Reliance Capital Limited

Q4 FY17 Earnings Conference Call

28th April, 2017

SPEAKERS: Management of Reliance Capital

Moderator: Ladies and gentlemen good day and welcome to Reliance Capital 4Q FY2017 Post Earnings conference call hosted by Reliance Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Asutosh Kumar Mishra from Reliance Securities. Thank you and over to you Sir!

Asutosh Kumar Mishra: Good morning everyone and welcome to Reliance Capital 4Q FY2017 Earnings Conference Call. Today, we have with us Mr. Anmol Ambani - ED Reliance Capital, along with the entire senior management team to discuss 4Q FY2017 Earnings and strategy on the key operating businesses going forward. Over to you Sir!

Anmol Ambani: Good morning to all of you and welcome to our FY2017 Earnings Conference Call. We have the CEOs from our businesses with us, Sundeep Sikka from the Asset Management, Ravindra Sudhalkar from Home Finance, Rakesh Jain from Reliance General Insurance, Ashish Vohra from Reliance Nippon Life Insurance, and Gopkumar from Broking & Distribution as well as Reliance Capital's CFO, Amit Bapna. I would also like to welcome Devang Mody who has joined as CEO, Reliance Commercial Finance.

I am delighted to report that the total income for the quarter increased by 80% Rs. 51 billion and profit rose to Rs. 4.6 billion, despite large capital gains in Q4 FY2016 on account of stake sale in the asset management business with Nippon Life Insurance.

In terms of operating performance the core businesses have achieved double-digit growth in profitability. We expect each of our businesses to continue the trend of profitable growth on a consistent basis. Also the demerger or Reliance Commercial Finance into a separate 100% subsidiary has been completed. As on March 31, 2017 Reliance Capital corporate structure fully conforms to the guidelines of core Investment Company. We have given detailed financial and operating parameters for each of our major business in our presentation and review report. I now invite our business CEOs to share their perspective beginning with Sundeep Sikka from Asset Management.

Sundeep Sikka: Thanks Anmol. FY2017 has been a good year for the MF industry as industry AUMs reached a record high of over Rs. 18 trillion. Assets from beyond Top 15 cities grew faster than the top 15 cities and contributed Rs.3.1 trillion to the overall industry AUM. In the financial year 2017, 8 million folios were added, with March 2017 being the 34th consecutive months witnessing rise in the number of folios. SIPs are one of the key pillars of the industry and are helping to inculcate the saving habit and also ensuring stable long-term flows into the market.

The total amount collected through SIPs route in March was more than 43 billion.

In this context, I am very happy to share Reliance Nippon Life Asset Management is India's largest asset manager with 3.6 trillion of assets with an increase of 25%. In March 2017, Reliance Mutual Fund has the highest AUM sourced outside the top 15 cities amongst the asset management companies. The number of systematic investment plan and systematic transfer plan folios rose by 11% to 1.7 million resulting in an annual inflow in excess of Rs.50 billion.

Reliance Mutual Fund achieved the highest growth in retail investor AUMs in the industry for the financial year 2017. Recently SEBI announced uniform norms for instant access facility, which are RMF, led industry innovation. We have launched instant redemption facility to bring more investors into the mutual fund industry by adjusting one of the key constraints that is liquidity.

In financial year 2017 RMF integrated Goldman Sachs team and currently RMF holds 30% market share in EPS category. RMF has the mandate to manage CPSE ETF. The CPSE ETF FFO in January 2017 was one of the largest initial offings in the mutual fund industry. In two series the ETF raised in excess of Rs.240 million through more than 4 lakh investors.

The total income of the year ended March 31, 2017 increased by 9% to Rs.14 billion with profit before tax of 6 billion an increase of 16% we are amongst the top two most profitable asset management companies in the country. I would now like to invite Devang Mody from Reliance Commercial Finance for his comments.

Devang Mody: Thanks Sundeep. Reliance Commercial Finance continues to focus on secured asset lending to niche segments of SME, infrastructure finance, loan against property and commercial vehicle loans. I want to put on record here contributions made by my colleague, KV Srinivasan who has built an excellent business over last 10 years.

For the Q4, assets under management grew 11% to 168 billion while the outstanding loan book rose by 14% to 124 billion. Disbursement increased by 8% to 88 billion.. We continue to remain cautious and continue to lend only in the niche segments where we want to create impact on the market.

