"3Q FY12 Earnings Conference Call of Reliance Capital"

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Rakesh Jain, CEO, Reliance General

Moderator: Good afternoon, ladies and gentlemen. I am Aanchal Rastogi, the moderator of this call. Thank you for standing by and welcome to the Third Quarter Financial Year '12 Earnings Conference Call of Reliance Capital Limited hosted by Macquarie Capital Securities. For the duration of presentation, all participants' lines will be in the listen-only mode and there will be a presentation followed by a Q&A session. I would like to now hand over the conference call to Mr. Suresh Ganapathy from Macquarie. Over to you, sir.

Suresh Ganapathy: Thanks. Good evening, everyone. We have with us today the management of Reliance Capital to discuss the third quarter number. So without any further ado, I would request Sam and his team to briefly comment on the results and then we can later on open up the floor for any questions. Over to you, Sam.

Sam Ghosh: Thank you, Suresh. Good afternoon, everyone. With me today, we have Amit Bapna, our CFO; Malay who is on con call, who is the CEO of our Life company; Milind Gandhi, CFO of our Asset Management Company; Sanjay Wadhwa from our Reliance Money as well as Reliance Securities, CFO; KV Srinivasan, our CEO of Reliance Commercial and Home Finance; Rakesh Jain, CEO of Reliance General; and Savli Mangle, everyone knows.

Good evening to all of you. I will do a brief summary on our results and an update on each of our business operations, and then we will take questions. I hope all of you have received our results by now. For those who have not, you can view them and the brief presentation on the results on our website.

The total income from operation for the quarter increased by 16% to Rs. 16 billion mainly on account of the increase in the top line of commercial finance and broking & distribution businesses. The net profit stood at Rs. 602 million as against Rs. 1.1 billion for the corresponding previous period, a year on year decrease of 43%. This was mainly on account of high interest cost and loss of our general insurance business.

I am very happy to inform you that in early October we successfully completed the strategic stake sale transaction as Reliance Life Insurance with Nippon Life. Nippon Life acquired 26% stake in Reliance Life insurance for Rs. 31 billion, valuing the business at approximately Rs. 115 billion. As mentioned on our previous call, Rs. 3 billion has been invested in Reliance Life Insurance which will take care of any further capital needed for solvency. And the balance of over Rs. 27 billion flow has come to Reliance Capital. We have utilized the entire proceeds to bring down the debt at Reliance Capital. The full effect of this reduction in debt will reflect positively on our P&L in the fourth quarter onwards. This has reduced our net debt to Rs. 180 billion and brought down the net debt to equity by 12% sequentially to 2.27. We are also in the process of merging Viscount Management Alpha, one of the holding companies of Reliance Life, into Reliance Capital. This should be completed by 31st March 2012.

So at the end of this financial year, 38% of Reliance Life Insurance will be held directly by Reliance Capital; and the capital gains out of this transaction will be reflected in the final accounts of the current financial year.

At Reliance Capital, we are continuing to focus on improving the operating performance of our businesses and ensuring the businesses increase their contribution towards the earnings mix of Reliance Capital. In Life Insurance, I am extremely pleased to share that the business has been consistently profitable for the past five quarters. This quarter, it achieved a profit of over 100 million. In fact, the surplus arising in the non-participating business for the third quarter was over Rs. 980 million and for the nine months ended was around Rs. 2.6 billion. This will be recognized as profit at the end of the current financial year. Reliance Life Insurance will be profitable for the full year. In commercial finance, the total income increased by 43% to Rs. 5 billion while the profit before tax marginally declined to Rs. 652 million despite the 98% increase in interest cost. With the change in interest rate cycle that we have started to see, this will definitely translate into a significant increase in the profits from this business. Nearly 100% of the book is now secured as against 95% at the end of December 2010.

