Reliance Capital Limited

Q3 FY17 Earnings Conference Call

13th February, 2017

SPEAKERS: Management of Reliance Capital

Moderator: Ladies and gentlemen good day and welcome to Reliance Capital Q3 FY2017 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 Mishra from Reliance Securities. Thank you and over to you Sir!

Asutosh Mishra: Good morning everyone and welcome to Reliance Capital Q3 FY2017 Earnings Conference Call. Today, we have with us Mr. Sam Ghosh - ED and Group CEO of Reliance Capital, along with the entire senior management team to discuss 3Q FY2017 Earnings and strategy on the key operating business going forward. Over to you Sir!

Sam Ghosh: Thank you Asutosh. Good morning to all of you. We welcome to our Q3 FY2017 Earnings Conference Call. We have the CEOs from our businesses with us, Sundeep Sikka from the Asset Management, KV Srinivasan from Reliance Commercial Finance; Ravindra Sudhalkar from Home Finance, Rakesh Jain from Reliance General Insurance, Ashish Vohra from Life Insurance, and Gopkumar from Broking & Distribution as well as our CFO, Amit Bapna.

Let me present a brief summary of our consolidated results and an update on each of our businesses, after that we will take questions.

In Q3, the total income increased by 68% to Rs. 40 billion. The consolidated net profit for the quarter rose by 8% to Rs. 2.5 billion, prior to strengthening of reserves in Reliance General Insurance. Post that, the net profit was Rs. 2.1 billion. The increase was driven by earnings' growth in core businesses such as Asset Management, General Insurance, Broking & Distribution and the lending segments. Life Insurance had a break even quarter as against a profit of Rs. 77 million in Q3 FY16. The net worth of Reliance Capital increased by 10% to Rs. 161 billion as on December 2016. In asset management, our Mutual Fund average assets under management grew by 25% to Rs. 2 trillion, with a market share of 11.6%. We remain the 3rd largest player in the mutual fund industry. Profit before tax grew by 8% to Rs. 1.5 billion driven by higher debt and equity AUMs. In Reliance Commercial Finance, assets under management increased by 8% to Rs. 162 billion. Profit before tax was higher by 2% at Rs. 804 million. In Reliance Home Finance, assets under management increased by 40% to Rs. 97 billion. Profit before tax for the quarter rose by 3% to Rs. 345 million. In general insurance, we are amongst the top players in the private sector. Gross written premium increased by 28% to Rs. 9 billion. Profit rose by 20% to Rs.

183 million. As mentioned in Q2, we have provided Rs. 429 million for strengthening the IBNR reserves for the motor TP segment. In the life insurance business, renewal premium rose by 10% to Rs. 8 billion. Persistency improved from 57% to 61% for the quarter ended December 2016. We have given detailed financials and operating parameters for each of our major businesses in our presentation and review report. I will now go through the main highlights in each business.

Reliance Nippon Life Asset Management manages Rs. 3.4 trillion of assets across its mutual fund, pension funds, managed accounts, offshore funds and alternative investment funds. Reliance Nippon Life Asset Management is the largest Asset Manager in India. Reliance Mutual Fund is amongst the top three mutual funds in India, with a market share of 11.6%. The average assets under management of Reliance Mutual Fund were Rs. 2 trillion as on December 2016 - an increase of 25%. The number of systematic investment plan and systematic transfer plan folios rose by 10% to 1.6 million, indicating continued participation in equities by the retail investors. In December 2016, Reliance Mutual Fund has the highest AUM sourced 'outside the Top 15 cities' amongst private sector asset management companies. Total income for the quarter ended December 31, 2016, increased by 5% to Rs. 4 billion. The business achieved a profit before tax of Rs. 1.5 billion - an increase of 8%. Reliance Mutual Fund continues to be amongst the most profitable mutual funds in India. For the quarter, return on equity was stable at 25%. In January 2017, Reliance Mutual Fund launched the CPSE ETF Further Fund Offer, one of the largest ever initial offering in the Mutual Fund Industry in India. Over 260,000 applications were received. Through the offering, the Fund raised over Rs. 137 billion, more than three times the issue size.