Total income for the year increased by 6% to 20 billion. Profit before tax rose by 10% to 3.4 billion driven by higher asset growth, other income and improvements in opex ratio.

Cost to net income ratio for the quarter improved from 40.7% to 36.6%. As on March 2017 the gross NPAs were Rs.6 billion at 3.7% of assets under management on 90 days basis, stable as compared to December 2016.

The coverage ratio including write off at the end of the March 2017 stood at 47%. Excluding write offs the ratio was at 16%. I would now invite Ravindra Sudhalkar from Reliance Home Finance for his comments.

Ravindra Sudhalkar: Thanks Devang. Reliance Home Finance Limited is a 100% subsidiary of Reliance Capital and is in the business of affordable home loans, loans against property and construction funding. In FY2017 the loan book rose by 47% to Rs.100 billion. During the same period the disbursements increased by 87% to Rs.73 billion. While the overall assets under management grew by 52% to Rs.112 billion, the growth in affordable housing AUM was higher at 63%.

Currently 77% of our overall AUM comprises of retail mortgages. The total income for the year increased by 37% to Rs.11 billion. The profit after tax rose impressively by 99% to Rs.1.7 billion. The net interest margin for the year after adjusting for the NPA reversal was 3.4%.

The cost to income ratio rose from 45% in FY2016 to 55% because the company continues to invest towards expanding its scale of operations; we expect to accrue the benefits from these investments in the coming quarters. The return on equity rose to 17.7% for the year as compared to 16.5% in FY2016.

As on March 2017, the gross NPAs improved to 0.8% as compared to 1.1% as on December 2016 and 1.2% in September 2016. The coverage ratio including write offs at the end of March 2017 stood at 40%. Excluding the write offs the ratio was 31%. We are operational in about 95 locations in the country out of 45 branches and would continue to expand our footprint through the hub and spoke model. I would now invite Rakesh Jain from Reliance General Insurance for his comments.

Rakesh Jain: Thanks Ravi. The General Insurance industry witnessed strong growth of 30% in FY2017 growing across multiple segments, including the government backed new crop insurance scheme. Reliance General Insurance is amongst the top private sector general insurance companies in India in terms of gross premium with a private sector market share of 7.3%.

The gross written premium for the company was much better than the industry growth rate at 40% to reach Rs.40 billion. Also, premium from preferred segments such as private car, individual health, travel, as well as commercial lines continue to grow in line or better than the industry.

Profit for the year increased by 32% to Rs.1.3 billion despite the impact of Rs.1.7 billion on account of strengthening of IBNR reserves for motor TP segment as proposed by the external panel actuary. The combined ratio improved to 120% for the year. The ratio includes the effect of addition IBNR reserves. The combined ratio for the short tail business continued to be around 100% in FY2017.

For the year ended March 2017 the ROE improved to 11% from 9% in FY2016. Our focus has been to improve profitability as well as our market share. The company has insured over 3 million farmers through the active participation in government crop insurance scheme; Pradhan Mantri Fasal Bima Yojana aimed at financial inclusion. The company has been a leader in integrating Aadhar authentication in policy sourcing and claim system.

The company has registered sharp increase in online channel with 55% growth in premium collected and 66% growth in policies sold. As on March 2017 we have one of the largest agency force in the private sector with over 24500 retail agents and 129 branches. Reliance General Insurance has concluded distribution tie-up with over 20 financial institutions viz. IndusInd Bank, Bank of India, Andhra Bank, UCO Bank, etc., also the company has aligned itself with several automotive manufacturers.

The Company is under discussion for similar tie-ups to further augment its reach across the country. I would now like to invite Ashish Vohra from Reliance Nippon Life Insurance for his comments.

Ashish Vohra: Good morning. In Reliance Nippon Life, the new business this year was Rs.11 billion while the renewal premium increased by 5% last year and we collected the total of Rs.30 billion. The company has been taking various initiatives to improve its quality as represented in the persistency numbers and therefore the company took a decline in the business consciously; however, we have begun to reign in the decline at this time. So for H1 of FY2017 the new business decline was about 32%, for H2 it was only 15%.

As we know the industry growth continues to be dominated by ULIP products, which is mostly the reason for the industry delivering the 25% plus growth.

