

**RELIANCE** Capital  
Anil Dhirubhai Ambani Group

**Chairman's Statement**  
**23rd Annual General Meeting**

Tuesday, July 21, 2009



### **My dear fellow Reliance Capital shareowners,**

I am delighted to welcome each one of you to this 23<sup>rd</sup> Annual General Meeting of our Company.

It has been a year of substantial achievements for our company, in the face of one of the toughest global economic downturn ever witnessed in history.

I am delighted to say that we have emerged from the crisis stronger, leaner and even more productive and efficient.

We remain one of the most valuable private sector companies in India, and top 3 private sector companies in financial services.

Reliance Capital is today one of India's fastest growing financial services powerhouses, with well over 17 million customers.

Our customer base, amongst the largest in India in financial services, is spread across 5,000 towns and cities, and served by over 12,000 distribution outlets and over 5,00,000 business partners.

It gives me great pleasure to inform you that our company is now also a constituent of India's leading benchmark index – S&P CNX Nifty.

### **Group Highlights**

We are a member of the Reliance Anil Dhirubhai Ambani Group; the bearers of a proud name, and a prouder legacy.

We have established our leadership across a wide spectrum of high-growth, consumer-facing businesses:

- Telecom
- Energy
- Infrastructure
- Financial services
- Power
- Media and entertainment

Across different businesses, we touch the lives of over 150 million customers, or over 1 in 8 Indians, every single day.

Our group enjoys the implicit trust of nearly 12 million shareowners – the largest such family anywhere in the world.

We are among the biggest employers in the country, with a young, highly qualified and dedicated workforce of nearly 1,30,000 men and women.

In a short span of 4 years, and even after the sharp general market correction over the past year, our group market capitalization is over Rs. 1,60,000 crore, ranking us amongst the top 3 business houses in India.

- Our group net worth is in excess of Rs. 64,000 crore
- Our cash flows across the Group are over Rs. 13,000 crore
- Our net profit has crossed Rs. 8,000 crore

### **Performance Review**

Our company's accounts for the year ended March 31, 2009, along with the Directors' Report, Letter to Shareholders and Management Discussion and Analysis, have been circulated to you.

With your permission, I would like to take them as read.

I am happy to share with you the highlights of our company's strong operational and financial performance during the year 2008-09:

- Total income of Rs. 5,976 crore – an increase of 22 per cent
- Net profit of Rs. 1,016 crore – an increase of 1 per cent
- Earnings per share of Rs. 41.35
- Book value of Rs. 299 per share – an increase of 22 per cent
- Total Assets of over Rs. 24,260 crore – an increase of 32 per cent

Our robust financial performance has enabled us to recommend an enhanced dividend of Rs. 6.50 per share, as against Rs. 5.50 per share in the previous corresponding period.

### **Strong Financial Platform**

We have created a strong financial platform that will provide the platform for accelerated future growth.

- Our net worth stands at nearly Rs. 7,300 crore placing us among the top 3 private sector Indian companies in financial services, after ICICI and HDFC.

- We enjoy the highest credit ratings, of 'A1', awarded by ICRA. CARE has assigned our long term debt program a rating of 'CARE AAA,' indicating the highest levels of safety.

### **The Indian Economy**

The macro economic climate leading upto September 2008, was marked by rising domestic inflation, a weakening rupee, hardening interest rates, and extreme volatility in capital markets.

Thereafter, the collapse of several of the largest American financial institutions triggered an all-round crisis of confidence in global financial markets, and led to a severe credit and liquidity crunch throughout the world.

India's economy has survived this crisis better than most. Helped by a robust regulatory framework, and the conservative approach rightly adopted by our policy makers, banks and financial institutions in India have escaped the trauma of over-leverage or excessive exposure to derivative products – the two major factors behind the financial tsunami that first hit the United States and then rapidly spread throughout the world.

That crisis, or the worst of it at any rate, is now behind us. With confidence returning to the global financial markets and signs of revival in the real economy, the prospects of a rebound are stronger than before.

The outlook for India is even brighter. Thanks to our reliance on domestic demand as the primary growth engine of the economy, we are rapidly moving back to a level of 7 per cent or more GDP growth, in a world where most countries are reporting negative growth. Our current projected growth rate puts us in the category of the two fastest growing trillion dollar plus economies in the world, alongside China.