In Asset Management, the profit before tax stood at Rs. 700 million. The focus on the untapped retail opportunity across all asset classes has continued. The number of SIP and

STPs are at nearly 2 million, the highest in the industry. Retail Gold Fund that was launched in February crossed Rs. 25 billion in average AUMs garnering a healthy market share of 30% in the gold fund category.

We have given detailed financials and operating parameters for each of our businesses in our presentation and review report.

Before we talk about the main highlights in each business, I would like to take you through some developments that happened recently. I will now go through the main highlight in each business. Reliance Capital Asset Management manages over Rs. 1.4 trillion of assets across its mutual fund, pension fund, managed account and hedge funds. Reliance Mutual Fund is amongst the top two mutual funds in India with a market share of over 12%. The average assets under management of Reliance Mutual Fund were over Rs. 823 billion for the quarter ended 31st December 2011. I am extremely pleased to inform you that we had extended our partnership with Nippon Life to Asset Management business. Nippon Life will acquire a 26% stake in our Asset Management business for nearly Rs. 15 billion, valuing the business at Rs. 56 billion. This is subject to regulatory approvals. This transaction is the largest investment in any Indian asset management company till date and also the largest FDI in an Indian asset management company.

As mentioned before, in asset management we have continued to focus on the under-penetrated retail opportunity. We have been the first asset management company in India to launch a unique ATM cum debit card linked to mutual fund investments. This has garnered a huge success wherein the first month itself, more than 30,000 customers signed up for this facility. In SIP and STPs, we continue to garner accounts and are the highest in the industry. For the quarter ended December 31st 2011, asset management business generated income of Rs. 1.6 billion, a decrease of 16% and a profit before tax of Rs. 700 million. This was on account of a 19% decline in the average AUMs.

Reliance Life continues to be among the leading private sector life insurance players in terms of new business premium with the private sector market share of over 5%. The total premium for the quarter was at Rs. 12 billion and the renewal premium at Rs. 8 billion, the new business premium at Rs. 4 billion. Over 70% of the new individual business premium has been contributed by traditional products. Our focus continues to be in small towns and cities addressing the under and uninsured opportunity. The ticket size as a result has fallen to around Rs. 12,000 and the strategy is to sell more number of policies. I am very happy to inform you that we are amongst the top two in terms of number of policies sold in the private sector, with over 5 million policies in force today. The profit for the quarter was Rs. 101 million and the surplus arising in the non-participating business is over Rs. 980 million, and for the nine months till date it is Rs. 2.6 billion. This will be recognized as profit at the end of the current financial year.

Reliance Life Insurance managed over Rs. 166 billion of assets. The distribution network stood at 1,252 offices across India. And the number of agents were over 150,000, a year-on-year decrease of 29%. This was in line with the focus on productivity and performance of agents.

Reliance Commercial Finance is amongst the leading lenders in the non-banking finance space. The disbursement for the quarter decreased by 15% year-on-year to Rs. 20 billion. Assets Under Management grew by 24% year-on-year to Rs. 153 billion. The outstanding loan book was at Rs. 142 billion, a year-on-year increase of 33%. The focus continues to be on secured asset lending to niche segments of loan against property, business loans, loans for commercial vehicles and construction equipment, infrastructure financing. In fact, at the end of the quarter, 99% loan book will be secured; by the end of the financial year, 100% loan book was secured. By the end of financial year, 100% of the book will be secured. During the quarter, Reliance Commercial Finance securitized loans of Rs. 1.4 billion. The total income for the quarter increased by 43% to Rs. 5 billion. The profit before tax marginally declined to Rs. 651 million despite a 98% increase in the interest cost. The average net interest margin stood at 4% and the average cost of borrowing was at 11.9%. I am confident that with the change in the interest rates continuing downward, we will see significant improvement in NIM and profits. The cost to income ratio dropped to 14% as against 18% in the corresponding previous period. Gross NPLs were at Rs. 2.2 billion. This translates to 1.4% of the AUM. The coverage ratio at the end of December 2011 stood at 76%.