Reliance Nippon Life of course has part of a conscious business strategy, remains focused on traditional product segment in the interest of profitability and the traditional products is nearly 80% of our individual new business premium in FY2017 and that is the reason our margins are supported, our margins being one of the highest in the industry at approximately 27% as of March 31, 2017. I am also happy to state that we are progressing steadily towards the significant turnaround in this business.

In FY2017 the business made a much smaller loss of Rs.611 million as compared to significant loss of Rs.2 million in FY2016. Of course with support of some new additions and focus on better persistency channel we continue to strive for increasing our profitability and regaining market share in the private sector. The significant happening of this fiscal of course is the significant increase in persistency from a little lower than 60% in FY2016 to 65% as of March 2017.

The business continues to focus on agency and proprietary channels that have a persistency of over 70% and some of our channels particularly face-to-face have a persistency of over 85%. Of course, our profitability will continue to be driven by growth in renewal premium along with the higher persistency that I have just emphasized apart. Sum assured of policies in force was at Rs.951 billion, there are over Rs.3 million policies in force at this time and we of course service and sell products through approximately 750 offices and over 75,000 active advisors across the country.

Reliance Nippon Life has been focusing on garnering new partnerships. We are focusing on the bank assurance and financial institution opportunities especially with open architecture, we are in dialogue with many private and public sector banks for possible bank assurance tie-ups with them. The total funds and the management grew by 8% in this fiscal to Rs.173 billion as of March 2017 and of course the business employees TEV method, the traditional method of calculating the embedded value. As of March 2017, the embedded value rose by 11% to Rs.30 billion. I now invite Gopkumar from the Broking and Distribution segment for his comments.

B. Gopkumar: Thank you Ashish. The Reliance Equities is the leading equity broker and distributor of financial product businesses in India. Business has witnessed a significant turnaround in FY2017 posting a profit of Rs.415 million for the year against loss of Rs.912 million in the financial year 2016.

Return on equity was at 16.4% in FY2017. For the year the total income raised to 22% at Rs.3 billion. Average daily turnover in equity rose by 48% to 28 billion. The number of equity broking accounts increased by 3% over 800500. There is a significant improvement in the mobile market share and today we stand at 14% against 4% of FY2016. Presently 95% of our broking accounts are open digitally. In terms of the commodity business, our commodity broking accounts rose by 25%, which takes us to 80400 customers and an average daily commodity turnover of 3 billion. In wealth management, our assets under management stood at 41 billion, an increase of 62%. Going forward we expect to continue the trend of profitability. Now I would like to invite Mr. Anmol Ambani for closing comments.

Anmol Ambani: Thank you. To reiterate, all our businesses are on a superior growth trajectory and will continue to strive further and scale new heights. With those comments, we would like to take your questions now. Thank you.

Moderator: Thank you very much. Ladies and gentlemen we will now begin with question and answer session. We have the first question from the line of Kunal Shah from Edelweiss. Please go ahead.

Nilesh: Nilesh here. Congratulations and thank you for the detailed presentation. Just going on the Consumer Finance Business, Devang just wanted to understand your thought process if you can just, I know it has been a short while, but just wanted to understand in terms of future prospects of this business and how do you plan to take this business forward?

Devang Mody: I think if we look at the business, which we build in last 10 years, we have some strategic assets, the way I look at the business opportunity going forward we have some strategic assets, we have great understanding of SME segment, we have predominantly secured assets business and Reliance Capital Group Companies per se have excellent franchise panning across the product categories, their distribution structures, their presence across cities, etc., etc., these are some of the strategic assets, which we have as Reliance Capital and we will look at opportunities in market place, leveraging these strategic assets and create deeper businesses across certain asset category. We are in process of evaluating various opportunities, so we will have much more clarity in next 90 days. At this point of time, we have only this much to share. As we progress, we will share more and more specific information. I hope this answers this question.

Nilesh: Not fairly completely, but I will go with that at the moment. The other one, on the entire standalone balance sheet now since this is CIC compliant in a balance sheet that we put across, so if you can give some colour on the standalone, the entire finance and investments, that total number of about 27,000 if I take investments and refinance put together, so provide some color on that Sir?

Amit Bapna: On the number you said roughly we have investments in our own subsidiaries and associates which are totaling to around Rs. 14,000 to Rs. 15,000 crores, balance is exposure to our media & entertainment businesses, which we are looking to unlock. We are in the process of exiting our radio business. We have a large stake in Prime Focus, which we will look at exiting, so we are in the process of exiting those exposures as well, so what will be left at Reliance Capital at a CIC level will be only exposures who are subsidiaries and associates. I think this entire transition should happen in this financial year.