The recent electoral mandate and the subsequent positive statements from the government on moving ahead with reforms have further boosted sentiment and raised expectations of far-reaching policy initiatives. This will add fresh momentum to the economic recovery that is already under way.

With a domestic savings rate in the range of 30–35 per cent, among the highest in the world, and over 70 per cent of the population below the age of 35, the strong structural foundation of India's economy remains intact, and will continue to power our growth.

In financial services, as in many other sectors of the Indian economy, we have barely scratched the surface.

Our country of over a billion plus people has nearly 400 million bank account holders, but of these, barely 45 million people have mutual fund accounts, and only 15 million hold demat accounts.

While 31 per cent of the US population invests in mutual funds, the figure for India is barely 4 per cent.

The Indian insurance market, a Rs. 2,74,400 crore (\$56 billion) business in 2008, is expected to nearly double to Rs. 4,90,000 crore (\$100 billion) by 2012. While at present up to 26 percent foreign direct investment is allowed through the automatic route, the government is expected to increase the FDI cap through automatic route to 49 percent in the next round of insurance sector reforms.

India offers a largely untapped market as nearly 80 percent of the Indian population is without life, health and non-life insurance. While life insurance penetration is low at 4.0 percent, non-life penetration is even lower at 0.6 percent.

Similarly, the per capita spend on life and non-life insurance is just about Rs. 2,000 (\$41.2) and Rs. 300 (\$6.2) respectively compared to a world average of over Rs. 18,000 (\$370) and Rs. 13,000 (\$264). Strong economic growth with increase in affluence and rising risk awareness is currently driving rapid growth in the insurance sector in both life and non-life segments.

Retail finance is growing at an annual average of 18 percent and is expected to become a Rs. 3,67,500 crore (\$75 billion) business by 2010, up from Rs. 1,35,240 crore (\$27.6 billion) in 2003-04.

The headroom for growth is virtually limitless.

It is our **commitment** and **belief** that Reliance Capital will play an increasingly important role in driving the process of growth and transformation in India's financial markets, as the economy continues to expand and flourish.

### **Journey so far**

At Reliance Capital, we have spent the last four years getting into new businesses, creating an unparalleled distribution network across the country, and reaching out to millions of Indians with little or no access to financial services and products.

This journey has been all about the power of execution.

It is this power of execution that has helped us dramatically expand our distribution network, scale up businesses, wrest market share from entrenched larger players and cross significant milestones in a short span of just four years:

- Revenues up from Rs. 426 crore to nearly Rs. 6,000 crore – a 14-fold rise
- Net profits up from Rs. 36 crore to over Rs. 1,000 crore – a 28-fold increase
- Total assets up from Rs. 2,800 crore to over Rs. 24,000 crore – a 9-fold rise
- Net worth up from Rs. 1,400 cr to Rs. 7,300 cr – a 5-fold increase
- Customers up from 0.6 million to 17 million – a 28-fold increase

It is noteworthy that this growth is purely organic – and **made entirely in India!**

From being a small, and relatively insignificant asset management business and investment arm of the Reliance Group, Reliance Capital has, within a short span of four years, come to encompass the full spectrum of non-banking financial services.

Indeed, it is today a leading player in each of these businesses.

We are:

- India's largest Mutual Fund by far
- One of India's top 3 private general insurers
- One of India's top 4 private life insurers
- One of India's leading brokers and distributors of financial products & services

### **Building a robust and sustainable business model**

The last year saw many global financial giants being bailed out from dire financial conditions. The global melt down also affected Indian business houses and many expansion plans and green field projects were shelved.

Going forward, the process of further liberalization and de-regulation of the Indian financial services market will throw up new challenges and, of course, opportunities. This may create a temporary state of flux in the industry.

But every uncertainty and crisis throws up new winners – and companies such as ours will find new routes to success in the face of adversity.

At Reliance Capital, our vision is to create a world class financial services enterprise, targeting leadership in all our businesses. We are here for the long haul and it is this vision that dictates our business planning and strategy, and not short term uncertainties.

That is why we have gone ahead and launched new businesses this year, as planned. Indeed, we started our institutional broking business – Reliance Equities International – at the height of the recent financial crisis.

