Reliance Capital Ltd Q3 FY19

Earnings Conference Call

February 14, 2019

SPEAKERS: Management of Reliance Capital Limited

Moderator: Good day everyone and welcome to the Q3 FY19 earnings conference call of Reliance Capital hosted by Reliance Securities Limited. 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 the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Mona Khetan from Reliance Securities. Thank you and over to you ma'am.

Mona Khetan: Thank you. Good evening everyone and thanks for joining the call. On Behalf of Reliance Securities, we welcome you all to Reliance Capital 3Q FY19 post results conference call. We have with us today the management team of Reliance Capital, represented by Mr. Amit Bapna – CFO, Reliance Capital along with the CEOs of various businesses and other senior management to discuss the earnings for the quarter gone by and key business strategies going forward. Over to you, Mr. Bapna.

Amit Bapna: Thanks. Good evening to all of you and welcome to our Q3 FY19 earnings conference call. We have the CEOs of our businesses with us, Sundeep Sikka from Reliance Nippon Life Asset Management, Ravindra Sudhalkar from our Home Finance business, Rakesh Jain from our General Insurance business, Ashish Vohra from our Life Insurance business and Gopkumar from Broking and Distribution segment. Also we have Rajesh Krishnamoorthy from Reliance Commercial Finance.

As announced we have made the transition into Ind-AS with effect from 1st April 2018. Hence, the consolidated results confirm to the revised standards. However, since Ind-AS is not applicable to the insurance companies, the standalone results of Reliance General Insurance and Reliance Nippon Life Insurance are based on the IRDAI reporting.

I am very happy to state that the total income for the quarter was at Rs. 50 billion and profit rose to Rs. 2.1 billion. In terms of operating performance, the core businesses are continuing on the path of profitable growth. Now, we would present a brief update on our core businesses' performance, beginning with Sundeep Sikka from our Asset Management business.

Sundeep Sikka: Thanks Amit. I'm delighted to state that the Reliance Nippon Life Asset management is one of India's largest asset managers, with Rs. 4.1 trillion of assets under management, an increase of 7%. Reliance Mutual Fund is one of the largest players in the Mutual Fund space, with the high focus on yielding assets. As a result, the share of our equity assets rose from 34% to 38% in the quarter ended December, 2018. Reliance Mutual Fund has added the highest retail assets of Rs. 120 billion in the last 12 months. Currently, it manages overall retail assets of Rs. 830 billion - highest in the industry. A number of systematic investment plan folios rose to over 2.9 million resulting in an annualized inflow of Rs. 101 billion. We continue to be amongst the leaders in the 'Beyond 30 cities' segment. This segment contributes the AUM of Rs. 429 billion, 18% of the total assets are sourced from this segment against the industry average of 15%. RNAM is the one of the largest players in ETF space with a 17% market share, and average assets under management of Rs. 169 billion for the quarter ended December 31st, 2018. RNAM is the only asset management company to have 17 years of track record in managing ETFs. It has successfully raised Rs. 170 billion as a part of Further Fund Offer 3 of CPSE ETF with participation across all investor categories. RNAM remains well-diversified in terms of distribution, with no single distributor contributing to more than 4.5% of the total mutual fund AUM. Our distributor count went up from 68,000 in March, 2018 to more than 72,500 as on December, 2018. Digital purchases rose by 71% to 2,73,000 for the quarter. On our international business, we closely work with Nippon Life Insurance. As on December 2018, RNAM manages and advises assets over approx. Rs. 87 billion from offshore businesses. Reliance AIF has a commitment of approx. Rs. 25 billion across various AIF schemes as on December 2018. For the quarter ended December 31st, 2018 RNAM's total income was Rs. 4 billion, while the profit after tax was Rs. 1.1 billion. In January 2019, RNAM board announced an interim dividend of Rs. 3 per share. I would like to now invite Rajesh Krishnamoorthy from Reliance Commercial Finance for his comments