Nilesh: So it is largely media and entertainment assets that we have?

Amit Bapna: Yes, primarily media and entertainments assets. We also have some private equity investments left, but now, that in a particular subsidiary we have created an SPV for it and we will be looking at exiting those private equity investments.

Nilesh: Okay. Thank you.

Moderator: Thank you. We have the next question from the line of Nidhesh Jain from Investec. Please go ahead.

Nidhesh Jain: Thanks for the opportunity Sir. This Rs.27000 Crores of investment can you breakup in terms of what is the loan book and what is the equity investment that we have apart from these investment?

Amit Bapna: Yes, it is there on the balance sheet page roughly 19000 would be investments, and around 7000 to 8000 is the loan book.

Nidhesh Jain: So by the end of FY2018 this loan book will also come down substantially?

Amit Bapna: Yes it will be down substantially over the next 12 months.

Nidhesh Jain: Secondly on the General Insurance Business, so this year we have done a sort of strengthening of reserves, so is this number factored in our combined ratio and what could be a sustainable sort of combined ratio for this entity going into next two to three years?

Rakesh Jain: See, I think yes, this number is obviously built in the combined ratio, but if you really see the combined ratio it is actually calculated before factoring in the investment income, which the company generates on the investment portfolio and when you do a third party claim settlement it is including the interest, which you pay on claims, so very often companies with significant exposures in motor will have an adverse combined ratio, but not necessarily an adverse profitability and to my mind this is a bit of an accounting thing, which needs to be understood. Having said that, our stated intent is to keep on improving our claims ratio year-on-year and I guess a good barometer is to see how is our combined ratio on the short tail book, which is approximately 100. We intend to keep improving it. Even this year in Q4 our combined ratio if you see was 115, which was almost like 5% to 6% improvement over the whole year's performance, so I believe this trend in the next two, three years should continue.

Nidhesh Jain: If I do the rough math, I think the adjusted for one of provisions the combined ratio would be around 110%, so next year should we expect this 110% combined ratio?

Rakesh Jain: I think we are improving, it is an annual basis, you keep on pricing and re-pricing, it is a reasonably competitive, but it is growing also, so we are optimistic that all our things put together we should be close in that direction.

Nidhesh Jain: The interest rates are also declined this year quite a bit, so that will have an impact on our investment income going into FY2018?

Rakesh Jain: Yes, I think it will impact a little bit of our investment income, but then the growth of the AUM has been very strong, if you really see we have grown our investment book by 25%, but when interest rates go down the interest rates on third party claims also comes down, it will help in neutralizing the cost also.

Nidhesh Jain: Just Sir lastly on the Reliance Life Insurance, so last two years we have seen decline in topline and substantial impact on profitability, so just two questions, one is what is the outlook for FY2018 in terms of new business same growth and secondly given the interest rates have come off and we have been quite active in traditional business, how is the profitability of that book as well as the incremental business looking in the life insurance?

Ashish Vohra: Thanks. Let me take both those questions. It is true that there has been a decline in the new business premiums over the last two years, part of it has been conscious strategy to realign channels to be able to focus on the ones that deliver good quality and those that deliver sustainable profitability, so both of these are linked issues really. If you see on the bottomline matter, as a result of the strategy that we have followed in spite of the decrease in topline because of management of expenses and because of management of quality as reported to persistency our bottomline performance has actually become better, so from a loss of Rs. 197 Crores in FY2016, we are now reporting a loss of Rs. 61 Crores only in FY2017; therefore, there is a strong movement that happened on the bottomline and I am quite confident that FY2018 is going to be growth both on the topline level as well as further significant improvement on the bottomline level. I think a relevant point to add would be that the right way to measure the life insurance business is EV, which has increased from FY2016 to 2017 by 11% to 3040 Crores.

Nidhesh Jain: Sure. Thank you Sir. That is it from my side.

Moderator: Thank you. The next question is from the line of Nalin Shah from NVS Brokerage. Please go ahead.

Nalin Shah: At the outset congratulations on a good numbers. My question is overall Reliance Capital as compared to many of these leading NBFCs. Our PBT and EBITDA margin etc., remain quite low compared to the leading companies in the sector. So would you like to give some guidance in terms of overall topline growth as well as improvement in the EBITDA and the PBT margin kind of a thing which you are looking to and I am sure you must have worked out something on that?