Reliance Commercial Finance continues to focus on secured asset lending to niche segments of SME, infrastructure financing, loan against property, and commercial vehicle loans. As mentioned earlier, we are progressing with the demerger of the business into a 100% subsidy and we expect to complete the process by March 2017. The assets under management grew by 8% to Rs.162 billion. The outstanding loan book rose by 14% to Rs.121 billion. Disbursements decreased by 21% to Rs.17 billion, as a result of a conscious decision to limit new sales in November due to demonetization. Also we continue to remain conservative in the loan against property segment. At the end of the quarter, 100% of the book continued to be secured. The total income for the quarter increased by 6% to Rs.5 billion; profit before tax rose by 2% to Rs.804 million driven by higher asset growth, other incomes and improvement in opex issuers. The cost to net income ratio improved from 40.5% to 37.2% in Q3 FY2017. The net interest margin after adjusting for NPA reversals declined from 5.8% to 5.3% in Q3 FY2017. The return on equity for the quarter declined from 15.9% to 12.2%. As on December 2016, utilizing the RBI dispensation, the gross

NPAs were Rs.6 billion i.e., 3.7% of the assets under management on a 90-basis points as compared to 3.6% as on September 2016. Without the dispensation, the gross NPAs were marginally higher at 3.8%. The increase in NPAs vis-à-vis September 2016 was due to higher stress in the SME segment. The coverage ratio, including write-offs, at the end of December 2016 stood at 48% while excluding write-offs, the ratio was at 17%.

Reliance Home Finance Limited is a 100% subsidiary of Reliance Capital and caters to the self employed segment in the mortgage sector. We will continue to grow our housing finance assets in a significant manner in the future. The assets under management grew by 40% to Rs. 97 billion. The outstanding loan book rose by 34% to Rs. 85 billion. In Q3 FY17, disbursements increased by 31% to Rs. 12 billion. The total income for the quarter increased by 29% to Rs. 3 billion. The profit before tax rose by 3% to Rs. 345 million. The net interest margin for the quarter, after adjusting for NPA reversals, rose to 3.5% vis-à-vis Q2 FY17, as we aggressively expand our portfolio towards the lower ticket-affordable housing. The cost to net income ratio rose from 43.6% in Q3 FY16 to 50.8% for the quarter, as the company continues to invest towards expanding its scale and operations. The return on equity declined to 12.8% for the quarter, as compared to 15.8% in Q3 FY16, due to fall in yields and higher operating expenses. As on December 2016, utilising the RBI dispensation, the gross NPAs were at 1.1%, as compared to 1.2% as on September 2016. Without the dispensation, the gross NPAs were 1.2%, a decline of 7 basis points from September 2016. The coverage ratio, including write-offs, at end of December 2016 stood at 30%. Excluding write-offs, the ratio was at 21%. Reliance Capital had announced listing of its home finance business in H1 2017 wherein Reliance Capital would retain 51% shareholding and 49% stake would be given to the existing shareholders of Reliance Capital. The home finance company also recently raised over Rs. 3,000 crores from public issue by way of NCDs that was significantly oversubscribed.

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 8.3%. The Gross Written Premium for the quarter rose by 28% to Rs. 9 billion. The share of non-motor business rose from 44% to 55% for the period ended December 31, 2016. The business continues to defocus on the third party motor business, on a standalone basis, as well as commercial vehicles. Premium from preferred segments such as private cars, commercial lines and travel continued to grow in line or better than the industry. Profit for the quarter increased by 20% to Rs. 183 million. The profit includes the impact of Rs. 429 million on account of strengthening of IBNR reserves for motor TP segment. The combined ratio was 132% for the quarter vis-à-vis 124% for Q3 FY16. The ratio includes the effect of the increased IBNR reserves and higher expenses due to increase in manpower and infrastructure-related costs for new distribution tie-ups. The combined ratio for the short-tail business continued to be approximately 100% for the period ended December 31, 2016. For the period ended December 31, 2016, the return on equity remained stable at 10%. Our focus in this business has been to improve profitability, while maintaining our market position. As on December 2016, we have the largest agency force in the private sector with over 23,400 retail agents and 128 branches. Reliance General Insurance has concluded distribution tie-ups with over 20 financial institutions. Also, the company aligned itself with several automotive manufacturers. The Company is under discussion with several other institutions for similar tie-ups. These partnerships will provide a significant impetus to the business growth in the coming quarters.