Rajesh Krishnamoorthy: Good evening all. Reliance Money continues to focus on its existing strengths in the SME space as well as transforming itself into a diversified new age financial services provider, both in the commercial and the retail finance space. The assets under management was at Rs. 173 billion, while the outstanding loan book rose by about 5% to Rs. 155 billion. The total income for the quarter rose marginally to Rs 5.2 billion, while profit before tax rose by 12% to Rs. 685 million. The net interest margin declined to 5.5%, while the cost to income ratio improved to 36.6% for the quarter. As on December 2018, the gross NPA ratio improved significantly to 2.9%, as against 4.4% in December 2017 on a 90 day basis. Also the net NPA ratio improved to 1.5% as compared to 1.9% in December, 2017. The business today caters to over 1.2 lakh customers functioning out of nearly 150 cities in India. We continue to re-balance our portfolio and improve the asset quality. We have initiated lending in the two-wheeler, personal loans and the used car segments as we have informed in the past quarters. That trajectory continues. In the retail segment, our calibrated growth is backed by the state-of-the-art technology platforms which we went by with about nine months back. For the quarter ended December 31, 2018, Reliance Money has disbursed over 30,000 retail loans leveraging its digital lending platform from over 1,000 distribution points. 100% of the retail loans have been sourced to the digital channel with real-time evaluation and approvals. We will continue to expand in the retail segment, and create a significant presence over the coming quarters.

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

Ravindra Sudhalkar: Reliance Home Finance is in the business of home loans, including the affordable segment, loan against property and construction funding. As on December 31st, 2018, the Assets under management grew by 24% to Rs. 183 billion. The total income for the quarter increased by 22% to Rs. 5 billion, while the profit before tax rose by 30% to Rs. 876 million. The net interest margin for the quarter was at 3.5%. Our guidance continues to remain in the range of 3.0% to 3.3% as we grow our portfolio in the affordable home loan segment. As on December 2018, the gross NPA ratio was at 0.9% of the assets under management. As on December 2018 RHF had capital adequacy ratio of 18.8%, with a Tier I ratio of 12.7%. Reliance Home Finance continues to enjoy the highest rating of ICRA, 'A1+' for its short term borrowing program, and CARE 'AA' for long term borrowing program. We are operational in approx. 140 locations in the country through the hub and spoke model, and would continue to expand this footprint.

I would now invite Rakesh Jain form Reliance General Insurance for his comments.

Rakesh Jain: Thanks Ravi. The General Insurance industry witnessed strong growth of 14% in Quarter 3 FY19, growing across multiple segments, primarily health and motor. 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 8.2%. The gross Written Premium rose, better than the industry, to Rs. 13 billion, an increase of 22%. Also, premium from preferred segments such as private cars, health and travel as well as commercial lines continued to grow in line or better than the industry. For the quarter ended December 31st, 2018, profits rose by 20% to Rs. 340 million. For the year ended December, 2018, the ROE rose to 13.3%. The combined ratio for the quarter was stable at 120%. The investment book grew by 30% to Rs. 98 billion as on December 2018. The solvency ratio is maintained at 164% as against the regulatory minimum of 150%. The company has registered a sharp increase in online channel with 29% growth in premium collected in the quarter. Our focus has been to improve profitability as well as our market share. The company continued to diversify distribution network with a strong line of bancassurance partnership with major banks. As on December 2018, we have one of the largest agency forces in the private sector with about 29,600 retail agents and over 130 branches. The Company has 42 corporate agents comprise of 14 private sector and public sector banks and 28 other large corporate agents. Also, the company has aligned itself with several strong automotive manufacturers.

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

Ashish Vohra: Good evening all. I am very happy to share that our journey of quality and profitability continues in a steady manner and our progress across all key metrics has been on expected line. In Q3 FY19, Individual business premium for the industry grew at about 11%. Reliance Nippon Life performed much better than the industry and delivered a premium of Rs. 2.2 billion which is an increase of 34% over last year. As a conscious business strategy, we continue to remain focused on the traditional product segments which formed 71% of the individual new business premium for the quarter, thereby supporting profitability. Overall, persistency witnessed robust increase from 69% last year to 75% as on December, 2018. The business continues to focus on agency and proprietary channels which have a persistency upward of 75%. Continued growth in renewal premium, along with higher persistency, demonstrates our emphasis on improving the business quality. In Q3 FY19, the business made a marginal profit of Rs. 5 million as compared to a loss of Rs. 147 million in Q3 FY18. Sum assured of policies in forced was Rs. 745 billion. There are approximately 3 million policies in force. There is a network of over 725 offices and 59,200 active advisers across India. The company has focused on digital businesses, as Digital Login stood at 73% as of December 31st, 2018 as against 50% at the same time last year, clearly indicating the heavy focus on digitalization. With support from the better agency productivity, higher persistency and improved margins, we expect to improve the profitability and increase in the private sector. Our market share, based on individual WRP, rose from 2.0% in Q3 FY18 to 2.2% for the quarter ended December 31st, 2018. Total funds under the management grew by 7% to Rs. 202 billion as of December, 2018.