Amit Bapna: Yes, Reliance Capital is now a CIC, it is primarily an holding company. I think what you should be comparing is Reliance Commercial Finance, Reliance Home Finance which are the two lending businesses of us and if you look at those two businesses we have shown growth, we have shown improved ROEs as well in those two businesses and even if you look at non-lending businesses, ROEs in each of the businesses have been improving by the quarter and we hope to continue to achieve better performance in the coming quarters.

Nalin Shah: Thank you.

Moderator: Thank you. The next question is from the line of Subhankar Ojha from SKS Capital. Please go ahead.

Subhankar Ojha: Sir thanks for the opportunity. Sir what is the timeline for listing of our commercial finance and home finance business Sir?

Amit Bapna: So we have not discussed anything on the commercial finance side as yet, home finance it should get listed in the first half of this financial year.

Subhankar Ojha: Okay and commercial you said?

Amit Bapna: There are no talks of listing as of now.

Subhankar Ojha: Okay and so you said for in terms of the non-core businesses we have in Cap RMW, and Prime Focus?

Amit Bapna: Yes.

Subhankar Ojha: And what are the private equity investments you are talking about?

Amit Bapna: There are lot of final equity investments which was reflecting on the balance sheet in the last year as well, like we exited PAYTM in Q4. There are some other investments which we have, and are in the process of exiting hopefully in the next 12 months.

Subhankar Ojha: Thank you Sir.

Moderator: The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: This is Nischint and the question is for Ashish. I did not follow why you reported a loss in the Q4 in the Life Business?

Ashish Vohra: Right, like I explained we report quarter-on-quarter financials including the bottomline, in the last quarter we have taken incremental reserving on account of valuation interest rate on a non-par book now that is the decision that is typically taken at the end of the year so that we are prudent in our books in terms of reporting. And the total reserving that we have taken during the year on this account is nearly 100 Crores and of that about 70 Crores came in the last quarter so the consideration of 70 Crores being in the last quarter is what led to a reporting of a loss of about 61 Crores.

Nischint Chawathe: So the margins that you would now be recognizing on the non-par book would it kind of have gone down over the last one or two years given the fact that you will need to kind of do these adjustments so would the margin on the non-par side have gone down or would be kind of guide that incrementally it kind of tends to go down because you will want to make a higher reserving?

Ashish Vohra: So the non-par actually is a combination of many products there. It is not a singular product. I would agree with your commentary if it was comprising of just one product but in real terms, we sell about eight non-par and within that the margin is higher or lower. The other factor that dictates margins is really rider attachments, which over the last sometime have been going up. So as a combination of that we are able to manage margins at the reported levels and therefore we have not really seen a decrease or we continue to report 27% margin there.

Nischint Chawathe: Thank you very much.

Moderator: Thank you. Next question is from the line of Kunal Shah from Edelweiss. Please go ahead.

Nilesh: On the housing side just we have seen significant investments and that leads to the cost to income ratio over significantly. Now just wanted to understand the future plans on investments and do we kind of call out saying that this is the peak investment that we have done, I mean, the pace of opex going to be and we have seen the height of that last year?

Ravindra Sudhalkar: Well, most of the investments have already been done and going forward you should see a decrease in the cost to income ratio. As I have already been mentioned in my presentation today you would see it going down going forward. Most of the investments have already been done although we are still investing on the digital strategy part so that is not a huge one, compared to what we have done in the past. But in case of investments, looking at the future where we want to go, will continue happening but having said that, the cost to income ratio would come down as we move forward.

Nilesh: On the Commercial Finance side we have a MFI book of about 7% if you can just give some colour in terms of how much is origination and how much is bought out and we picking up asset quality kind of issues around some of the other standalone in MFIs so just wanted to hear your thoughts and how that book is shaping up for us?

KV Srinivasan: We have two components in the MFI book. One is where we have lent to MFIs and the other one where the microfinance loans have been booked directly on our book by way of a through model that is by way of BC kind of a model. The direct booking of microfinance loans would be in the region of around 250 Crores, the rest of it would be lending to microfinance institutions. Ever since the demonetization happened we have been very closely watching this particular sector. There was a certain amount of dip initially in the collection performance of some of the MFIs notably in certain areas like Western UP and Maharasthra etc., that has bounced back significantly and today when I look at it most of the MFIs that we have exposures to, we have collection ratios of more than 95%. So the initial concerns that we had in Q3 have been taken care of fairly well. So as of today we have no reason to worry about book now.