In Reliance Nippon Life Insurance, New Business Premium was Rs. 2 billion, while Renewal premium increased by 10% to Rs. 8 billion. Rate of decline in Individual WRP has decreased from 33% in Q2 FY17 to 15% in this quarter, driven by improvements in agency productivity as initiatives taken in H1 FY17 have begun to pay dividends. The industry growth continued to be driven by ULIP products. Being an agency-driven insurer, we continue to stay focused on the traditional product segment, which formed 77% of the Individual New Business Premium in Q3 FY17. Overall persistency rose sharply from 57% to 61% in Q3 FY17. The business continues to focus on Agency and proprietary channels, which have better persistency. Continued growth in renewal premium, along with higher persistency, demonstrates our emphasis on improving the business quality. The business posted a marginal profit in the quarter, in line with Q2 FY17. Total funds under management grew to Rs. 162 billion as on December 2016. Sum assured of policies in force increased to Rs. 987 billion. There are 3 million policies in force. There is a network of over 770 offices and approximately 79,800 active advisors across India. Reliance Nippon Life Insurance has partnered with 9 financial institutions in the bancassurance space. Also, the Company is in active discussion with more players in the sphere of Schedule Commercial Banks, foreign banks and regional rural banks, to expand this channel further. With support from the bancassurance channel, higher persistency and better agency productivity, we expect to improve the profitability and regain market share in the private sector.

Reliance Securities is amongst the leading retail equity broking houses in India. Also, it is amongst the leading distributors of financial products and services in India, with a network of nearly 80 branches. The focus in this segment is on the key business verticals of broking, distribution and wealth management. The equity broking accounts increased by 3% to over 7,91,600. And the average daily equities turnover rose by 61% to Rs. 26 billion. The number of commodities broking accounts rose by 13% to over 71,000. The daily average commodities turnover was Rs. 2.5 billion. In wealth management, the assets under management stood at Rs. 36 billion - an increase of 68%. For the quarter, total income increased by 19% at Rs. 810 million. The business had a profit of Rs. 139 million for the quarter as against a profit of Rs. 6 million in Q3 FY16. Going forward, we expect to continue the trend of profitability.

Reliance Asset Reconstruction is in the business of acquisition, management and resolution of distressed debt and assets. As on December 2016, the assets under management rose to Rs. 15 billion - an increase of 14%. The profit before tax declined by 24% to Rs. 24 million due to lower acquisitions in the previous quarters. We expect to accelerate the acquisitions as well as recoveries in the coming quarters with improving market conditions and asset sales by the banks.

In conclusion, I would like to say that, the demerger of Reliance Commercial Finance into a separate 100% subsidiary will complete the restructuring process for Reliance Capital and pave the way to make an application for a Core Investment Company status before the end of this financial year.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. We will take the first question from the line of Gaurav Shah. Please go ahead.

Gaurav Shah: Good morning. Wanted to ask, why are we consistently having such an anemic growth of 8%, 2%, 3%, 4% consistently over the last four, six quarters despite having the elements that we are having in the mutual fund business everything, other NBFCs are having the results of 35%, 40% profit growth, what is stopping us from at least growing in double digits? When do you think that we can start growing, some kind of reasonable kind of return ratio?