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

B. Gopkumar: Thank you Ashish. Reliance Securities is amongst the leading equity broker and distributor of financial products and services in India. The number of equity accounts increased by 4% to 883,000. Our overall daily turnover on equity rose by 13% to Rs. 51 billion. The average turnover in cash (equity) segment was at Rs. 2.5 billion for the quarter ended 31st December, 2018. 95% of our new broking accounts are digitally opened and the clients can trade on the same day. The commodity accounts rose by 9%, approximately to 1,07,000. The daily average commodities turnover increased by 24% to Rs. 3.4 billion. In the wealth management business, the asset under management stood at Rs. 38 billion. For the quarter, total income increased by 25 % at Rs. 835 million. The business had a profit after tax of Rs. 75 million in the Q3 of FY19 as against the loss of Rs. 71 million.

Now I would like to invite Amit for his closing remarks.

Amit Bapna: Thank you Gop. We continue to be solely focused on the financial services' sector. We aim to achieve leadership positions in all our core businesses. We expect to improve our market ranking across businesses over the next few quarters, as well as achieve a return on equity in the range of 15% to 18%, in each of them. With those comments, we would now like to take your questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Aditya Kiran from L&T Mutual Fund. Please go ahead.

Aditya Kiran: If you can share some update in terms of deleveraging on the standalone balance sheet which was mentioned I think a couple of quarters back in terms of the progress etc. that will be helpful. And second related question in terms of how the liquidity position is on the standalone balance sheet in terms of the repayments which are there in the near term and how much of cash and debt position which is there on the standalone if you could share those numbers that will be helpful?

Management: Like we said in the last call, we are working on various exits in our non-core investments. We are hopeful of achieving some of them in the next two months which is in this quarter itself between February and March. We will over the next six months achieve significant amount of those non-core investments exits. We can't really comment on balance sheet numbers as of December.

Aditya Kiran: Just one follow-up in terms of the exits which you mentioned in the next two months, any color you can share on which type of assets you are looking at exiting from?

Management: We have exposure in media entertainment space; we have some private equity investments. We are at various stages of exits. We are looking at exiting in our Radio business, our stake in Prime Focus etc. I think all that will start materializing sooner than later.

Moderator: The next question is from the line of Gaurav Arya from IDFC First Bank. Please go ahead.

Gaurav Arya: I wanted to get a sense on the total fund based and non-fund based exposure of Reliance Capital to non-financial services group companies. Could you put a number to that and the plans to pair those down?

Management: Like we said last time our total exposure to non-financial services entities would be in the region of 15,000 and significant amount of that is in the media entertainment space, private equity space. We covered that in the last conference call as well. We are working on exiting most of them. Like I said in the previous question some of them may happen in this financial year in the next two months, some will be happening over the next few quarters.

Gaurav Arya: In terms of corporate guarantee issued on behalf of group companies, could you put a number to that?

Management: Those are also primarily to our media entertainment businesses which will fall away once the stake sale is complete.

Gaurav Arya: Is there any plan for raising equity at the hold-co level, at the CIC level?

Management: Nothing right now.

Moderator: The next question is from the line of Rati Pandit from Sunidhi Securities. Please go ahead.

Rati Pandit: I have couple of questions for Reliance Home Finance; first is regarding our AUM growth which has been better at around 24% this quarter, so which all segments have led to this growth and going ahead how the outlook for growth looks like across segments especially in case of the affordable housing, LAP, developer book? What is the margin outlook and how does the asset quality look like across segments especially in case of the developer book if I understand our model is quite different? In the sense that it is more of a last mile funding so how does it look like over there? Secondly just a bookkeeping questions; I would like to have the disbursement on balance sheet loans and the borrowing figure for this quarter.

Management: Rati, there are multiple questions. Let me take them in the order; last question first. So first of all our outlook for growth would be in the same region what we see normally, we have grown AUM by 24%. Going forward as you are aware that overall the housing finance sector has closed down considerably. However we expect it to be in the region of 20% as we move forward. So that's the kind of growth rate that we expect in the AUM.

The second question was on the NIM. If I'm not wrong so, in my opening remarks I had mentioned NIMs to be in the region of about 3 to 3.3 since we intend growing our portfolio the affordable housing segment. Currently the NIMs are at about 3.5%. However, going forward, the NIMs would slightly come down primarily on two accounts, one is that as you grow your portfolio in a segment which has lower yields; number one and number two, the cost of funds have inched up for most of the housing finance companies. On the third side; on the assets under management, I have shared with you the growth. Now today if you look at it our Home Loan and the Non-Home Loan book continues to remain in the region of 50-50%. Frankly we would have been glad to disburse more on the retail front in the last quarter compared to what we have done however; there are certain builder loans wherein the builders had commitment to development authorities and although I know that the entire market was not disbursing on the same space, we had to do some disbursement in this space and today if you look at it as I have said our ratio of housing and non-housing in the AUM is about 50-50%.

