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The secret of RCap's fiscal health

Asset management did well, and organic growth is promising, says Group CEO Sam Ghosh

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While the financial sector has been in doldrums globally, some companies have bucked the trend. Reliance Capital posted a steady earnings growth and 15 per cent profit increase in Q2. Bloomberg TV India caught up with Sam Ghosh, ED and Group CEO of Reliance Capital, to get an insight into the financials.

Can you take us through the way Q2 earnings have played out?

The profits have gone up 15 per cent to ₹250 crore. So, we are happy that the businesses have performed well. Also, income has gone up nearly 11-12 per cent to over ₹2,300 crore. And, if we look at the couple of transactions that happened this quarter…one was the stake sale in our asset management business Reliance Capital Asset Management to Nippon Life (which increased its stake from 39 to 45 per cent) that is subject to regulatory approvals but we expect to close it before the end of this financial year.

The same way, we are acquiring Goldman Sach's asset management business, which is also subject to regulatory approvals. That should also be completed by the end of FY16.

Now, going to the businesses, the asset management business showed some great results — profit is about ₹122 crore, up 7 per cent. Assets under management (AUM) were nearly ₹1.52 lakh crore, up 25 per cent.

And the important thing here is that our equity AUM has gone up to over ₹50,000 crore. In equity AUM, there is initially an acquisition cost. Therefore, you will find that the profit of growth of 7 per cent doesn't match when compared to the AUM growth of 25 per cent but going forward you will find that their profit growth will far exceed the AUM growth.

Moving on to our commercial finance business, profits were about ₹101 crore, up from last year, and the AUM was also up nearly 23 per cent to ₹21,000 crore. And here again if you split it out, our housing finance business has grown at 65 per cent growth in AUM to ₹6,500 crore and profit is up about 53 per cent to ₹31 crore. So profit has shown some improvement, as well as the housing finance AUM. That is the key thrust area for the company.

Moving on to our general insurance business, we showed a profit of ₹30 crore, up over 20 per cent. The gross premium is about ₹652 crore but it is only 2 per cent up. The only reason the growth is slower is that we have taken a conscious decision to reduce our focus on motors.

And finally, in our life insurance business, the premiums are up 6 per cent — and here we only focus on traditional products as opposed to some of the other players who focus on unit-linked products, and the profit is at ₹15 crore.

What is your profit outlook for each of your businesses?

Normally, the second half is always better than the first half in financial services. What we see in Q3 and Q4, we will find good growth in terms of Q1 and Q2. So if I look at each of our businesses, of asset management business, I think AUM growth will remain at about 20 per cent growth rate, profitability will be above 10-15 per cent for this financial year.

For our commercial finance business, overall AUM would remain at about 5-10 per cent growth rate but the profitability would grow at about 20 per cent. So RoE should be above 18 per cent.

However, in housing finance, we will show substantial growth — about 40-50 per cent growth in profits as well as AUM. In our general insurance business, again the expected growth rate in profits is about 15-20 per cent. However, in terms of gross premium we would like to grow at least 10 per cent.

And in our life insurance business also, double digit growth rate in terms of new business premium as well as in terms of profitability are expected. Last year, we had lots of surrendered profits but this year we don't have them.

You recently acquired the mutual fund business of Goldman Sachs. Any plans of acquiring other funds?

As a company we are open to looking at opportunities through both organic and inorganic methods. In the case of Goldman Sachs, it fitted our bill because they were quite strong in ETFs. They have over 50 per cent market share. We were at about 10-15 per cent market share in ETF. If there are similar opportunities available for any of our businesses, we will definitely look forward to it.

Nippon Life has acquired a 49 per cent stake in RCAM. Are they looking at buying stakes at the group level as well?

The deal is about life insurance and asset management. On the asset management side, they are going up to 49 per cent.

On the life insurance side also we are in talks. We would like to conclude the deal before this fiscal end. We would like Nippon's stake to go up from 26 to 49 per cent.

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SAM GHOSH, ED & Group CEO, Reliance Capital