Sam Ghosh: If you look at our AUMs they have not grown significantly, so obviously it will take some time for that to pickup and the fact that we have been now restructuring both the Home Finance and Commercial Finance in separate subsidiaries and being a new team, I think that has obviously contributed towards the lower profit figures. However, if you look at business-on-business if you look at housing finance company, AUM has not only grown by about 40%, but also the recent profits have not grown this quarter as you mentioned, because of the set up of our branch network and infrastructure cost for expanding have gone up quite significantly. However you will find from next quarter that would not be there, so therefore profit only should grow at double digits. In the case of commercial finance, because of demonetization if you look at first in the month of November obviously disbursement growth is significantly lower than what we had anticipated, so that is why we showed a limited growth there.

Moderator: Thank you. We will take the next question from the line of Ritesh Gulati from Haitong Securities. Please go ahead.

Ritesh Gulati: Thank you for the opportunity. I wanted to understand about the General Insurance Business, our combined ratio in this quarter was around 132%, so firstly why the combined ratio has gone up so much in this quarter and secondly what was our proportion of crop insurance that we did in this quarter and what is our view on that?

Sam Ghosh: The Combined Ratio basically we have been upgrading our reserves for the erstwhile motor pool for this year's profit and after taking in the impact of about Rs. 43 Crores additional for the earlier year, which is predominantly from 2009 to 2012. If you were to exclude that the combined ratio actually is almost equal to the earlier period. The second thing is we have done a lot of bank tie-ups this year like IndusInd Bank, Bank of India, Andhra Bank, Catholic Syrian Bank and a few more. Obviously for realising the true potential, we want to really upgrade a number of people, the entire distribution architecture, which has resulted into higher expenses or commitments. In Q3, about 25% of revenues have come from crop insurance. I think it is in line with the industry.

Ritesh Gulati: Thank you.

Moderator: Thank you. We will take the next question from the line of Amit Desai who is an Individual Investor.

Amit Desai: Good morning. My question is regarding this quarter's result. I have looked at Q2 and Q3 and compared it, I can see that the financial investment was like 487 in segment revenue versus this quarters was 403 which was down 17%, 18%, General Insurance was Rs.1700 Crores and this quarter was 1064 Crores, which is like 15%, 16% drop in segment revenue whereas in the Home Finance was like Rs.266 Crores and this quarter it is Rs.269 Crores which was nearly flat. So could you please elaborate why this segment revenue has gone down in financial investment asset management whereas in home finance, it remained flat?

Sam Ghosh: Okay, so shall we go through one by one, I think Amit you want to cover the finance and investments?

Amit Bapna: On the finance and investments, the numbers are down primarily because we have not booked any significant capital gains. On the asset management side, there is jump on the asset management revenues by around Rs.5 Crores, so it is not down and while we have increased our AUMs you will see benefits of that going ahead in the subsequent quarters. On the home finance side, it is flattish revenue because the growth has again happened over the last few quarters. There has been growth in this quarter as well, but again you will see the benefits and the revenues growing in subsequent quarters for that.

Amit Desai: Right, I think I missed the general insurance where in the 1700 Crores versus 1064, so it was dropped in around 50%, 60%.

Amit Bapna: Yes, but you are comparing Q2 to Q3, but if you look at Q3 versus Q3, which is more correct, there has been a 20% jump in revenue.

Amit Desai: No, I think also in Q2 the bulk of the crop insurance was booked, if I am not mistaken.

Sam Ghosh: Yes correct.

Amit Desai: Okay. Thanks a lot for clarifying my doubt. Thank you.

Moderator: Thank you. We take the next question from the line of Aswin Balasubramanian from HSBC Asset Management. Please go ahead.

Aswin B: This is Aswin from HSBC Asset Management. I got a couple of questions. First is with regard to your capital adequacy ratio, I think from March, there has been a drop from 24.8 to about 20.8, although if I look at the growth numbers, it is not that high to explain the drop, so I just wanted to understand what is the reason for that drop in that. Secondly with regard to the commercial finance business, I had a couple of questions, first is your NII that is declined by about 10% year-on-year, so wanted to understand that more because there has not been that much of an AUM decline and also secondly if I look at the yields in the individual segments you have mentioned from last quarter to this quarter there is a fairly substantial drop in the yield in the LAP segment, so is that from the restatement that because I think earlier it was around 16 odd percent and now it is about 12.5%, so wanted to understand what is the reason for that?