Nilesh: What is the plan on this Sir, I mean, do we intend, is this going to be a major part of book going forward or is there a number that we are working with in terms of to restricting the size of the book?

KV Srinivasan: While I would not want to go into specific numbers per se but definitely it will continue to be a very important part of our growth strategy. We believe that there is significant amount of depth which is there in the market and with the growing governance structure around the microfinance institutions per se and the development of refinancing facilities like Mudhra etc., coming into the play, I think the sector is well placed to receive a boost and we would like to be participating in that.

Nilesh: Thank you. All the best.

Moderator: Thank you. We have the next question from the line of Kajal Gandhi from ICICI Direct. Please go ahead.

Kajal Gandhi: Just wanted to know what is the reason your housing finance interest expense has been so high and also whereas NII has been significantly lower on a quarter-on-quarter basis?

Ravindra Sudhalkar: Yes, the NII is definitely down. The interest expenses have been slightly up because we have focused on affordable housing and that is the reason as you were aware in affordable housing the housing finance companies do not get a very high rate so going forward also we would continue to focus on affordable housing but having said that we have already mentioned our NIM guidance, which would be in the region of about 3.4% to 3.5%.

Kajal Gandhi: Sir overall business for the next year that we have seen 3.4% to 3.5%?

Ravindra Sudhalkar: Currently also it is about 3.4% but going forward also it would remain in the region of about 3.4% to 3.5% the NIMs I am referring.

Kajal Gandhi: Sir what kind of growth that you are going to expect from the Life Insurance segment going ahead and in the overall new business premium or the persistency?

Ashish Vohra: Well, it is little hard to give forward-looking estimates on this. All I could tell you is that we have done repair to our channel strategies that was much required and we will for sure we are back to the growth path. We just need to adjust our sales over the last two years to manage multiple areas of quality and profitability. I would not be able to comment on the exact percentages on what would happen so for sure you would see a significant improvement on topline level, on persistency levels as well as a bottomline levels.

Kajal Gandhi: Okay. Sir lastly in General Insurance do you still have anything to provide now like the one time which we had in the last year?

Rakesh Jain: No, we are fully provided for as per the report of the external panel actuary and I think we are sufficiently reserved.

Kajal Gandhi: Sir we should not see any volatility now going forward in the coming year?

Rakesh Jain: I do not think so. Of course, every actuarial is an estimate. The fact that this is been done by an external person, a very eminent firm, I think will give us the confident that this is quite stable.

Kajal Gandhi: Thank you very much.

Moderator: Thank you. We have the next question from the line of Ashwin Balasubramaniam from HSBC Asset Management. Please go ahead.

A Balasubramaniam: I had a couple of questions. First is what would be the capital adequacy in the Commercial Finance Business, Home Finance subsidiary and also the CIC level?

Amit Bapna: So at the CIC level it is 40% plus but capital adequacy for Commercial Finance is around 17% and similar for RHF as well.

A. Balasubramaniam: This capital adequacy ratio the total capital ratio or the tier I capital ratio?

Amit Bapna: This is total.

A. Balasubramaniam: Okay and also wanted to know the Commercial Finance subsidiary that would be largely retail finance subsidiary or some of the erstwhile like corporate loans, which you had Reliance Capital that would stay at the Reliance Capital level?

KV Srinivasan: This Commercial Finance is a pure retail lending business. There is no corporate loan book.

A. Balasubramaniam: You have disclosed another segment Infra Lending the Reliance Commercial Finance Book, what exactly would be the nature of that?

KV Srinivasan: These should be typically bridge loans provided for renewable energy projects, which are typically six months to nine months on an average in terms of tenure.

A. Balasubramaniam: Just one last question, in terms of LAP the yields, which you have mentioned about 14.6% so this would be the book yield right so what would be the incremental sort of yields which you would be getting in the LAP segment?

KV Srinivasan: Incrementally we are getting a yield of about 12% – 12.5%.

A. Balasubramaniam: Okay and like typically in your experience like this gap between 14.6% and 12% and 12.5% generally for how long would that gap be kind of sustainable like because I am assuming that LAP is a floating rate product?