In our established businesses on the other hand, the period of financial uncertainty coincided with an inflection point where the focus shifted away from merely gaining market share to achieving greater consolidation and profitability.

At Reliance Capital, we have always endeavoured to build robust and sustainable business models across all our services. This emphasis was, if anything, even more pronounced in the past year, resulting in several cost rationalization measures which considerably improved our operational efficiency.

We have always believed in striking the right balance between the desire to maximize growth and profit and the need to maintain utmost financial discipline and strict risk mitigation strategies.

That is why we have not leveraged our balance sheet in any significant manner.

We have not lent money to sub-prime sectors or invested in products such as credit or foreign exchange derivatives.

We have followed a conservative approach in making investments and disbursing loans in our consumer finance business.

Looking ahead, we will continue to focus on profitable growth, driving our businesses to be best of class in terms of financial performance and shareholder returns.

### **Our future plans**

At Reliance Capital, our endeavor is to scale up each of our businesses and create wealth for our shareholders. We keep exploring and evaluating new options and opportunities to unlock value for our shareholders.

In 2007, we completed one such transaction in our asset management business, placing a 5 per cent stake with a global financial investor. Not only did this unlock value for our shareholders but also ensured that our business is very well capitalized to take care of its future growth and overseas expansion plans.

In our life insurance business, we have, over the past four years, rapidly grown to emerge as among the top four private life insurance players in India – creating a potential gold mine for our investors.

We are now considering various options to unlock this value – from a potential IPO to strategic or financial stake sale, or even a combination of both – subject to necessary approvals. A final decision in this matter will be taken shortly, driven by the sole objective of maximizing returns for our shareholders.

Last year, we charted out two new business areas, namely, institutional broking and private equity. This year, we will look to add strength and muscle to these ventures.

Reliance Equities will complement our other lines of business, by adding value to clients' investment decision making process. We have hired the best available talent in the industry to run the operations and aim to set new standards in client servicing.

We will provide access to corporate managements and opinion makers with thematic and differentiated research. Our goal is to build this business to a position of leadership in India and eventually create a pan-Asian footprint.

We have similar big plans for our private equity business.

We have recently commenced domestic fund raising for our first private equity fund with a special focus on High Net Worth Individuals and financial institutions. This is a departure from the current norm, as domestic private equity players in India tend to raise most of their money in offshore markets. Our approach, as always, is to first cater to the needs of under-served domestic investors, before we set out overseas.

The focus of our private equity investment will be on growth capital, buyouts, minority investment and acquisition financing. We will put money in sunrise and growth sectors alike.

At Reliance Capital, we continually scan the horizon for new business avenues. Over the next 12 months, we plan to take our first steps in the world of investment banking. Given the scale and magnitude of our relationships across corporate India and the sheer size and reach of our distribution network, we are ideally positioned to create a significant presence in this business.

Together, these new initiatives will further accelerate our growth momentum and lead to substantial value creation.

Let me now turn to a brief overview of each of our businesses.

I begin with the Reliance Mutual Fund.

### **Reliance Mutual Fund**

Reliance Mutual Fund has, over the years, built for itself a great name in the market by offering to investors not just consistently high returns but also a highly innovative and diversified portfolio of products and services, and an unmatched track record of integrity.

The journey over the past four years has been spectacular.

In June 2005, we managed barely Rs. 6,000 crore of assets. Today, we have grown 18 fold, managing Rs. 1,08,000 crore of assets in our mutual fund.

I am proud to report that our Asset Management Company was appointed one of the six asset managers by the Pension Fund Regulatory and Development Authority (PFRDA) to help manage money under the new pension scheme.

We are the only private sector asset management company which has been selected to manage funds for both the Employee Provident Fund Organization and the new pension scheme

Reliance Mutual Fund has today over 7 million investors, up from barely half a million investors in June 05, the largest body of investors amongst all private sector mutual funds in the country.

Our investor base, through the Systemic Investment Plan (SIP), has crossed the 1 million mark, and is growing.

Reliance Mutual Fund- the only private sector mutual fund in the country without a strategic foreign partner – won several prestigious awards during the year. For the third year running, it was voted the "Most Trusted Mutual Fund" in an AC Nielsen/ORG MARG survey. It also received the "Equity Fund House of the Year 2008" award from Morning Star – a global leader in financial research.