K.V. Srinivasan: Okay, as far as second part of the question is concerned, we have actually stated the NIIs as a NIM, as a net of NPA reversals, earlier this used to be on the normative side, now we have said that to be in line with the disclosure of the industry we have actually reduced or removed the impact of NPA reversals from the NIM, so you will find the numbers are not exactly comparable from what was therein the last year, but the point is that this is a net income that is coming up, so that actually affects both the sides significantly.

Aswin B: But the yields would there be so much of a difference, like 16% to 13% because of this, like in the LAP or is there some other restatement also?

K.V. Srinivasan: No Aswin that is practically the only restatement, so the restatement has come about both in the yields as well as in the NIM. The segmental yields that you are seeing on the LAP which has come down by about say 16% odd to 13% now, so now 13% is obviously more, one is the net of NPA reversals and if we look at the segmental yields for the past quarters, you will see a very similar trend of yields coming down and this has been in line with the market, so now the yields that we give is more in line with the incremental yields that we have of about 12.5% to 13% those are the incremental yields and our book yield kind of reflects that net of NPA reversals. If you look at the net interest margins, they have not declined by exactly the same proportion, it is much lower in that sense, so it is actually a reflection of the current trend in the market.

Amit Bapna: CRAR has reduced a little bit because one is if you have noticed we are growing our businesses on the commercial finance side, it is still part of the standalone and number two we have also put in some capital into our housing finance business, so with that, the CRAR comes down a little bit.

Aswin B: With regard to the commercial finance business, the disbursements for the past three quarters have been quite low compared to last year, so what is the reason for that?

Sam Ghosh: Last quarter the impact was primarily due to the demonetization, so we actually kept as a conscious strategy, the disbursements in November as well as to a certain extent in December muted because we wanted to wait and see how the situation kind of develops rather than taking an aggressive path.

Aswin B: Just one last question, what is the current status in terms of the transition to the core investment company. Reliance commercial finance is now a separate subsidiary and you have already started booking loans from that subsidiary or currently still happening from the parent entity.

Sam Ghosh: If you look at the results for December it is part of Reliance Capital; however, in this quarter, the book will be moved down to Reliance Commercial Finance, so the year end results will not have Reliance Commercial Finance as part of Reliance Capital and the CIC application also will have happened before 31st March.

Aswin B: So currently Reliance Commercial Finance is just a dormant subsidiary, there are no loans…?

Sam Ghosh: Reliance Commercial Finance, the business is still in Reliance Capital and that subsidiary is at this point dormant.

Aswin B: Thank you.

Moderator: Thank you. We will take the next question from the line of Nitesh Jain from Investec. Please go ahead.

Nitesh Jain: Thanks for the opportunity. My question is on the corporate book, which is, the loans on the standalone balance sheet apart from commercial finance loan, what is the quantum of loans and what is the trajectory or guidance on that loan book?

Sam Ghosh: That loan book is similar to the levels, which was there in September. There has been no significant change and going forward, we are obviously looking at liquidating that book. It will take a few quarters, but significant amount of reduction will start happening soon.

Nitesh Jain: So that quantum would be around Rs. 8,000 Crores or…?

Sam Ghosh: Yes, it should be around Rs. 8,000 Crores.

Nitesh Jain: What is the quantum of listed and unlisted investments, which are non-core in nature?

Sam Ghosh: There will be around another Rs. 2000 Crores.

Nitesh Jain: On the general insurance bit, I missed the answer on the increase in reserves, can you just explain it again.

Amit Bapna: We carried out a detailed review of the third party results in the earlier quarter and for the earlier years of motor third party pool, which was basically from 2007 to 2012. The motor pool reserves were required to be upgraded to the extent of about 170 Crores spread over the four quarters this year, so by now we have taken three-fourths of that close to about 130 Crores including about 43 Crores in Q3 itself. So the numbers on the results what you see is after this exceptional impact.