KV Srinivasan: Yes it would be for about 18 months to two years.

A. Balasubramaniam: because of pre-payments?

KV Srinivasan: Yes, pre-payment is happening, people coming and getting their loans reduced at the current rate so on and so forth.

A. Balasubramaniam: Okay, what would be typical pre-payments like penalties, which you will have?

KV Srinivasan: Typical pre-payable penalties are not applicable for individual housing loans. In fact they are not applicable for any individual loans but for LAP normally the loans are to the company and pre-payment penalties are in the region of 3% to 4%.

A. Balasubramaniam: Thank you.

Moderator: Thank you. We have the next question from the line of Shekhar Singh from Excelsior Capital. Please go ahead.

Shekhar Singh: I just wanted to know this private equity investments, which you mentioned and the 14000 to 15000 Crores exposure to group companies this sits where exactly in the balance sheet?

Amit Bapna: This 14000-15000 Crores is to Reliance Capital subsidiaries and associates. It is investments into all our operating businesses including Commercial Finance, Home Finance, Life Insurance etc.

Shekhar Singh: This 18000 Crores of non-current investment, which you mentioned, is for the subsidiaries only?

Amit Bapna: Yes, most of it is towards the investment into those subsidiaries.

Shekhar Singh: Okay and the private equity investment situation is like PAYTM and all that will also be in the standalone company?

Amit Bapna: No so that we have moved into a separate subsidiary, which is an SPV. That quantum will be around 2000 Crores.

Shekhar Singh: 2000 Crores is all the private equity investments that you have made?

Amit Bapna: Yes.

Shekhar Singh: Sir in the Home Finance business what was the cost to income ratio that you are running at it?

Ravindra Sudhalkar: The cost to income ratio is currently upwards of 50%. As I mentioned we will be going down on the cost to income ratio in the coming quarters.

Shekhar Singh: Okay and it is primarily high because of new branches you opened or why is that?

Ravindra Sudhalkar: No, we have not opened any new branches. We have invested in technology. We have invested in manpower and whatever people were required to get future business, we have already got them in.

Shekhar Singh: In the Reliance Commercial Finance what are the plans on the cost to income side, you have actually brought it down, but can you reduce it further?

KV Srinivasan: I think there is a deceleration in cost to income ratio. As we grow the retail businesses those businesses are opex heavy in the beginning till the time ANR builds up so while we would want to maintain it at lower level, but I do not think so we will have further deceleration in cost to income ratio.

Shekhar Singh: Thanks a lot Sir.

Moderator: Thank you. We have the next question from the line of Ritika Dua from Elara Capital. Please go ahead.

Ritika Dua: Thanks for taking my question. Sir I may be understand when you say affordable housing you have mentioned the average ticket sizes but then can I understand where are you seeing the growths and which states may be?

Ravindra Sudhalkar: Basically if we look at our overall portfolio, 60% of our overall portfolio is in the west, 20% is in the north, 15% is in the south and 5% is in the east, that is how the overall portfolio and hence the affordable housing portfolio is also distributed. We are operational in about 97 locations in India and the affordable housing finance typically comes from periphery of the locations where were operational, so if you look at it more contribution affordable housing finance was from the west.

Ritika Dua: Like in one of the previous questions you have mentioned that obviously that one of the reasons why margins have gone down for us at this time is because we have concentrated more on affordable housing wherein you are saying that the interest rates are not high enough, so what are the rates that we are lending at the moment specifically for this 10 lakh segment which we are saying the average ticket sizes?

KV Srinivasan: It is at par with what the market lends at it is in the region of about 8.6% to 9% for affordable housing.

Ritika Dua: Are you trying to say that this number has come down like roughly 200 basis point in your presentation, if I am not heard correctly, 10.5% is the yield which you have mentioned in FY2017 across affordable housing so what has led to such a sharp fall?

Ravindra Sudhalkar: What I mentioned to you is about the incremental lending; however, the book continues to be at a higher rate and the other reason is also that we mobilized bonds last year and that is why the cost of fund was slightly on the higher side which is why NII was affected.

Ritika Dua: Sir, can I get the liability mix of the Home Finance, please?

Ravindra Sudhalkar: The liability we have about 40% of term loans from the bank currently. The proportion of loans has come down from the 80% level from the banks last year to 60% on October 1 and currently which are at about 40%, so 40% is the bank loan in the liability mix.

