

November 28, 2011

BUY

MEDIUM RISK

PRICE Rs.28

TARGET Rs.42

BFSI

EARLIER RECO

BUY	
Price	Rs. 29
Target	Rs. 50
Date	Aug 11, 2011

SHARE HOLDING (%)

Promoters	50.7
FII	4.3
FI	1.8
Body Corporates	6.1
Public & Others	37.1

STOCK DATA

Reuters Code	ILFS.BO
Bloomberg Code	ILFS IN
BSE Code	511208
NSE Symbol	IVC
Market Capitalization*	Rs. 5826.5 mn US\$ 112.1 mn
Shares Outstanding*	207.4 mn
52 Weeks (H/L)	Rs.46 / 26
Avg. Daily Volume (6m)	35,059 Shares

Price Performance (%)		
1M	3M	6M
(1)	(4)	(18)

200 Days EMA: Rs.33

*On fully diluted equity shares

Part of  Bonanza



ANALYST

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IL&FS Investment Managers Ltd. (IIML) has declared results for the quarter ended September'11 which was in line with our expectations. On sequential basis, Revenues & PAT grew by ~5% to Rs.524 mn & Rs.181 mn respectively. The following are the key highlights of the results which are summarized below:

Key Highlights of Q2FY12 & H1FY12 results

- Revenues grew by 5% QoQ from Rs.499 mn in Q1FY12 to Rs.524 mn in Q2FY12 which was mainly on back of rupee depreciation over the last few months. In H1FY12, Revenues de-grew by 4% from Rs.1068 mn in H2FY11 to Rs.1023 mn. Company expects complete exit from Leverage India Fund (LIF) in FY13, the carry of which is likely to flow from Q1FY13.
- Operating profit grew by ~13% QoQ to Rs.280 mn in Q2FY12 which was mainly on account of lower other expenses which de-grew by ~6% QoQ to Rs.113 mn. Operating profit margins improved by 360 bps from 49.9% in Q1FY12 to 53.5% in Q2FY12. Operating profit de-grew by ~10% to Rs.529 mn in H1FY12 while margins declined by 300 bps to 51.7%.
- Net profit grew by 5% QoQ from Rs.172 mn to Rs.181 mn in Q2FY12 whereas margins remained flat at 34.6%. Net profit for H1FY12 was almost flat at Rs.353 mn while margins improved by 200 bps to 34.5%. EPS for Q2FY12 & H1FY12 stood flat at Rs.0.9 & Rs.1.7 respectively.

Other Key Developments

- IIML's plan of raising new funds aggregating to ~\$1bn over the next 2 years seems to be getting delayed due to the uncertain global economic conditions. The Company is facing difficulties in raising new funds, since it wasn't able to raise any new funds in this quarter. We expect IIML to raise additional ~\$150-200 mn over the next 1.5 years, of which ~\$50-60 mn would be raised in H2FY12. We expect AUM to remain flat in FY13 to \$3.2 bn which is lower than our expectation of \$3.7 bn.
- The Company had almost 4 partial exits in Q2FY12 which were from real-estate projects amounting to \$20 mn.

Key Concerns

- Through one of its fund i.e. India Reality I, IIML has invested ~\$100 mn in DB Realty at parent level & also in few specific projects. Though size of the investment is not significant when compared to its AUM of ~\$3.2 bn, there might be negative impact on the company if there is an adverse impact on DB Realty's operations amidst 2G scam.

OUTLOOK & VALUATION

IIML has reported decent set of numbers for the quarter ended September'11 which was in-line with our expectations. Strong investment track record, high management credibility coupled with its sound business model would enable the Company to grow in future. Value unlocking by the way of carry profit from FY13 onwards is likely to be the major growth catalyst for the Company going ahead. However considering the increase in global uncertainty & delay in fund raising, we have lowered down our net fund raising estimate by ~\$500 mn to \$3.2 bn in FY13E. We have valued the Company based on SOTP of its assured annuity income (MCap/AUM) and NPV of its carry profits. At the CMP of Rs.28, the stock is trading at 0.039x MCap/AUM (FY13E). The stock has corrected sharply in last couple of months resulting into high dividend yield of ~5.4%. Hence, considering all the above investment arguments, we maintain our 'BUY' rating on the stock with a revised target price of Rs.42.

