Reliance Capital Limited

Q1 FY18 Earnings Conference Call

28th July, 2017

SPEAKERS: Management of Reliance Capital

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Reliance Capital Q1 FY 2018 Earnings Conference Call hosted by Reliance Securities Limited. As a reminder, all participant lines will be in the listen-only mode. 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 would now like to hand the conference over to Mr. Asutosh Kumar Mishra from Reliance Securities. Thank you and over to you, Mr. Mishra!

Asutosh Kumar Mishra: Thank you, Karuna. Good Morning, everyone and Welcome to the Reliance Capital 1Q FY 2018 Earning Conference Call.

Today, we have with us; Mr. Anmol Ambani -- ED -- Reliance Capital along with the entire senior management team to discuss 1Q FY 2018 earning and strategies on the key operating businesses going forward.

So, over to Anmol!

Anmol Ambani: Good morning to all of you and welcome to our Q1 FY 2018 earning conference call. We have the CEOs from our businesses with us, Sundeep Sikka from the Asset Management; Ravindra Sudhalkar from Home Finance; Devang Mody from the Commercial Finance; Rakesh from Reliance General Insurance; Ashish Vohra from Reliance Nippon Life Insurance; and Gopkumar from Broking and Distribution segment; as well as Reliance Capital's CFO, Amit Bapna.

I am very happy to report the total income for the quarter increased by 33% to Rs. 49 billion and profit rose by 15% to Rs. 2.4 billion.

In terms of operating performance all businesses have achieved significant growth in top-line and strong improvement in profitability. We have given detailed financial and operating parameters for each of our major business in our Presentation.

I now invite our business CEOs to share their perspective beginning with Sundeep Sikka from Asset Management.

Sundeep Sikka: Thanks, Anmol. The Mutual Fund industry has maintained strong momentum from the previous fiscal in this quarter as industry AUMs have reached a record high of nearly Rs. 20 trillion.

In Q1 the assets from beyond 15 cities which are the smaller cities have grown faster than the bigger cities as the top 15 cities. These locations contribute Rs. 3.5 trillion to the overall Mutual Fund industry. In this context, I am very happy to say that Reliance Nippon Life Asset

Management is India's largest asset manager with 3.6 trillion of assets under management with an increase of 24%.

As on June 2017 Reliance Mutual Fund has the highest AUM sourced outside the top 15 cities amongst all the asset management companies in India. The number of systematic investment plan and systematic transfer plan rose by 21% to 1.7 billion resulting in an annualized inflow of in excess of 60 billion.

RMF has 6.3 lakh ETF investor folios in India which is one of the largest investor bases in the industry. For the quarter ended June 30th, 2017 total income increased by 27% to Rs. 4 billion. Profit before tax rose by 23% to 1.5 billion in Q1 FY 2018. Return on equity further improved from 22% to 25% in Q1.

I would like to now invite Devang Mody from Reliance Commercial Finance for his further comments.

Devang Mody: Good morning, everybody. As you know Reliance Commercial Finance is amongst the leading SME lender in India NBFC space. Now, being a demerged entity, we have the mandate to grow the NBFC business across customer segments. So, we intend to grow our business into new age financial solution provider for both SME as well as consumer finance space.

As far as quarterly performance was concerned, the asset under management grew by 6% for Q1 to Rs. 175 billion while loan outstanding book 13% to Rs. 138 billion. The total income for the quarter increase marginally to Rs. 5 million. Profit after tax rose 44% to Rs. 645 million driven by higher asset growth, other income and improvement in net interest margin. The net interest margin for the quarter improved to 5.7% versus 5% corresponding quarter last year. The return on equity improved from 9.1% to 12.5% in Q1.

As on June 2017, the gross NPAs were Rs. 7 billion that is 4.1% of asset under management. We have always been providing on 90 days basis as compared to 3.7% on March 2017. We have spent the quarter to chart out our growth strategy for the next three years. Businesses which we want to get into and what is our path to get to leadership position in some of those businesses we intend to grow the NBFC business to reach 50,000 crores AUM over period of next three to four years.

I would now invite Ravindra Sudhalkar from Reliance Home Finance for his comments.

Ravindra Sudhalkar: Good morning. Reliance Home Finance Limited is a 100% subsidiary of Reliance Capital and is in the business of affordable home loans, loan against property and construction funding.

