected. These developments may impinge on trade policies of developed economies and have the potential for weakening the global trade framework. Within this perspective, and despite the headwinds, India has continued to be amongst the most attractive emerging markets

The Indian Private Equity (PE) space also had a similar set of mixed outcomes, though with a downward bias. The Private Equity fund raising dipped 45% year on year in FY2017 to US\$ 3.5 bn, while the value of transactions dropped 46% year on year to US\$ 11.6 bn. On the positive front, divestments witnessed an increasing trend during FY2017, with US\$ 6.7 bn worth of divestments vis-à-vis US\$ 6.2 bn in FY2016

The PE industry has been undergoing a process of evolution over the last couple of years. This evolution factors in the

learning of the previous business cycle and adapts to the opportunities being thrown up by the current business environment. We believe that interesting themes are beginning to emerge, especially in the Infrastructure space. It is a space that has been our forte and where we have the ability to leverage our Group strength

An excellent example of this synergy is our foray into managing infrastructure investment trusts (InvITs). The focus of institutional players has shifted to acquisition of operational rather than development stage assets and InvITs fully satisfy this requirement. Recognizing this, IIML has partnered with its Group Company, IL&FS Transportation, to establish an InvIT focused on the road sector. Fund raise for this vehicle is underway. InvIT management is a new business line for your Company, which has the potential of being scaled up over time

Likewise, burgeoning non-performing assets, more particularly in the infrastructure, steel and textile sectors, has created space for distressed asset funds. The preference, here too, is for ready assets that require a combination of capital and managerial capability in order to nurse the asset back into being cash generating for its stakeholders. Given the significant infrastructure experience of the IL&FS Group, the focus of your Company in this segment is in addressing the issues faced by stranded infrastructure assets. In this



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regard, your Company's partnership with Lone State for an infrastructure distressed asset fund, focusing on the power and road sectors, is opportune. Consummation of transactions in this space would necessitate close co-ordination between various arms of the IL&FS Group

While the participation of the private sector in infrastructure development will continue to be meaningful going forward, the government's role and investment in this space will also continue to be significant. It is therefore important to work directly with governments to facilitate infrastructure creation. Our joint venture with the Government of Andhra Pradesh to establish and manage an urban infrastructure fund is a prime example of a unique framework of public private partnership. We believe that this initiative has the potential to play a transformative role in the infrastructure development of Andhra Pradesh

Other initiatives of your Company, such as the IL&FS India Infrastructure Fund and senior debt/mezzanine debt offering of IL&FS Infrastructure Debt Fund, targeted at addressing the equity and debt requirements of infrastructure projects in India are important components for developing our capacity as a 'one stop shop' for infrastructure funding. Furthermore, our initiative to launch a similar infrastructure product in partnership with a large institutional investor in the Middle East targeting the African sub-continent is

also receiving good traction. We believe that we can attain substantial progress in these initiatives during the course of FY2018

A combination of challenges, both industry and portfolio specific, has resulted in reduction of our fee earning Assets under Management. As a result, the financial performance for FY2017 has been below par. It is important that we build on our existing platform as also create new ones in order to re-build and develop a visible growth trajectory. The focus for FY2018 would therefore be to harvest our existing portfolio and also simultaneously focus on new fund raise, including new initiatives which I have outlined above. I am confident that the IIML team will rise to the occasion and deliver tangible results in the coming year

With Regards,

**R C Bawa**  
Managing Director

July 7, 2017

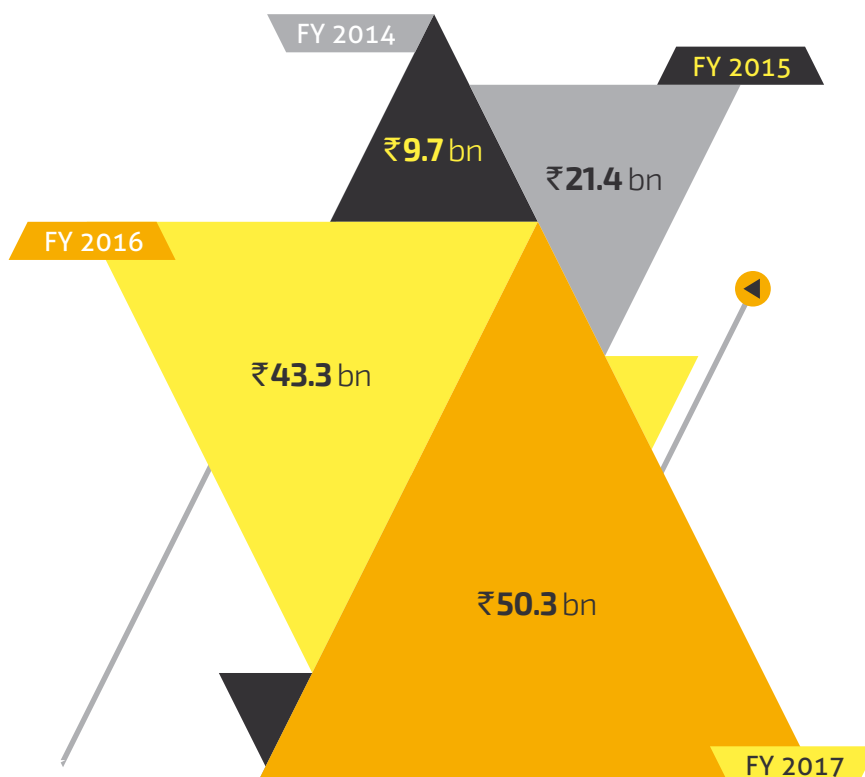
# FINANCIAL HIGHLIGHTS

(₹ mn)

