

IL&FS Investment Managers Limited

CMP Rs. 44.6
BUY

Q1FY11
Result Update

Performance Highlights:

IL&FS Investment Managers (ILFSVC) has reported a flat set of numbers for the quarter ended June 2010 on par with our estimates and also street expectations.

The company reported a sales turnover of Rs. 430Mn and a net profit of Rs. 177Mn for Q1FY11. For Q1FY10 the sales turnover was Rs. 432Mn and a net profit of Rs. 179Mn. In % terms, topline and bottomline have seen a de-growth of 0.5% and 1.0% respectively.

EPS reported for the quarter ended Jun'10 was Rs. 0.87/- as against Rs. 0.90/- for the quarter ended Jun'09.

Quarterly Financials								
YE March (Rs. Mn)	Q111	Q410	Q-Q(%)	Q110	Y-Y(%)	FY10	FY09	Y-Y(%)
Total Revenues	429.7	497.8	-13.67%	431.7	-0.46%	1,759.5	1,581.6	11.25%
Employee Costs	106.8	111.1	-3.82%	102.6	4.17%	428.0	317.2	34.91%
Other Expenditure	59.0	66.6	-11.42%	57.0	3.36%	252.2	260.3	-3.14%
Total Expenditure	165.8	177.6	-6.67%	159.6	3.88%	680.1	577.6	17.76%
Operating Profit	263.9	320.1	-17.55%	272.1	-3.01%	1,079.4	1,004.0	7.50%
Other Income	1.4	14.7	-90.46%	3.4	-58.15%	53.9	60.0	-10.27%
EBITDA	265.3	334.9	-20.76%	275.5	-3.68%	1,133.2	1,064.1	6.50%
Depn & Amortization	43.2	46.6	-7.34%	42.8	0.82%	176.3	218.0	-19.13%
EBIT	222.2	288.3	-22.93%	232.7	-4.51%	956.9	846.0	13.11%
Interest	-	-	-	-	-	-	-	-
PBT	222.2	288.3	-22.93%	232.7	-4.51%	956.9	846.0	13.11%
Tax	44.5	53.5	-16.78%	54.9	-19.00%	215.4	222.6	-3.26%
PAT Before MI	177.7	234.8	-24.33%	177.8	-0.04%	741.5	623.4	18.95%
Minority Interest	0.9	0.7	30.74%	(0.7)	-	3.1	1.5	104.01%
PAT	176.8	234.1	-24.50%	178.5	-0.98%	738.5	621.9	18.75%
Equity	406.1	406.1	-	397.9	2.06%	406.1	397.9	2.06%
EPS	0.87	1.15	-24.50%	0.90	-2.98%	3.64	3.13	16.36%
Ratio Analysis								
Particulars	Q111	Q410	Q-Q(bps)	Q110	Y-Y(bps)	FY10	FY09	Y-Y(bps)
OPM (%)	61.42%	64.31%	(289.2)	63.03%	(161.4)	61.35%	63.48%	(213.7)
EBITDA (%)	61.75%	67.27%	(552.7)	63.81%	(206.5)	64.41%	67.28%	(287.1)
PBIT (%)	51.70%	57.92%	(621.3)	53.90%	(219.3)	54.39%	53.49%	89.4
PAT (%)	41.13%	47.03%	(590.1)	41.35%	(21.5)	41.97%	39.32%	265.1
Operational Parameters								
Particulars	Q111	Q410	Q-Q(bps)	Q110	Y-Y(bps)	FY10	FY09	Y-Y(bps)
Staff Expenses	24.86%	22.32%	254.5	23.75%	110.6	24.32%	20.06%	426.6
Other Expenses	13.72%	13.37%	34.8	13.21%	50.8	14.33%	16.46%	(212.8)

Investment Highlights:

Even more than the investment capabilities, our call/bet is on the business model itself. An almost risk free business of earning fixed % fees with AUM generally increasing & limited redemption pressure until 2015. In fact we prefer an investment in an AMC v/s investment in a fund purely on account of the business itself. The strength of ILFSVC lies in its: Risk Free Business Model, Assured Annuity Income by the way of Asset Management Fee (1.5-2% of AUM).

Significant & continued increase in AUM:

Its funds under management have grown from less than USD 40Mn in 1996 to USD 2.8Bn in FY10. The AUM is expected to touch USD 3.2-3.5Bn by FY12E. Thus, with growth in AUM, comes the growth in income by way of management fees.

Worthy Management: Demonstration of its Superior Timing & Capabilities

One of the oldest and most experienced PE players with experience across entire fund lifecycles, various industries & geographies. We perceive these demonstrations and skills as a differentiating factor from the other me-too plays.

Carry Profits: Icing on the Cake

As the duration of the fund spans over 5-7 years, the fees are earned on the total committed funds, while the funds are called for installments (drawals) over ~3 year period. Thereafter, the fees are earned on the invested amount. The AMC gets to earn a carry upon divestments on the returns generated over the pre-decided hurdle rate. However, 70% (pre-determined) of the carry is typically distributed amongst the investment team and the balance is available for the shareholders.

The company has raised most of its fund between FY07-09 and thus, taking the 5-7years investment horizon into consideration, we believe the funds would start expiring from FY13-14 onwards and huge flows by way of carry profits would start 2013-21.

Transferring Wealth to shareholders:

ILFSVC does not require funds from shareholders for running its operations. Thus, the company has a policy of distributing the profits to the shareholders on a regular basis. It has a consistent dividend paying track record since the past 9 years and has also been announcing bonuses.

Risks:

- Fund raising is of core importance in a PE business, followed by successful deployment of the funds. The management's inability to do so in the future could be a key risk. However, ILFSVC has had an excellent track record over the last 9 years.
- Employee retentions is a challenge in today's world. The fact that the top key management have been with the company since inception shows the ability of the company to retain the core management team.

Recommendation:

A business with assured revenues over the next few years with fantastic economics is available to investors at attractive valuations. This is a business, where one would not be disappointed on making future projections with healthy return ratios coupled with growth visibility and free cash flows. The dividend payout ratio has been very impressive in the past and there is no reason why it won't continue in the future. ILFSVC has announced a dividend of Rs. 1.5/- per share for the year ended March 2010, which indicates a dividend yield of 3.6%.

We believe ILFSVC can generate excellent returns for the shareholders and hence recommend a **BUY** on the scrip from a long term horizon.

Disclaimer

Disclosure of Interest Statement

1. Analyst Ownership of the scrip
2. PPFAS ownership of the scrip
3. PMS ownership of the scrip

IL&FS Investment Managers Ltd.

YES
YES
YES

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