Rati Pandit: So, the developer book is around 30%?

Management: It's slightly inched up, it's about 35%-38%. Our LAP has gone down. One of the questions what you were asking was about the delinquency in the builder loans. As you rightly said yes, we are into last mile funding and in fact this strategy has actually helped Reliance Home Finance a lot. Now as my overall GNPA figure is 0.9 % which I have already shared however in that if you were to ask me the breakup of CF loans it's slightly on the higher side, it is 1.2% if you compare it with 0.9%. However this 1.2% is far lower than what if you take the standalone number of the competition I think we would be among one of the lowest. So, as you rightly said the strategy has surely helped us.

Rati Pandit: Our affordable housing book is 20%, or it has gone up a bit?

Management: No, on the affordable housing front, it's still around 20%. We want to take it up but then as you know the ticket sizes are on the lower side and hence it would take time for us to grow the book. It is not growing at the same speed however as we open more scope locations going forward I surely see a good traction coming in the affordable housing book.

Rati Pandit: Our disbursement loan book and borrowing figures I would need?

Management: Borrowing figure last quarter, we had CPs which were rolled over and we borrowed 3000 in the last quarter which was mostly out of securitization because as you are aware the last quarter most of the banks were extremely skeptical about lending to home finance companies and hence whatever borrowing, most of the housing finance companies have done is only out of securitization.

Moderator: The next question is from the line of Keshav Harlalka from BHH Securities. Please go ahead.

Keshav Harlalka: My question is regarding the promoter's stake sales, promoters' stake in Reliance Capital is 52% of the total shareholding. 75% of that stake is pledged so I want to know against what borrowings are the shares pledged. Secondly L&T Finance it has been reported bulk deals, L&T Finance has sold 77.87 lakh shares and 123.89 which is 3.08% of the total share capital of the company. So, can we assume that the promoter holding has gone down from 52% to 49% and what happens when the share price falls, can there be further share pledges which get revoked and can more shares get sold of the company? Can you comment on this please?

Management: Yes, so we cannot comment on the borrowings at the group company level but yes, the promoter holding has gone down marginally in the recent last week.

Keshav Harlalka: Is the promoter giving more shares on giving more collateral or more shares gets pledged, more shares get?

Management: We can't comment on that transaction. It is not at Reliance Capital level, it's at the promoter level.

Keshav Harlalka: You are saying private equity in the Q2 con-call you had given color exactly on the various stakes which are looking to sell. Your 1000 crores which you are expecting from the remaining stake in code masters, 1000 crores from stake in crores prime focus, 1500 crores from radio business, sale from IPO of general insurance you are expecting 1500 crores I think that is online so can you just say how much are you expecting, some timeline on each of these four transactions?

Management: So, like I said this all should be done over the next 3 to 6 months. They are at various stages. In fact, in general insurance we have also recently filed our revised DRHP with SEBI. So, we are all at various stages and we should be successfully exiting some of them.

Keshav Harlalka: What is the stake sale you are expecting from General Insurance because you have filed the DRHP; I am asking the revised DRHP?

Management: We have an option to go to 49%. Of course, we will evaluate the market conditions and decide.

Keshav Harlalka: What is the loan given to RCOM, RPOWER and RNAVAL from the books of Reliance capital?

Management: We have loans to Reliance Communication, in which total exposure was around 1500 which has been fully provided for.

Keshav Harlalka: Is there any expectation of you getting back that money from Reliance Communication?

Management: Yes, absolutely.

Keshav Harlalka: Can you comment on the timeline when you could expect that money, could it come in the current financial year?

Management: No. It can't come in current financial year. The company has gone into IBC; I think that process will take maybe 6 months or so. So, whenever that resolution happens at that time, we should be part of the receivers.

Keshav Harlalka: So broadly in 6 months you are saying you could get back between 5000 to 6000 crores. What is the total debt which Reliance Capital is holding in its books and what could be look at as in terms of balance sheet 6 months going forward? As in what is the debt and what you have got from the stake sales?

Management: For September, if you look at the balance sheet that debt would be around at R-CAP standalone level would be around 18,000. All this money which we are going to receive will go towards reduction of debt only.

Moderator: The next question is from the line of Kajal Gandhi from ICICI Direct. Please go ahead.