Particulars	FY2013	FY2014	FY2015	FY2016	FY2017
Total Income	2,269	2,229	2,087	1,908	1,151
Total Expenses	1,258	1,222	1,122	1,160	1,013
PBT	1,011	1,007	965	748	139
PAT	766	725	730	561	68
PAT(%)	34	33	35	29	5
EPS <sup>*</sup> (INR)	2.5	2.3	2.3	1.8	0.2

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

## CUMULATIVE DIVESTMENTS

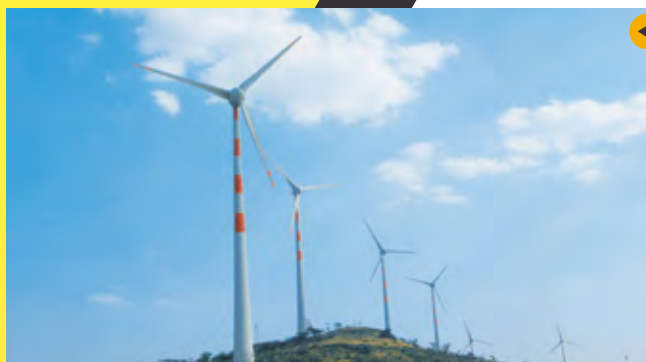






# New Avenues For Growth

The current business environment has thrown up a host of new opportunities, especially in the Infrastructure sector. IIML has sought to capitalize on these by developing new business lines. With significant work completed on this development, IIML can expect to benefit from these themes during the current financial year. The regulatory framework also provides an enabling environment for the Company to develop a sustainable growth portfolio around these categories



### Infrastructure Equity Fund

IIML is establishing a US\$ 1 bn infrastructure fund to tap into two distinct opportunity sets. One, a variety of reasons have led to excess leverage in the sector. There is therefore need to recapitalize infrastructure developers so as to enable them to regain the investment appetite. This is specifically the case in sectors like power and roads. Secondly, the economy continues to offer significant growth opportunities, many of which have got a considerable push on account of a positive government action. The waste management sector is interesting on the back of 'Swatch Bharat' policy push. Likewise, logistics investments would pick up pace on the back of a successful GST rollout. IIML intends to target such sectors/ opportunities through this Fund



### Infrastructure Investment Trusts (InvIT)

InvIT provides a platform to monetize operational revenue yielding infrastructure assets, especially in the roads and the renewable energy sectors. InvITs provide an ideal platform to developers for recycling capital viz. selling lower risk operational assets and using the sale proceeds to undertake the next round of asset development

The regulatory framework for InvIT offers an attractive opportunity to the Company to act as investment managers to such InvITs. The business model allows the investment manager to earn fees on portfolio monitoring as well as on fresh acquisitions. Unlike closed ended private equity (PE) funds, InvITs are structured to be perpetual products. Hence, income stream for an investment manager of an InvIT has a greater visibility over significantly longer periods of time. Furthermore, income accretion with asset addition leads to a growing income profile, compared to a declining income profile in case of a PE Fund. InvIT management therefore leverages IIML's existing skillsets to create a business model which complements the PE fund management model, thereby strengthening the Company's overall income profile

Expertise developed in InvIT management can also be utilized for managing Real Estate Investment Trusts (REITs), where IIML's existing experience in real estate asset management can be utilized effectively

IIML was appointed as Investment Manager for a road sector InvIT being raised by IL&FS Transportation Networks Limited (ITNL). The ITNL InvIT is expected to be operationalized during the current financial year



### Distressed Assets

The current investment environment offers several quality assets, especially in the infrastructure sector, that have been affected either due to overleverage, funding shortfall or management issues. As an outcome, lenders/ banks are seeking to resolve issues in such non-performing assets by sale to investors having the requisite financial and managerial strength. The Reserve Bank of India and the Securities and Exchange Board of India have been supportive of such initiatives. Coupled with legislative changes like the Bankruptcy Code, investments into distressed assets is therefore expected to accelerate

To capitalize on such opportunities, the Company has tied-up with Lonestar, a US based global investor to setup a US\$ 550 mn facility which would invest into distressed assets, with a focus in the roads and thermal power space in India. The facility has already built a strong pipeline of actionable investment opportunities and detailed diligence is ongoing for several assets