For quarter one in FY 2018, the loan book rose by 51% to Rs. 117 billion. During the period the disbursements increase by 68% to Rs. 27 billion. The assets under management grew by 58% to Rs. 130 billion. Currently 77% of our overall AUM comprises of retail mortgages. The total income for the quarter increased by 58% to Rs. 4 billion. The profit before tax rose by

50% to Rs. 451 million. The return on equity was 14% for the quarter. The net interest margin for the quarter after adjusting for NPA reversals was 3.9%. Our NIM guidance continues to remain in the range of 3.5%. The cost to net income ratio improved from 49% in Q1 2017 to 42% as a benefit from investments made in FY 2017 begins to accrue.

As on June 2017, the gross NPA remains stable at 0.8% of the assets under management. The coverage ratio including the write off at the end of June 2017 stood at 34% excluding the write off the ratio was 27%.

We are operational in over 100 locations in the country through the hub and spoke model and would continue to expand this footprint. As we move forward, we will leverage on technology and online platform and we plan to reach an AUM of Rs. 50,000 crores in the next 24 months to 30 months.

I would now invite Rakesh Jain from Reliance General Insurance for his comment.

Rakesh Jain: Thank you, Ravindra. General Insurance industry witnessed strong growth of 22% in Q1 growing across multiple segments primarily help that motive. Reliance General Insurance is amongst its all private sector General Insurance companies in India in terms of gross premiums with a private sector market share of 8.5%.

The gross return premium for the company rose by 41% much better than the industry growth rate to Rs. 13 billion. Also premium from preferred segments such as private cars individual health and travel as well as commercial lines continue to grow in line or better than the industry.

Non-motor product is improved from 46% in Q1 FY 2017 to 53% in Q1 FY 2018. Profit for the quarter increased by 22% to Rs. 443 million. The combine ratio improved from 114% in Q1 FY 2017 to 104% for the quarter. The combine ratio for the short tail businesses continue to be about 100% in the quarter. The investment book increased by 22% to Rs. 69 billion as on June 2017.

For the quarter, the ROE improve to 14.5%. Our focus has been to improve profitability as well as our market share. The company receives mandates for Pradhan Mantri Fasal Bima Yojana in five states. The company is also authorized under the restructure weather based crop insurance scheme in Uttar Pradesh and Maharashtra. The company has been a leader in integrating Aadhaar authentication and policy sourcing and claim system.

The company has registered a sharp increase in online channel with 47% growth in premium collected and 52% growth in number of policies issue.

As on June 2017, we have one of the largest agency forces in private sector with over 25,000 retail agents and 129 branches.

Reliance General Insurance has concluded distribution tie-up with over 20 financial institutions and bank. Also the company has aligned itself with several automotive manufacturers. The company is in discussion for similar tie-ups for further augmenting its reach across the country. And as you are aware that the Board of Reliance General Insurance has already approved the listing of the company and we intend to create significant value by unlocking this opportunity for a large number of investors in the current financial year.

I would now like to invite Ashish Vohra from Reliance Nippon Life Insurance for his comments.

Ashish Vohra: Good morning. I am very happy to state that at Reliance Nippon Life we have achieved a significant turnaround in premium growth in this quarter. Individual new business premium grew by 22% to Rs. 1.4 billion while renewal premium grew by 11% to Rs. 5 billion. These are some of the highest growth numbers that the company has achieved over the last 8 to 10 quarters.

As of result initiatives taken in FY 2017 to improve agency productivity, this growth came about, the growth in agency was about 30% and the growth in direct to customer channel like face-to-face, was 84%. Also, contribution of low quality business from third-party distributors continue to decline resulting in better quality of book and therefore higher persistency.

Overall persistency rose sharply from 60% in Q1 last year to 66% as of June 2017. The business continues to focus on agency and proprietary channels which have persistency of 70% and 80% respectively. Continue growth in renewal premium along with high persistency demonstrates our emphasis on improving the quality of business and therefore customer centricity.

As a conscious business strategy, we continue to stay focused on the traditional product segment which forms 77% of individual new business premium in Q1 FY 2018 therefore, supporting margin. Margin improved further with movement towards longer pay and higher margin products.

In Q1 FY 2018, the business made a loss of Rs. 138 million. The loss really comes out of surrender value that needed to be provision for new products that we introduced in FY 2014. And therefore March, April, May sales of 2014 resulted in surrender values that need to be provided for in the present quarter.

Sum assured of policies in force was at Rs. 939 billion. There are 3 million policies in force and there is a network of approximately 750 offices and over 71,000 active advisors across India.