I now move to our insurance businesses.

### **Reliance Life Insurance**

During the year, the Indian life insurance industry witnessed a six per cent decline in new business premium. Despite this slowdown, Reliance Life Insurance remained at the forefront of growth. It closed the year with a new business premium of over Rs. 3,500 crore, registering an annual increase of over 28 per cent.

Reliance Life Insurance has maintained its position amongst the top four (in terms of monthly new business premium) private sector life insurance companies in India.

We have crossed the milestone of 3 million policies in force and now rank among the top 3 players in terms of number of policies issued.

In the past four years, we have ramped up our distribution network from 118 to 1,145 branches – a 10-fold increase.

Our agency force has reached 150,000 – a 8-fold increase in the past four years.

Despite the growth momentum witnessed by the industry over the past few years, the potential for future expansion remains strong, thanks to low penetration levels, attractive demographics, robust economic prospects and increasing investor awareness. We are committed to growing our market share in this exciting business.

### **Reliance General Insurance**

Reliance General Insurance has maintained its position amongst the top three (in terms of monthly gross written premium) private sector General insurance companies in India, with a market share of 6.3 per cent.

The gross written premium for the year was unchanged at Rs. 1,900 crore. The pace of growth was moderated in response to the general economic slowdown and the ongoing focus on improved profitability rather than mere topline increase.

To achieve increased profitability, we took a number of steps to contain claims and management expenses. We identified areas where the claims experience was not in line with our expectations and put in place remedial measures to re-price the risk.

In addition, we focused on limiting our management and administrative costs, by re-negotiating existing branch rentals and controlling expenses relating to vendors, suppliers and distributors.

### **Reliance Money**

In just two years since we started this business, Reliance Money has emerged as a leading broker and distributor of financial products and services in India, with nearly 3.3 million customers and a distribution network of over 10,000 outlets across 5,165 locations.

Reliance Money is a comprehensive financial services and solutions provider, giving customers access to equities, equity options, commodities futures, wealth and portfolio management, mutual funds, IPOs, life and general insurance products, offshore investments, credit cards, money transfer, currency exchange and gold coins.

With Reliance Money's unique positioning and service offerings, even the smallest investor can not only invest in capital and other markets but also get access to latest news and cutting-edge research – something that was earlier available only to large institutions and professional fund managers.

Reliance Money was adjudged the 'Best Equity Broking House 2009' and the 'Largest E-broking House' by Dun and Bradstreet in April this year. The awards were granted to broking houses that not only delivered superior performance in 2008 amidst the global economic crisis, but also led the way in providing customers value-added and innovative services.

### **Reliance Consumer Finance**

We entered this business in May 2007 and currently have retail assets of around Rs. 8,000 crore.

Our focus in this business is not on the growth of credit but primarily on the quality of credit. Backed by our long-standing conservative approach, we have developed stringent, in-house credit risk management systems to ensure the highest quality of credit.

I am pleased to inform you that we have received regulatory approvals from RBI and National Housing Bank, and have set up separate subsidiaries for consumer finance and home finance respectively.

With this step, the businesses of consumer finance and home finance will receive a bigger fillip and we can offer affordable loans to consumers for home purchase and other asset creation.

These companies have been initially capitalized with Rs. 100 crore each and have already commenced operations.

**Let me now give you a quick update on the new businesses which were launched last year:**

### **Reliance Equities International**

Reliance Equities International Private Limited is the institutional stock broking subsidiary of Reliance Capital. It commenced operations in 2008. With 60 companies under research, it has set up over 50 FII parent accounts and over 500 sub accounts.

## **Reliance Capital Services**

To capitalize on the tremendous cross-selling opportunity that exists within the Reliance ADA Group, Reliance Capital Services was set up during the year. Reliance Capital Services cross sells Reliance Capital products to the 150 million strong family of the Reliance ADA Group, comprising shareholders, customers and other stakeholders

Reliance Capital Services is already among the top 3 distributors in India for our general insurance business and among the top 10 for our life insurance business.

## **Reliance Equity Advisors**

Reliance Equity Advisors has been set up with the objective of raising a third party, multi sector private equity fund. The fund will primarily focus on acquisition financing, growth and consolidation capital in India.