Reliance Securities is amongst the leading retail equity broking houses in India. The focus of Reliance Securities is on its key business verticals of equity broking, wealth management and investment banking. In the broking vertical, equity broking accounts increased by 4% to 676,000 and average daily equity turnover stood at Rs. 13 billion. The number of commodity broking accounts increased by 16% over 40,000, and the daily average commodity turnover of Rs. 10 billion, a year-on-year increase of over 130%. In wealth management, the assets under management, stood at Rs. 1.9 billion, a year-on-year increase of over 9%. The business maintained revenues at Rs. 390 million and achieved a profit of Rs. 37 million, a 67% increase sequentially.

Reliance Money is amongst the leading distributors of financial products and services in India with a distribution network of over 6,100 outlets. Reliance Money sold over 800 kilos of gold in the quarter, an increase of 21%. Reliance Money is the largest private sector partner for Western Union Money Transfer in India and handled nearly 600,000 money transfer transactions during the quarter, a 17% year-on-year increase. The business achieved revenue of Rs. 337 million for the quarter, a sequential increase of 56%; the profit for the quarter was Rs. 84 million, a sequential increase of 300%.

Reliance General Insurance is amongst the leading private sector general insurance companies in India in terms of business share with a private sector market share of nearly 8%. The gross written premium stood at Rs. 4 billion. The loss for the quarter was Rs. 344 million, and the combined ratio, including the third party, stood at 130% for the quarter ended December 31st, 2011. This increase in loss and combined ratios was mainly on account of strengthening of the third party non-pool motor claims reserves.

Our focus in this business is to write profitable business and improve the combined ratio. The company is optimizing its product portfolio mix and is increasing its commercial lines of business. In fact, during the quarter, the general insurance business realized a gross written premium of Rs. 796 million from its commercial lines of business, a year-on-year increase of 49%.

During the quarter, Rs. 560 million of capital was infused into the business. The total capital invested till date in this business is Rs. 13 billion.

In conclusion, I would like to say that all major businesses are on track in terms of improving efficiency and focus on increasing their profit. Our life insurance business has turned profitable. In fact, the surplus arising out of the non-participating business is around Rs. 2.6 billion for the first nine months, and will be reflected as profit in the Fourth Quarter by Reliance Life. We are in the process of merging Viscount Management (ALPHA) into Reliance Capital, and by the end of this financial year, 38% of Reliance Life will be held directly by Reliance Capital. The capital gains arising from this merger will be booked in the final accounts of this year.

All this will result in significantly increase of the profits in the current year. I am very confident and certain that barring extraordinary circumstances, Reliance Capital's strategy of focusing on profitable growth will result in sustainable ROEs in the range of 16-18% from its businesses over the next two years.

Thank you very much. We can now take questions.

Moderator: Thank you so much, sir. Participants, if you wish to ask questions, please press "0" "1" on your telephone key pads and wait for your name to be announced. If you wish to cancel your request, please press "0" "2". I repeat, please press "0" "1" to ask questions. Once again, participants, if you wish to ask questions, you are requested to press "0" "1" on your telephone key pads. The first question is coming up from Kunal Shah from Edelweiss. Kunal, please ask your question.

Kunal Shah: Yes, sir. I just wanted to understand this merger of Viscount Management Alpha. Currently I think we are holding 16% which would move up to, say, 38% or so.

Sam Ghosh: That is correct. After the merger.

Kunal Shah: Yes. So, after the merger, and how about Viscount Management?

Amit Bapna: We are not merging Viscount Management Services as of now. We are merging only Viscount Management Alpha which held 48% earlier.

Kunal Shah: Okay. So this held 48% in Reliance Life?

Amit Bapna: Yes, and 16% was the rest; out of the entire 64%, we sold off 26%.

Kunal Shah: So out of this, 26% going out and 38% will be retained out there?

Sam Ghosh: Yes.

Kunal Shah: So what would be the profit that would be booked out of this transaction then, in terms of Q4, the way we are saying that once it merges then this would lead to some kind of capital gains?