With support from new distribution channels that we are focusing on, new bank assurance tie-ups, higher persistency and better agency productivity we expect to improve profitability and regain market share in the private sector.

Reliance Nippon Life Insurance has arrangements with eight financial institutions. Some of them urban banks, and currently the company is in active discussion with multiple scheduled commercial banks, foreign banks, small finance banks, co-operative and regional rural banks to further expands with distribution reach through its channel.

The total funds under the management grew by 10% in this quarter to Rs. 174 billion as of June 2017 the business employs the traditional method of calculating the embedded value. As of March 2017, the embedded value rose to Rs.30 billion.

I now invite Gopkumar from the Broking and Distribution segment for his comments.

B. Gopkumar: Good morning. Reliance Equities is among the leading retail equity broker and distributor of financial product and services in India. For the quarter, the total income rose by 51% at Rs. 820 million**.** The business had a profit of 70 million in quarter one against the marginal profit of 3 million in quarter one FY 2017.

Return on equity rose to 10% in the quarter. The number of equity broker accounts increased by 5% to approximately 8,19,000 customer base. Overall daily average turnover in equity rose by 52% to Rs. 39 billion driven by our digital transformation strategy we took last 18 months back. The mobile market share continues to grow. Our market share stands at 13.5%. Presently over 95% of new broking accounts are digitally opened and the clients are able to trade in the same day, this gives us immense opportunity to reduce cost of acquisition going forward. The number of commodity broking accounts rose to 30% to approximately 86,000. Average daily commodity turnover was over Rs. 2 billion.

In wealth management business, the assets under management stood at Rs. 40 billion, an increase of 44%. Going forward we expect to continue the trend of profitability.

And now I would like to invite Mr. Anmol Ambani for his closing comments.

Anmol Ambani: Thank you. Well, that on the process of the demerger and independent listing of Reliance Home Finance over the next few months. Last month, we announced the independent listing of Reliance Nippon Life Asst Management and Reliance General Insurance. We expect to list these businesses on the Stock Exchanges in FY 2018. The listing is expected to unlock the financial value for all stakeholders. The same value creation for our shareholders was the mantra of our founder Shri Dhirubhai Ambani and we will continue to stand by it in the future as well.

With those comments, we would now like to take your questions now. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. First question is from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah: Firstly, in terms of the commercial finance business. So, there has been the inch up in GNPA, if you look at last two - three years the trend is rising and now we are almost at 4 odd percent. So, maybe what is the reason for that? How we are trying to address this thing and manage the credit cost? And secondly, in terms of the overall growth, it is pretty slow when we look at it as compared to that of other players. So, what is ideally leading to say hardly like 5% - 6% kind of an AUM growth in the commercial finance business?

Management: I will take this question. This is Devang here. So, there are two parts to the question, first I will take the GNPA question. Yes, our GNPA in the quarter has increased. It has increased by around Rs. 100 crores which move the GNPA from 3.7% to 4.1%. The percentage increase is driven by two facts that our AUM growth is slower at around 6%. That I will address in second question. On GNPA levels while our absolute amount of GNPA is increased, we have been working very closely with few of the customers. We want to resolve some of these. Silver lining is that there is a material movement on the ground on mining front, on road construction front. Traditionally, we have some assets on power side and road side which have slowly entered the GNPA bucket. But with movement on mining and road front they are seeing much improved engagement from customers to resolve the issues. For example, there is one borrower his total GNPA is to the tune of Rs. 55 crores in this block. His mining work in Karnataka is expected to begin in the month of August itself and customer has already remitted us Rs. 3 crores in the month of July and is expected to pay another Rs. 7 crores in month of August. So, though the absolute amount of GNPA might not come down drastically in one quarter itself but we will see gradual reduction as we go forward. As far as AUM growth is concerned, as we chart out our growth strategy, we have decided to pause the commercial vehicle business in first quarter. Currently commercial vehicle business was around 5% of our AUM which has degrown by close to 40% on year-on-year basis. Similarly, we are rebalancing the portfolio and as we chart the strategy to grow loans to individuals which is consumer lending, the AUM growth by end of this year will start show reaching around 20% - 25% levels.

Kunal Shah: Okay. So, largely this in GNPA was chunkier in nature across few accounts on the infra lending side.

Management: That is correct.

Kunal Shah: Okay. And secondly, if I have to look at in terms of the overall exposure to the group, okay be it in terms of RComm or say even in terms of media. So, if you can just break it down in terms of how much is say towards the lending investments, in few of these entities including the entertainment business as well?