A team with extensive private equity and M&A background and considerable experience in transactions across diverse sectors is in place.

## **Human Capital**

Reliance Capital is committed to attracting, retaining and nurturing the best talent, across all its businesses.

We have always believed that employees are our biggest asset, the single most important source of our competitive advantage.

We continue to be a young and vibrant company – with an average age of 32 yrs. Our team is amongst the best trained in the business – with over 98 percent comprising graduates, post-graduates and professionals.

In a tough and turbulent year for business, our employees have reposed great trust and confidence in our Company and worked tirelessly to help us navigate a challenging business environment.

We value their contributions immensely and on behalf of you, I congratulate each one of them for their role in building a world class enterprise.

## **Customer First**

Reliance Capital is built around the wants and needs of our customers.

We believe that customer care is not just the responsibility of those who face the customers – but each and every one of us in the company.

In line with this, customer will always receive our highest priority.

We have dedicated customer service desks and representatives at all our 12,000 outlets. There are 24x7 dedicated call centers for every line of our business.

## **Quality Focus**

An unwavering focus on quality is the key determinant of sustainable value creation and competitive advantage.

Our Quality roadmap, seamlessly aligned with our business priorities, is benchmarked to the best contemporary global practices, and designed to support our single-minded objective of achieving leadership in each of our businesses.

Last year, we implemented 'Idea Express', an internal programme based on suggestions from employees which is aimed at improving productivity. Over 3,000 employees participated in the programme and we expect it to generate fresh original insights for future growth.

In our continuous endeavor to improve client satisfaction, we have hired AC Nielsen, one of the world's leading market research agencies, to independently conduct customer and distributor satisfaction surveys and benchmark our performance with competitors.

I am happy to report that the satisfaction ratings given by our distributors and customers for most businesses is in the "Excellent" range and compares favorably with our competitors.

This year, two of our businesses, Reliance Mutual Fund and Reliance Life Insurance, won the Quality Council of India (Govt. of India) commendation award for "Economics of Quality" for their 'Financial Results from Quality' initiatives. They have also been invited to present their results at the Asian Network for Quality Congress in Japan this year.

## **Corporate Governance and Social Responsibility**

As part of the Reliance Anil Dhirubhai Ambani Group, our company is committed to upholding the highest standards of corporate governance.

We believe in transparency, accountability and equity, in all facets of our operations, and in every interaction with our diverse set of stakeholders.

Our founder, the late Shri. Dhirubhai Ambani, believed that organizations, like individuals, can only survive, sustain and grow with the support and goodwill of the communities of which they are a part, and must pay back this generosity in every way they can.

We at Reliance Capital are committed to being a socially responsible organization. We work with underprivileged individuals, disadvantaged communities, and civil society groups at large.

Through our various businesses, we have provided critical medical support, funded self help groups and promoted financial literacy and inclusion.

We have followed an active programme of energy conservation and recycling of paper and water, to lower our carbon footprint.

### **Our Commitment**

Over the last four years, Reliance Capital had traversed an extraordinary distance in its journey to emerge as a full-spectrum financial services company.

But that, to my mind, is only a small part of our achievement. By far the bigger part is what this achievement has meant and done for millions of small investors in this country.

Because Reliance Capital is not just a business, it is also a dream – the dream of our founder, the legendary Dhirubhai Ambani.

It was one of Dhirubhai's great unfulfilled dreams in life to see Reliance Capital emerge as an instrument of national transformation, bringing millions of ordinary Indians the fruits of financial mediation and empowerment.

Today, I can proudly say that we are closer than ever to realizing that dream. And we have done so without ever losing sight of either profitability or long-term value.

Nothing less would have done justice to the high standards that Dhirubhai set for himself and for all of us at the Reliance ADA Group.

### **Acknowledgements**

Before I end, let me acknowledge the contribution of our various partners in success.

My heart-felt appreciation to all colleagues for their professionalism, dedication and commitment.

My sincere thanks to the Board of Directors, for their continued support, encouragement and guidance.

But, most of all, my profound gratitude to all of you, our shareowners, for your continued confidence, trust and support.

Thank you, ladies and gentlemen, for your time, patience and attention.

**Anil D. Ambani**

**Chairman**