KEY FINANCIALS

Y/E Mar.	Revenue (Rs mn)	APAT (Rs mn)	AEPS (Rs)	AEPS (% Ch.)	P/E (x)	P/BV (x)	ROE (%)
FY11	1900.4	690.2	3.4	(7.7)	8.3	3.2	44.4
FY12E	2019.6	661.3	3.2	(5.0)	8.8	2.7	33.6
FY13E	2001.5	633.5	3.1	(4.2)	9.2	2.4	27.8

QUARTERLY STATEMENT

(Rs.mn)

Y/E March	Q2FY11	Q1FY12	Q2FY12
Revenues	421.5	499.0	523.6
Staff Cost	102.3	129.7	130.7
Other Expenditure	79.3	120.5	112.9
Total Expenditure	181.6	250.2	243.6
PBIDT	239.9	248.8	280.0
% Margin	56.9	49.9	53.5
Depreciation	44.2	56.8	55.3
Other Income	18.1	31.9	22.3
PBT incl OI	213.8	214.7	237.0
Tax	46.1	41.8	55.4
RPAT	166.9	172.2	180.9
% Margin	39.6	34.5	34.6

PROFIT & LOSS STATEMENT

(Rs.mn)

Y/E March	FY10	FY11	FY12E	FY13E
Revenues	1698.3	1900.4	2019.6	2001.5
Operating Exps.	252.1	365.0	444.3	440.3
Staff Cost	427.9	465.3	525.1	570.4
PBIDT	1018.3	1070.1	1050.2	990.7
Interest	0.0	16.3	36.6	23.7
Depreciation	176.3	260.4	265.0	270.0
Other Income	115.0	111.8	125.0	140.0
PBT	957.0	905.2	873.6	837.1
Tax	215.3	212.3	209.7	200.9
RPAT	738.6	690.2	661.3	633.5

BALANCE SHEET STATEMENT

(Rs.mn)

As on 31 st March	FY10	FY11	FY12E	FY13E
Share Capital	406.1	411.3	414.8	414.8
Reserves & Surplus	923.4	1359.2	1752.0	1976.0
Net Worth	1338.7	1773.5	2166.8	2390.8
Total Loan funds	0.0	848.4	548.4	248.4
Deferred Tax Liability	4.1	17.1	25.8	34.2
Capital Employed	1372.5	2689.3	2794.0	2729.1
Net Block	267.7	1662.1	1493.1	1317.1
Investments	365.7	266.8	349.0	349.0
Sundry Debtors	275.0	223.1	249.0	219.3
Cash & Bank Bal	428.7	559.7	595.1	675.6
Loans & Advances	738.0	870.4	970.4	1070.4
Curr Liab & Prov	709.2	903.8	877.0	916.8
Net Current Assets	732.5	749.4	937.5	1048.6
Total Assets	1372.5	2689.3	2794.0	2729.1

FINANCIAL RATIO STATEMENT

Y/E March	FY10	FY11	FY12E	FY13E
Growth (%)				
Net Sales	13.4	11.9	6.3	(0.9)
EBITDA	5.9	5.1	(1.9)	(5.7)
APAT	18.8	(6.6)	(4.2)	(4.2)
Profitability (%)				
EBITDA Margin (%)	60.0	56.3	52.0	49.5
Net Profit Margin (%)	43.5	36.3	32.7	31.7
ROCE (%)	64.6	34.7	25.6	24.0
ROE (%)	66.0	44.4	33.6	27.8
Per Share Data (Rs.)				
EPS	3.6	3.4	3.2	3.1
CEPS	4.5	4.6	4.5	4.4
BVPS	6.6	8.6	10.4	11.5
Valuation				
PER (x)	7.7	8.3	8.8	9.2
PEG (x)	0.5	(1.1)	(1.8)	(2.2)
P/BV (x)	4.2	3.2	2.7	2.4
EV/EBITDA (x)	5.2	5.7	5.5	5.4
EV/Net Sales (x)	3.1	3.2	2.9	2.7
MCap/AUM	0.044	0.039	0.039	0.039

Source : Company, Sushil Finance Research Estimates

Rating Scale

This is a guide to the rating system used by our Institutional Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	High predictability / Low volatility
Medium Risk	Moderate predictability / volatility
High Risk	Low predictability / High volatility

Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	Over 15 %	Over 20%	Over 25%
Accumulate	10 % to 15 %	15% to 20%	20% to 25%
Hold	0% to 10 %	0% to 15%	0% to 20%
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

Please Note

- Recommendations with "Neutral" Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).
- ** Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.
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