Management: Yes, as far as Reliance Commercial Finance is concerned, we don’t have any exposure.

Kunal Shah: No, sorry I am looking at the overall group level, the corporate lending and say the investment which we do.

Management: Yes, so the corporate loan book, all put together is roughly Rs. 8,000 crores. We are in the process of liquidating most of those investments. We hope to close the radio transaction with the Zee Group in the next month or so. We will be looking at existing most of our other investments as well like we have maintained. Hopefully, in the next 12 months or even earlier we will have most of the exits happening.

Kunal Shah: So, this Rs. 8,000 crores on the entertainment side, how much would it be based…

Management: No, entertainment is lesser, entertainment plus we have all the 3rd party private equity investments and stuff as well.

Moderator: Thank you. Next question is from the line of Vijay Sarda from Crescita Investments. Please go ahead.

Vijay Sarda: Sir, my question pertains to two things; one is the investment part that we explained, the non-strategic investment which is to be unwind. So, what is the time period of that to be getting unwind and when we can see the money coming to the balance sheet? Secondly, in terms of our housing finance, how much is the exposure to the commercial real estate or basically builder funding and all that? Will we restrict to, is there any cap on that or it will be a dynamic in terms of because 77% as you told is more on the affordable plus housing side so?

Management: On the investment and stuff on the media and entertainment space. I think we will be looking at exit in most of them in this financial year itself like we have been maintaining. There are a lot of deals which we are working on; we should be closing some of them in this quarter itself.

Management: Yes coming to housing we have maintained that our retail book would be in the region of 75% plus. Now, coming back to home loans, home loans always would remain in the region of 55% to 60% of the AUM. As far as the developer financing business is concerned, currently we are about 20% of the overall AUM. However, as I have said going forward home loan and affordable home loans put together would continue to remain in the region of 55% to 60% of the overall AUM.

Vijay Sarda: 55% to 60%. And just a last question in terms of commercial finance, basically the kind of growth what we are seeing in the industry and the kind of growth what we are seeing in the Reliance like we have been investing in the on and off. So, what the indication that we got in the last two years that we are consolidating and all that? So, now is it an inflection point where we can see the growth better than the industry or basically outpace the industry growth?

Management: As I answered in the first question, we have made the growth strategy. Some of the building blocks are work in process. So, by quarter three, quarter four, you will see the numbers moving upwards as we start executing the building blocks.

Moderator: Thank you. Next question is from the line of Avinash Singh from SBICAP Securities. Please go ahead.

Avinash Singh: My question on Reliance Life, so two questions. One is of course, you have seen the strong quarter in Q1 FY 2018 where agency model has working and it has been working for most of your competitors as well. But do you think this is the viable I mean the standalone or non-bank promoted life insurance still have other strategy to succeed in this Indian market. Second would be in terms of your product mix, I mean you have been selling a lot of traditional. Within that traditional significant amounts is non-par. Now, how are you sort of hedging the risk that long-term balance, risk that this non-par product brings? These are my two questions.

Management: So, I understand your observations around the standalone agency model and bank assurance commentary and it is fact that in the current market trend the bank assurance segment is growing very significantly. It has the ability to carry low charge products like ULIPs and therefore, it is actually driving the market growth. I however think there is a substantial market that is non-bank assurance I mean arithmetically half the market is non-bank assurance and the best way to reach those customers is really the agent model. There is history in the country on what kind of success has come about in agency and has not come about. I am personally of the opinion that many operators in the market are revamping their model. I do believe digitization and some experimentation that we are doing in that area is going to bring about even more efficiency on the operating model where waste cost is going to get cut away. Worldwide the agency model continues to be a leading model I do think it is a matter of many players in the country getting their act right before this begins to produce significant outcome to people. Your other question around non-par, in a way it is a related question when you have a proprietary channel, we have to think about what is the profitable product to carry that. So, when you talk about non-par and its interest risk that comes along that is the reality. But what also comes along is a reasonable margin that therefore drives profitability of this business. So, if you think about the kinds of product lines, if you take the participating products, you think about ULIP products and you think about non-par and you talk about what benefit and what downside it brings along. I would continue to think that for an agency company the non-par product line is most profitable in the long-run in spite of carrying the interest rate risk. If you followed our comments in the early quarter, we did say that in the last fiscal there is adjustment that we did to our valuation interest rate on account of the non-par book and we took a hit of about Rs. 100 crores in the last fiscal. So, at the moment, we are okay but we continue to carefully watch the GSEC and the interest rate and we will make appropriate adjustments as required. My net answer to you is that in spite of the risk the margins of a substantially high order. So, for an agency company I do think it is the right strategy to follow.