Kajal Gandhi: On the Home Finance front, now that you are saying the growth will be around 20% kind of so you are targeted level of around 50,000 crore gets postponed and the second also I wanted to know about your cost of funds because it appears that your interest cost have risen across both the financial entity, NBFC and HFC , so how has that been and is the securitization on a rise for you in the last two quarters and separately apart from this is; on the MTM side I wanted to ask because if your other listed subsidiaries in case and has gone down substantially. Have you taken any MTM or revaluation adjustment to net worth's in the standalone books which we had recently revised?

Management: Hi Kajal, I will start by answering questions on the Housing Finance side. Cost of debt has gone up by about 30 basis points and as you are talking the cost of debt was close to about 9.3% to 9.4%. So, having said that, yes, for Housing Finance companies overall the cost of debt has gone up and we are no exception to that. Number two, as you would agree to us that normally we make projections year-on-year and whenever we feel that that there is an outlier or an event in the market which would otherwise affect our future projections, we make revised projections and inform the analysts basis that. So, as we are talking now, we still feel we would require about two quarters to commit whether that 50,000 crores is in place or not but frankly as we are speaking now, 50000 crores by 2021 looks slightly unachievable. However, some light on this can be given only after one more quarter but yes as we are talking right now, the growth looks to be around 20%.

Kajal Gandhi: On the R-CAP standalone?

Management: Would you repeat the question again for R-CAP?

Kajal Gandhi: The standalone entity as we see in the last quarter had some revisions on the individual valuation of the subsidiaries. I think if the market cap has corrected significantly in this month, so having taken any MTM hit or we will be required to take any MTM hit of that on our stakes?

Management: No, it's not required.

Kajal Gandhi: Under Ind-AS when you will be doing your balance sheet this quarter so you will not be required to take further hit?

Management: No, for subsidiaries and associates it's not required.

Moderator: The next question is from the line of from Gaurav Arya from IDFC First Bank. Please go ahead.

Gaurav Arya: This is again at standalone Reliance Capital company level, could you again please quantify the total exposure to companies which are currently in NCLT or in low rating category from the group, for example Reliance Communication I think you mentioned earlier to other group companies?

Management: No, it is primary Reliance Group Companies. The rest is all in media entertainment space which we have already spoken about. We are looking at exit. The only company which has gone into IBC is Reliance Communication where we have exposure and it's been fully provided for.

Moderator: The next question is from the line of Rati Pandit from Sunidhi Securities. Please go ahead.

Rati Pandit: Two questions, one for Reliance Home and one for Reliance Capital. Actually in the Reliance Home if we see the capital adequacy right now is quite comfortable and considering that we would be growing by around 20% so when do you think we would need to raise capital, this is one and the regarding Reliance Capital if we look at your FY18 annual report page 98, there in borrow wise classification of assets financed you have mentioned that in the related party, subsidiary loan went to subsidiary around 8 crores, other related parties 1170 crores and companies in the same group as per CIC, 8775 crores. Exactly what are these loans, just some idea I need?

Management: Rati, to first of all answer your question on Reliance Home Finance, frankly although we have estimated the growth rate to be 20%. We would not like to go ahead and make our projections basis that and hence plan for the capital and the quantum of capital. I think let's wait for one more quarter and I can answer your question at the end of Quarter 4. I think I would be more comfortable in answering the question there but that point in time. For Reliance Capital like we just answered, these are exposures to the media entertainment businesses of ours which we are looking at exiting. So, these will all be gradually coming off over the next few months.

Rati Pandit: So, these are lending exposures or it is mainly in form of corporate guarantees?

Management: There is lending exposure as well. There are some corporate guarantees as well. We are looking at as and when we exit most of them, they will all follow it.

Moderator: The next question is from the line of from Abhishek Leekha from Neste Wealth Financial Services. Please go ahead.

Abhishek Leekha: A very broad question not specific like finances and all. Reliance Capital is one of the flagships companies. Over the last 15 years has not delivered any shareholders returns and how the Group is actually contemplating because Mutual Fund Reliance, mutual fund if I say per se, it has delivered phenomenal returns to the shareholders, to its Investors whereas the company managing that it's not delivered to the shareholders. How you are planning to see to it that this problem is fixed?

Management: No, I think fundamentally all businesses continue to do well. We are obviously looking at exiting all non-core investments over the next few months. I think once that happens you should see improved performances at the Reliance Capital consolidated level as well.

Moderator: Ladies and gentlemen that was the last question. I now hand the conference over to Ms. Mona Khetan for closing comments.

Mona Khetan: Thank you all for actively participating in the call. I would like to thank the management for taking time out and sharing their perspective on the business. Thank you all and have a good day.

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