Sam Ghosh: In Q4, we will obviously book the capital gain…

Amit Bapna: It depends on the High Court order and we are just trying to structure the transaction. So in Q4 you will see the gains coming in.

Kunal Shah: Okay. In terms of a quantum, maybe how much would we have invested to this, maybe Viscount Alpha and Reliance Capital put together?

Amit Bapna: All put together in Reliance Life, we have invested, let us say, Rs 3,100 crores. We sold out 26% for Rs 2,700 crores coming in to us.

Kunal Shah: Okay. And another thing, sir, when we have got this money into Reliance Life, first we have gone ahead and infused another Rs 300 odd crores during the quarter, so just wanted to…

Sam Ghosh: No, that infusion has not happened by Reliance Capital. It was part of the deal with Nippon Life when Nippon Life put in Rs 300 crores directly into Reliance Life; and the balance Rs 2,700 crores was a secondary sale. So that was the deal basically.

Kunal Shah: Okay. So this is primarily coming from Nippon Life and nothing has been gone from…

Sam Ghosh: Yes, nothing has gone from Reliance Capital.

Amit Bapna: Yes, you know, and Reliance Life continues to be profitable, and it does not require any more capital

Kunal Shah: Okay. And also just wanted to get the sense as to the AUMs in Reliance Life is coming off quarter-on-quarter.

Sam Ghosh: The AUMs of?

Kunal Shah: The AUMs of Reliance Life are coming of… I think they are coming off quarter-on-quarter.

Sam Ghosh: Yes, that is correct. There are two reasons for that. One is, if you notice, we have shifted our business to traditional products, and the markets had been slowing down over the last two/three quarters. So in terms of quantum of increase in the unit link business, it is negligible, because if you think about it, we had 70% of traditional business and only 30% is coming in from unit linked.

So the AUMs will not grow, and because of the market falling in the last two/three quarters, obviously AUM has shrunk. But you will find that going forward, this quarter, for instance, if, everything goes well as it happened in January to date, then, hopefully, these will again increase.

Kunal Shah: Okay. But anything to do in terms of lapsation or something?

Sam Ghosh: Yes, Is Malay there? Malay, are you online?

Malay Ghosh: The basic reason is that our premium is majorly consisting of equity, 70% of it is equity, though of late the debt portion is increasing. And because the equity market is going down, there has been a dip in the AUM, but still the dip in AUMs in Reliance Life is quite favourably comparable with other life insurance companies. And, no, it is not something to do with lapsation because renewal growth has been up to 7-8% as of today, and it is going as per plan. So it is not because of lapsation.

Kunal Shah: Because the renewal premium also an absolute term from Q2 to Q3, it has come down from Rs 860 crores to Rs 780 crores.

Malay Ghosh: For the quarter there is a dip, but year till date there is a growth. This is because of the festival month when it falls in a particular year. This time it was in October.

Kunal Shah: Okay.

Malay Ghosh: But overall, we are comfortable with the renewal income growth.

Kunal Shah: Okay. Yes, the other thing was in terms of the third party pool, just wanted to get the sense as to how much would be hit in the Q4, because I think… and just comparing it with the last year, we had booked almost Rs 300 crores of loss in general insurance. So considering the motor pool and the sharing arrangements between the general insurance, what is your sense in terms of the hit which we would have to take in Q4?

Rakesh Jain: The motor pool, actually IRDA has come with an order but they are looking at various ways by which the impact would be amortized or spread over a period of time. So currently that is under discussion, and hopefully in the next couple of weeks or so, we will get to know exactly in terms of what we need to provide. Right now they have just come with a broad guidelines in terms of what is the expected, the course of action for the next… maybe this year; even ’11, ’12, they still have not come out with their estimation of what is the motor pool loss ratio.

Kunal Shah: Okay. Because in last quarter, maybe if you look at it, we had taken almost Rs 220 crores of hit in Q4FY11.