Avinash Singh: Okay. Again, as a follow-up to the second part in the sub-PAR. So, you rightly said that given your cost structure I mean of course, it does not make sense to sell much of unit link because of the charges and other caps. Yes for you traditional make sense but the problem is that okay at the moment you have got sort of a customer base. But what is the value proposition this product are offering to the customer because ultimately, if there is inherently high charge build into it? So, I mean as and when I mean this financial awareness on the standing of product develop over the same medium-term not tomorrow in a year say in five - seven years, this non-PAR will have lesser and lesser acceptability eventually. The secondly, that again, you are saying of course, you are doing the risk management. But if you are selling I guess currently you also sell some sort of guarantee of this non-PAR product with a premium paying term exceeding 10 years even. I mean what sort of instruments are available in the market to hedge your risk that I am still not very clear.

Management: Right. So, this is a fairly detailed question, may be the hedging part of the question that you are asking is better done as an offline discussion. On the other question that you are asking on the value proposition to the customer, I am actually of the opinion that the value proposition currently as compared to a year or two years ago is of a better order. I mean as fixed deposits rates have dwindled in the market and currently customers earn say approx.7 percent out there. And if I am giving a guarantee of say 4.5% or 4.75% with taxation difference and a longer-term 15 year - 20 year period including mortality built-in, I would actually argue that the value proposition to the customer in current terms as compared to a couple of years ago is of a better order. So, my collection rates, my renewal rates actually are on an upward swing for this reason. So, I guess the non-metro customer if I may call it that there is a customer segmentation out here when you come to cities and bank customers they behave differently, when it is not the large cities and when it is not really the mass affluent they tend to behave somewhat differently in this area. I am happy to discuss this more with you, we have done significant amount of work on customer segmentation. I do think this is the right way forward.

Moderator: Thank you. Next question is from the line of Kajal Gandhi from ICICI Direct. Please go ahead.

Kajal Gandhi: Sir, will be your NBAP margin in Life Insurance now?

Management: So, we do not discuss this on a quarterly basis. Like I said our disclosed numbers for the last fiscal is 26.8%, I did mention that we are better in this quarter and we are better because we are mindful about what product we are selling, we are also better because consciously in this quarter we have trend and move towards higher PPT (premium paying terms). Those two strategies are actually driving the margins up. So, you could reasonably expect for the current fiscal that margins would be up for sure.

Kajal Gandhi: Okay. And sir, on the commercial finance side, can you share what will be the borrowing and even in the home finance what will be your outstanding borrowings in both the books and whether there are any increase in finance cost of anything?

Management: Borrowing book is around Rs. 12,000 crores of commercial finance and there is no increase actually the prices are softening as we go forward. If I look at month-on-month trends then rates are softening as we go forward.

Kajal Gandhi: So, what explains the margin decline, it is just the yields?

Management: NIMs have increased to 5.7% from 5% actually.

Kajal Gandhi: No, quarter-on-quarter there is a sharp dip.

Management: Yes, quarter-on-quarter because as part of demerger last quarter, there were some functional adjustment for full year because actually demerger got effected effective 1st April, 2016 and that is why there was a functional adjustment. We are seeing increase in margin. If you see the numbers actually the yields have come down from 14.4% to 14% while margins have increased from 5% to 5.7% primary because cost of funds have dipped by as high as 85 basis points.

Management: Yes, on the Home Finance side our overall borrowings continue to be in the region of about 11,400 we have brought down our bank borrowings from 71% last year to 46% this year.

Kajal Gandhi: Okay, sir. And what will be your cost of funds?

Management: We actually are guided by the NIMs and as I have said earlier also the NIMs for the quarter were 3.9%, our guidance on NIMs continue to remain the region of 3.4% to 3.5%. And cost of funds would be roughly around 8%.

Kajal Gandhi: Okay. And for the overall consol basis the capital gains number even in this quarter has remained strong though we have not booked anything.

Management: There were no capital gains in this quarter.

Kajal Gandhi: So, within overall the reporting wise the number which gets reported on a consol P&L basis is high this quarter which is not the trend. So, is it the dividend or anything?

Management: No, so there is dividend which we will receive from subsidiaries which has been there in the past as well in quarter one but there has not been capital gains in this. This is only business results improving.