Ritika Dua: For 40% is the bank?

Ravindra Sudhalkar: Balance is the NCD.

Ritika Dua: So 40-60?

Ravindra Sudhalkar: And CPs. CP is very less, CP is about 10%, NCD and CP put together is 60%.

Ritika Dua: Sir did we take any dispensation for any of our NBFCs in Q3 in terms of RBI dispensation?

Ravindra Sudhalkar: No.

Ritika Dua: That is it from side. Thank you.

Moderator: Thank you. The next question is from the line of Vibha Batra from Fair Connect. Please go ahead.

Vibha Batra: My question is again on how Housing Finance. Just trying to understand, in affordable housing is the ticket size only distinction and possibly geography is that the only distinction between home loans in affordable housing that you have given?

Ravindra Sudhalkar: No, one in the ticket size. There are other parameters also which is square footage of house that a person is buying and the yearly income of the client, so these are three factors which differentiate affordable housing with other home loans.

Vibha Batra: The average yields that you have given they are different only 20 basis points. So does it actually make sense to kind of do this lending at 10.5% because I am assuming if the ticket sizes are lower the opex will be higher and also if your cost of funding is 8.6% credit cost could also be higher in this segment so would this kind of pass some test on ROE that you may have internally?

Ravindra Sudhalkar: We have targets for ROE internally on affordable housing; however, the funds available for affordable housing from different banks also because most of it would be a priority sector lending for most of the banks and are also priced fairly and we will also sell down of the books, we also securitize our book so if you look at overall and plus the National Housing Bank which also gives funds at a lower rate if end users are for affordable housing, so looking to all of that I think the stable ROEs what we have budgeted can be maintained for affordable housing.

Vibha Batra: But all that was not availed in FY2017 because your NIM seemed to have dropped or it is only on balance sheet and if you are ahead of balance sheet it will kind of neutralize?

Ravindra Sudhalkar: If you look at FY2017 we had not gone for NHB refinance, which we will be applying to them this year.

Vibha Batra: Are you eligible for NHB recently?

Ravindra Sudhalkar: Yes, we are.

Vibha Batra: So this cost to income ratio if you were to see may be three years down the line with the likely mix where would this kind of go?

Ravindra Sudhalkar: As I have told you I cannot put a number to it, but there will be a significant reduction in the cost to income ratio in the next coming quarters.

Vibha Batra: The reason for the increase in FY2017 is more of shrinkage in NII than opex, looking at just that margin?

Ravindra Sudhalkar: If you are referring to cost to income ratio as I have told we have done investments on technology, we have done investments in manpower and we upfronted the people and the ANR buildup happens over a period of time and at the same time we have raised bonds in quarter three, which has also increased the overall cost of funds for short-time.

Vibha Batra: But most of this book will be floating?

Ravindra Sudhalkar: Yes.

Vibha Batra: Thank you.

Moderator: Thank you. We have the next question from the line of Gautam Bahal from Mauryan Capital. Please go ahead.

Gautam Bahal: Good morning, I have a strategic question from a shareholder perspective it is pretty clear that there is a lot of value here in all the subsidiaries, which is not being recognized or realized fully by the market. Can you perhaps give us some sort of broad outlook is the plan eventually demerge all the subsidiaries one by one starting in the housing finance business some sort of outlook on that will be great?

Amit Bapna: I think overall subsidiaries are already demerged either 100% held or at least held by us.

Gautam Bahal: I mean demerge and listed?

Amit Bapna: There are no plans for listing. It is only home finance as of now and as and when anything comes up, we will see what we want to do.

Amit Bapna: Just to clarify commercial finance was the only business, which was at the Reliance Capital standalone level, which has got demerged last year, so besides that all were separate legal entities already. We have just announced listing of housing finance as of now. There is no discussion on listening of any other subsidiaries or other plans.

Gautam Bahal: By something to be kept in the back in the mind perhaps because it is a big value unlocking, right, one would think?

Amit Bapna: We cannot comment on it. It is for the Board to decide.

Gautam Bahal: Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Asutosh Kumar Mishra for closing comments. Thank you and over to you Sir!

Asutosh Kumar Mishra: Thank you everyone for participating in the call and thanks for the management for giving their perspective on the operating businesses. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Reliance Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.