Sam Ghosh: That is correct. Last year they announced the figures, and this year they are going to announce something, but, as Rakesh had mentioned, we are looking at whether they should be amortized over a period of years or whether it should be taken at one shot, and how much the amount will be.

Kunal Shah: Okay. So if it is amortized then it will be much lower than last time's quantum of Rs 220 odd crores?

Rakesh Jain: The company has also not grown in the last year or year-and-a-half. So relative to the market which has grown faster, it will be a much lower impact for us.

Kunal Shah: Okay. And one last question on this, say, the funds from life insurance which were used to repay debt, so would this get reflected in terms of repaying the debt of commercial financing or there the leverage and everything would continue and… whether it would be reflected in this standalone entity or it would get reflected in the profitability of commercial finance… at what levels that would get…

KV Srinivasan: It will be in the standalone, because the commercial finance business is part of the standalone.

Kunal Shah: Okay. So the impact would be reflected in consumer financing…

KV Srinivasan: Yes, it will be reflected in Reliance Capital as a whole.

Amit Bapna: See, what we are trying to do is, even within Reliance Capital we split out the commercial finance business and there you can see the figure of what their profits are. So whatever profits we are showing on these…

Kunal Shah: Yes, it would get reflected in finance and investments.

Amit Bapna: Yes.

Kunal Shah: Okay. And when was this? Was it toward the end of December or sometime during the…?

Sam Ghosh: It was through the quarters.

Kunal Shah: It was through the quarter. Okay. Thanks a lot.

Moderator: Thanks, Mr. Shah. Any other participant wants to ask any other question, they are requested to press "0" "1" on their telephone keypads. I repeat, "0" "1" to ask question and "0" "2" to cancel your request. At this time there are no further questions from the participants. I would like to hand the floor back to Mr. Suresh Ganapathy for final remarks. Over to your sir.

Suresh Ganapathy: Yes, okay. I will just add one question. So this debt, what was the outstanding position in second quarter, what is the outstanding position in third quarter, just to get an understanding as to how much has been repaid and how much is likely to get repaid in the coming quarters?

Amit Bapna: The net debt has come down from Rs 21,000 crores level to around Rs 18,000 crores levels. So there has been a substantial reduction in the net debt

Suresh Ganapathy: Okay. And you have got the entire money from Nippon Life for the life insurance business, the Rs 3000 crores of cash has come into your books?

Sam Ghosh: Yes.

Suresh Ganapathy: Okay. But the entire Rs 3000 crores has been used to pay the debt of…?

Sam Ghosh: The Rs 2,700, yes. Rs 2,700 crore are going to the company, so that would go in paying debt.

Sam Ghosh: The entire Rs 2700 has gone towards reduction and liability.

Suresh Ganapathy: Debt, okay, fine. And the next quarter you will get about Rs 1500 crores, is it likely, the AMC business?

Sam Ghosh: We are not sure whether it will be Q4 or Q1 of next financial year.

Suresh Ganapathy: But that also will go in reduction in the debt only?

Sam Ghosh: Yes. That is our focus.

Suresh Ganapathy: Okay. So this commercial finance business, despite the reduction in the debt, you have seen a 98% jump in expenses, overall interest expenses? So in the sense that it is not fully flowed in this quarter, perhaps it can flow in the next quarters and there you will have a…

KV Srinivasan: For the 98% is the absolute number which has gone up. So part of it is because of the rate hike, part of it is because of the book size itself growing over the last 12 months.

Suresh Ganapathy: Okay, fine. So next quarter we will definitely see the number being much lower levels?

KV Srinivasan: That is right.

Suresh Ganapathy: Operator, any further questions?

Moderator: No, sir. There are no more questions.

Suresh Ganapathy: Okay. Then we will end the call. Thanks everyone for your time and patience.

Management: Thank you very much. Take care.

Suresh Ganapathy: Yes. Bye.

Moderator: Thank you so much. That thus concludes the conference call for today. Thank for participating. You may all disconnect now. Thank you and have a great day.