Moderator: Thank you. Next question is from the line of Ritika Dua from Elara Capital. Please go ahead.

Ritika Dua: Firstly on Reliance Home Finance, how should we read the cost-to-income ratio it has fallen sharply?

Management: Yes, in the last Presentation we mentioned that our cost to income ratio would go down as we move forward. So it is basically the productivity increase which have happened and we have continued the cost. So, it has gone down significantly. It has improved from 49% in quarter one last year to 42% this year.

Ritika Dua: And sir, can I understand what our sourcing strategy is, I mean in-house versus third-party?

Management: Yes, the sourcing strategy we have come up recently with an online platform and in the near-term to med-term, we want to have 20% of our home loans and affordable home loans to come online, that is through a digital route. However, we have our internal sourcing mechanism, as well as we source to the direct sales agents. These are mid-term we would want to have 50% of our home loan business coming internally and 50% from the direct sales agents.

Ritika Dua: If you could kindly again may be why specifics of this quarter, what has changed? Where are we getting the efficiency, largely the volume or it is like we have revised their commissions or how is it?

Management: No, so, we have never been irrational as far as DSA commission is concerned, there was more business coming internally this quarter that is number one and the productivity of the people have also gone up.

Ritika Dua: Sure, sir. Sir, my next question is on the General Insurance. Sir, how do we read into the claims which are coming, obviously the premium which we had collected on crop side have been quite healthy on industry basis. But the claims are also quite significant. So, how should one see this?

Management: As far as the last season goes, I guess the claims were much lower than the premium which was received. The season turned out quite well for most of the companies except for certain exposures in certain skewed states. So, for us it was a good book, it performed well and now we continue to build that book, we continue to diversify our risk, the risk which goes on geography, which goes on crops, which goes on summer season, winter season, there is a host of parameters which really goes to underwriting this business. So, clearly it is a massive opportunity. It is a place wherein we select, the risks we would like to under write. So, yes, there would be certain uncertainties with weather. But then within the ambit of that we will price the risk and I see this as a continuing trend year after year.

Ritika Dua: So, because as per media articles while the insurance premium collections have been premium collection have been very healthy and also have the claims and claims are lower?

Management: Are you talking of the current year or the last year?

Ritika Dua: Sir, the current year.

Management: Current year is still ongoing; it will be premature for us because the enrollment process is still on. I thought you were asking for the last year.

Ritika Dua: So, because as per today, some article today like the payouts have not happened for most of the farmers still have not received most of the claims which they have submitted to. So, that is why just trying to understand from you how should one read that like and most of the states barely anything have been received by the farmers on the claim front.

Management: I do not know what is the source of that information because the Ministry comes out with its own data which is quite explicit in a reasonable number of states. For example, in the state of Maharashtra where we insured last year, we have paid out significant amount of claims as well as in many other states. So, I do not know about each and every state, I cannot comment about that. We can only look at ourselves. We have paid significant number of claims wherever it felt due for last year. And even though the claims were significantly lower than the premium received wherever it occurred we discharged our obligations. For the current year the enrollment process is on, the premiums will get collected over the next one - two - three months based on how the enrollment pattern goes. And I guess it is only fair to wait for that couple of months for the Kharif season to really mature then we can come to know how the enrollment has been for this year.

Moderator: Thank you. Next question is from the line of Shiv Kumar from Unifi Capital. Please go ahead.

Shiv Kumar: This question is regarding the asset management unit. Sir, we see that there are non-mutual fund assets of around 1396 billion. How does one model the total income flowing from this particular segment? In terms of annual bps how should we model it?

Management: Broadly I mean, you are right I mean the other than the mutual fund part; this majority of the money is advisory, international, pension and offshore. So, I think it is again very difficult to put number towards because all mandates, international mandates had a different pricing depending on the quantum. But I think, from an overall cost of view about as we talk today about 90% to 92% of the overall revenue comes from the mutual fund business itself. Balance is basically more skill game and because there is no incremental cost to it to where to manage to mandate of a $1 billion or $5 billion there is no additional cost. So, that is normally a low margin but high volume.

Shiv Kumar: Right. Sir, and what about the three mandates you have, the EPFO, and the NPS and CMPFO, how much of it is constitutes this 1396 billion?

Management: Higher portion of that will be from EPFO.

Shiv Kumar: Right. Sir and do you see any benefit flowing from the increase in direct folios because as the proportion of direct mutual fund folios increases the commission that you need to pay to the agents come down. So, will the fund get the benefit out that?