Nitesh Jain: Some year onwards these results will not be there and hence there should be improvement in combined ratio from next quarter onwards?

Amit Bapna: No, the fourth quarter will be the last quarter of this upgradation, so we will see a similar amount of about Rs.43 Crores. Post that obviously there would not be any impact.

Sam Ghosh: But with that also, profits are up.

Amit Bapna: Yes, post that, the profits are up, for the quarter, it is about 20%.

Nitesh Jain: And Sir on the third party business that we have ridden post 2012 do you think there will also be requirement of increasing reserves or the current reserves will be more than adequate to take care of that?

Sam Ghosh: I think the current reserves are quite robust, these are unfortunately what upgradation we did was for the earlier years, wherein the pricing was reasonably less, but in the last two years, the premium increases by the regulators have been very healthy. The current year has seen about 25% increase, so, I do not see any need for any further upgradation in the subsequent periods.

Nitesh Jain: And I think you have been providing 100%.

Sam Ghosh: Yes, we have been providing the whole of the premium as a reserve as a very conservative strategy.

Nitesh Jain: And Sir incrementally, so is motor third party profitable or breakeven for the industry and for us or is it still loss making and if then which segments in the third party are making losses?

Sam Ghosh: Third party premiums have got reset by class of the business in the commercial vehicles and the private cars and the two wheelers, having said that commercial vehicles some segments still have a stress. That is our belief, so we continue to be cautious in that, but private cars and two wheelers to my mind would not lose money.

Nitesh Jain: Okay Sir and lastly on the crop insurance, we have seen a quite a bit of premium for the industry coming from crop insurance, your comment from the pricing and sustainability of profit from the crop insurance a bit?

Sam Ghosh: Crop insurance was a structural inclusion by the Government of India, so thankfully the industry has gained about 15% of the revenues increases this year out of that. We are likewise participated into the same as that of market share. Having said that the crop insurance, the season this year has been relatively good and we expect healthy approvals out of that. Going forward, we will continue to see how the season is, how the geographies and the crops are and we continued to accelerate price and growth, but for sure, for the industry this is going to be about 20-25% of the premium that was for at least next two years.

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

Moderator: Thank you. Next question is from the line of Amit Desai who is an individual investor. Please go ahead.

Amit Desai: Hi, my question is regarding the impact of demonetization on Q3 and the future outlook for the next one year, also would like to know, the America's conservative policy will there be any impact on our company, also the Brexit if that happens, if the parliaments approves Brexit, will there be any impact on our company due to exchange rate etc?

Sam Ghosh: So mainly we will just cover, maybe we will talk about commercial fiance, home finance where the effects are slight different.

Ravindra Sudhalkar: So speaking about home finance well on the demonetization in the month of November we consciously said that we will slow down the business and if you look at the incremental numbers what we did for November were lower than what we did for the same quarter i.e. Q2. We look more at the collections and looked at our efficiencies and what I would like to, I am happy to say that the efficiencies in collections have gone up. The bounce rates have remained stable, so as far as the demonetization impact on the existing portfolio is there, it is not there. As far as the incremental business is concerned, in the month of December we were back to our run rates to what run rates we had in the Q2 and I think for Q4 also we have almost bounced back and from April onwards it would be business as it we go further.

K. V. Srinivasan: I think the similar story goes for commercial finance side as well. We do expect recovery to actually happen in the second half of the next financial year, usually the June to September quarter is not a very heavy one in terms of capital investment, so the recovery out of the demonetization will happen in the Q3, hopefully the impact of the GST also would have been accumulated by then, so we would expect to see a very strong pullback from Q3 of next financial year.

Amit Bapna: Again coming back to home finance we will see the cost of funds going down and since the focus has been on affordable housing and due to various initiatives taken by the central government and the honorable PM on affordable housing, we would really see an increase in the business starting from the next quarter.

Amit Desai: Is there any impact of dollar exchange rate or pound exchange rate on our company due to Brexit?