Management: See, broadly the way you have to see I mean as investors mature I think they will be as per the present regulation. The investors are allowed to come to the mutual fund company directly for which the fees is reduced. So, to give an example, if there is somebody who is coming through a regular plan and I would not call it distributor a regular plan I mean if we are charging about if the regulator allows you to charge 25 basis points when somebody comes in a direct plan, I mean he is charged about 60 basis points to 70 basis points less. Now, as market matures, as investors mature there will be people who will start coming direct also. I think from our point of view, all I can say, I think we are in a state of readiness whether to do with having us a long-term track record brand and both online and offline reach. So, as and when I mean the change in behavior of the investors I think there is a state of readiness for that.

Shiv Kumar: Right. Sir, and the timelines for the listing, sir when are you likely to get listed?

Management: As nothing is decided in the last board meeting. I think the idea is to get listed in this financial year. The work is progress and I think we will be filing the document with SEBI soon. So, again our endeavor is to I mean sooner the better. But I think as mentioned in the last meeting, it will be in this financial year.

Moderator: Thank you. Next question is from the line of Nishchint Chawathe from Kotak Securities. Please go ahead.

Nishchint Chawathe: Maybe it is a little too early but how do you read or how do you see the impact of GST on your customers may be both from Mr. Ravindra and Mr. Devang?

Management: So, I have the opportunity to meet few customers in the month of July. Most of the market recognize that this is a material change but market should come to normalcy by last week which is this week of July and going forward. Impact in terms of adjustment time would mean that 15 days of revenue would have got impacted in month of July. But most of the markets are to normalcy, I think the people have adjusted quite well. So, no particular impact on our business that is our understanding as of now.

Management: Yes, I go ahead with what Devang has mentioned even for the Reliance Home Finance we really do not see any significant impact of GST.

Nishchint Chawathe: So, basically I think what you are essentially saying is that maybe there are idle capacities or loss of business 15 days but beyond that business is going to I mean there is fair amount of confidence that business is just kind of getting back to normal.

Management: Absolutely.

Nishchint Chawathe: Okay. And just one more on the CLSS scheme, if you could share any update as to kind of how much have you really done in this quarter or how much money you really got from the regular or so on anything of that sort?

Management: Yes, CLSS is ongoing process. So, we had received about Rs. 2 crores as the CLSS which we have given back to the clients, we have send the further trench from our side we have already send the further trench but we are yet to receive the amounts. As and when we receive, we will come back to you. The second trench what we have sent to the National Housing is in the region of about Rs. 6 crores.

Moderator: Thank you. Next question is from the line of Sameer Kapadia from Rockstar Capital. Please go ahead.

Sameer Kapadia: Sir, can you please tell me what would be your total non-core investment value as of now and what are your plans in terms of monetization of the same?

Management: Yes, so all put together it would be in the range of around Rs. 10,000 crores. We are looking at monetizing them in the next 12 months. Significant amount should be in this financial year itself.

Moderator: Thank you. Next question is from the line of Ashwin Balasubramanian from HSBC Asset Management. Please go ahead.

Ashwin Balasubramanian: I just want to check in terms of LAP book. So, if look at the yields in your Reliance Home Finance LAP book that is around 12% and that is in the commercial financial book is around 15.5 odd percent. So, just wanted to check is there like a difference in terms of the customer profile in these in terms of the loans book in these 20 and secondly like how do you decide like which entity to book loan or these are two entities basically compete with each other and so I mean just understand like is there a customer segmentation or something?

Management: As far as the sourcing of LAP is concerned, it is the same team which is sourcing for both the divisions. So, there is absolutely no difference in the profile of the clients being sourced and there is absolutely no difference in the ticket sizes that we have sourced. So, I think it is only a coincidence that it is different in both the sides otherwise it is not that on the risk side there is any difference.

Management: Commercial financial has older book that is why if you see in the AUM mix LAP AUM is decreasing very rapidly in commercial finance. So, incremental LAP is getting book in Reliance Home book.

Ashwin Balasubramanian: Okay. But incremental what will be the rate on LAP?

Management: On an incremental basis we are getting anywhere between 11.5% to 11.9%.

Ashwin Balasubramanian: Okay. But on a book basis it will around 14% - 15% is it like on the commercial finance book?

Management: No, commercial finance as I am saying it is a book which was built in the last four years to five years that is why this is an amortizing book which is we are not booking any incremental loans in LAP at this point in time.

Management: So, if you basically combine both the books, on a book basis the yields will be somewhere 12.5 to 13.

Ashwin Balasubramanian: Okay. And what will be the capital adequacy and like net for your home finance like entity basically?

Management: So, the capital adequacy is 17% for our Reliance Home Finance.

Ashwin Balasubramanian: And this would be mainly Tier-I.

Management: It will be a mix of Tier-I and Tier-II. So, Tier-I will be around 10% and balance would be Tier-II.

Management: So, as on March the net worth was approximately Rs. 1,000 crores.

Moderator: Thank you. Next question is a follow-up from the line of Vijay Sarda from Crescita Investments. Please go ahead.

Vijay Sarda: Sir, my question is related to General Insurance side. Initially we were talking about getting some partner or so. Now we are talking about listing it so. What is it now? Are we not looking at any strategic partner or we will be directly listing?

Management: I think we have set out to achieve both the objectives. We are not averse to a strategic partner but that does not deter our plans to list.

Dhruv Agarwal: So, whatever happens, it will be listed during this year. So, if strategic partner comes well and good, if he did not then it will be listed directly on the board.

Management: Yes, so we are looking at doing an IPO in this financial year.

Moderator: Thank you. Next question is from the line of Kajal Gandhi from ICICI Direct. Please go ahead.

Kajal Gandhi: In case of General Insurance what is the reason that the combine ratios are declining now?

Management: See, the combine ratios decline on improvement in the operating scale which means the expense ratio has come down and at the same time also the quality of business the claims experience has also improved. So, both put together as resulted in the combine ratio.

Kajal Gandhi: So, you expect this year we have such kind of combine ratios for most part of the year like 104% because we were high in earlier range and even last quarter was 115%. So, what is the trend that you are looking?

Management: See, I do not want to comment for the next few quarters because it could be a bit forward in the context. But certainly, we are working to improve our numbers from the earlier years.

Kajal Gandhi: But still on a full year basis 110% or so is what we can look like?

Management: I am sorry, I cannot comment on that.

Kajal Gandhi: Okay. Sir, then what is your outlook now on this General Insurance goods because if major part is coming from crop insurance, what about other segments? Because overall growth what we are looking at for future?

Management: So, let me contextualize a couple of things which are a bit structural. For the entire industry, the whole of last year, crop insurance was an inclusion for the entire industry. And every insurance company participated in the crop insurance program. The total premium accrual for the industry for the whole of last year was about Rs. 22,000 crores. For Reliance General Insurance it was about Rs. 1,000 crores. So, it has not been a standout situation for Reliance General Insurance, it has been true for the entire industry. And I think a lot of credit goes to the Pradhan Mantri Fasal Bima Yojana to have really brought all these things which were outside the ambit of insurance into a structured insurance program. Having said that, now the growth of the crop insurance will depend on the farmer penetration, the yields on crop and obviously how individual companies want to shape up further on this. So, I think crop insurance is going to be a regular feature. It is just a bit exceptional because of the last year.

Kajal Gandhi: Sir, but if we talk more on this crop insurance, this is not going to give you the cash flows also immediately, correct? Because we are not seeing major government funds are coming so fast in the books?

Management: I think this is a bit of incorrect understanding. The crop insurance premiums from the farmers are remitted upfront then you get the collection from state and then followed up by center. It is a bit of staged process. But you always get the premium before you pay the tax. So, you are not out of pocket in that sense whereas the timing can obviously vary because these are huge schemes, people are enrolling crores and crores of farmers. By no means or stretch of imagination we can treat it like a normal standard even retail scheme. And by the way just on a smaller note, I think I forgot to answer in the earlier question, all our lines of businesses not just crop, for the whole of last year as well as in the quarter one have grown and have grown quite healthy which is equal to or greater than the growth of that segment in the market.

Moderator: Thank you. We have next question from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.

Manish Ostwal: My question on the Reliance Capital investment in the group companies, you share the Rs. 8,000 crores of exposure we have in the group companies and apart from that the other investment, so next couple of years what is our plan in terms of demonetization these investments? And secondly, any internal risk metrics which limit the exposure limit for group investment?

Management: No, so like I said earlier in the call we are looking at exiting most of these exposures in the next 12 months. Significant amount should happen in this financial year itself, while we have announced few transactions already which are expected to close in the next couple of weeks, one of them is the radio business which we are selling off to Zee Group. There are couple of other investments we have which all in the process of exit in this financial year.

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

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

Management: Thank you.

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