Sam Ghosh: Actually we not have any significant foreign exchange exposures and it is hard to predict the impact of Brexit or any macro economies as of now.

Amit Desai: I have one more question. Looked at the Reliance Capital share price and I have seen that since 1994 to 2003, it was like underperforming the markets and from 2003 to 2008, it exceeded the performance in terms of returns, but since 2007 and 2008, it has consistently under performed. So is there any business reason or any other reason, which you can provide any answers to it?

Sam Ghosh: We do not comment on the share price.

Amit Desai: Okay. No problem. Thank you.

Moderator: Thank you. We will take the next question from the line of Shivakumar from Unified Capital. Please go ahead.

Shivakumar: Thank you for the opportunity. Sir my question is regarding Reliance Home Finance, when you seen the share of construction finance it is a bit high at 19%, so can you give us the sense of what are the kinds of builders you are supporting and where do you see the share in overall construction finance going forward and how is the delinquencies in that particular segment?

Ravindra Sudhalkar: Well, if you look at the construction finance 19% is the share in the overall AUM. If you look at the delinquency, the delinquency have been in sync with other loans that we are giving, so there has been no account, in fact there was one account for which we have provided in the last quarter and that is the reason why the delinquency are in the region of 1.1, but otherwise we do not see the stress building up separately here in sync with the normal retail loans primarily if you look at the ticket size what we have for construction funding loans it is less than Rs.5 Crores, so I think CAP is also retail to that extent compared to the competition and hence we would actually going forward maintain the same level of delinquencies vis-à-vis the other retail loans.

Shivakumar: That was helpful Sir and how does this affordable housing finance grow within home finance, so what are your targets and currently what is the share and what are your strategies going forward to catch the market?

Ravindra Sudhalkar: Typically we are currently present in 43 locations pan India if you are talking about the strategy for the next year we will be adding about four to five more locations, but the strategy always has to do affordable housing finance in the periphery of the locations where we are present and within the locations where we are present, if there is an opportunity. Now looking to the current client base of 28,200 clients more than 18,000 have been from affordable housing finance, so that is the mix as far as the clients are concerned vis-à-vis affordable housing finance and other businesses that we are expecting.

Shivakumar: Are you able to get NHB refinancing because you are doing so much of affordable housing finance?

Ravindra Sudhalkar: No, we have not applied to NHB for a refinance, if you look at overall home finance portfolio that is 62% of the overall AUM is home finance, we have not applied to NHB for refinancing as yet. Going forward we may decide to go ahead depending on the cost of funds.

Shivakumar: Within the 62%, how much would be affordable housing finance Sir?

Ravindra Sudhalkar: Within the 62% when you talk about AUM, the percentage of affordable housing finance will be relatively lower because the ticket sizes are lower, but as far as clients are concerned, it would be 18000 clients.

Shivakumar: What is your current cost of borrowing?

Sam Ghosh: Normally we are guided by the net interest margins and if you look at the last two quarters our NIMs have been fairly stable at about 3.5%, 3.6% and going forward also we expect to maintain the NIMs in the region of 3.5%, 3.6%.

Shivakumar: How is your strategy with regard to the fact that banks and NBFCs have started pricing their housing loans say roughly at around 8.5% to 9%, so what is your strategy to counter that Sir?

Sam Ghosh: If you look at it is the reach that HFCs get a high share, that HFC is in a position to get today only because of the reach and the markets wherein they are present, so I think going forward also HFCs will continue to grow at the same pace at which they have been growing in the past and at Reliance, we always believe to price the risk appropriately in terms of the rate of interest that we offer, so that would be our guiding strategy going forward.

Shivakumar: One last question of the cost to net income ratio, so what is your guidance going foward?

Sam Ghosh: Yes, I agree that it is on the higher side, so in the near term we would see the cost to income ratio in the region of 45 to 50 in the near- to mid-term.

Shivakumar: Thank you Sir. That is all.

Moderator: Thank you. Well that was the last question. I now hand the floor over to Mr. Asutosh Mishra for his closing comments.

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

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