Reliance Capital Limited

FY14 Earnings Conference Call

2nd May 2014

SPEAKERS: Management of Reliance Capital

Moderator: Ladies and gentlemen good day and welcome to the Reliance Capital Q4 FY 2014, Results Conference Call, hosted by Axis Capital 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 this conference call please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pravin Agarwal of Axis Capital. Thank you and over to you Mr. Agarwal!

Pravin Agarwal: Thank you. Good evening everyone and welcome to this conference call. We have with us Mr. Sam Ghosh, CEO of Reliance Capital and heads of various business verticals. At this point, I would like to hand over the call to Mr. Sam who will brief us about the results and then we can take over the Q&A part. Over to you Sir!

Sam Ghosh: Good evening to all of you and welcome to our FY14 earnings conference call. We have the CEOs from our businesses with us; Anup Rau from Life Insurance, Rakesh Jain from Reliance General Insurance, K.V. Srinivasan from our Commercial Finance business, and Sundeep Sikka from Reliance Capital Asset Management, as well as Sanjay Wadhwa, CFO of our broking and distribution business, as well as Reliance Capital's 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 Q4 FY14, the total income increased by 9% to Rs. 18 billion. The consolidated net profit for that period was at Rs. 3 billion - an increase of 1%. The total income from operations for the year was Rs. 75 billion, while the consolidated net profit for the year stood at Rs. 7.5 billion. Excluding the one-time capital gain from the stake sale in Reliance Capital Asset Management in FY13, total income and net profit rose by 14% and 59% respectively. The net worth of Reliance Capital increased by 4% to Rs. 125 billion at the end of FY14. In the life insurance business, new business premium rose by 40% to Rs. 19 billion in this year driven by significant improvement in the agency channel productivity. In general insurance, FY14 Gross written premium increased by 20% to Rs. 24 billion, higher than the industry growth of 15%. We are happy to note that the business achieved its first full year of profitability and made a profit of Rs. 641 million as against a loss of Rs. 928 million in FY13. In commercial finance, profit before tax rose by 26% to Rs. 4.3 billion, driven by higher margins. We have improved our net interest margins to 5.5% in this year vis-à-vis 4.3% in FY13. In asset management, our Mutual Fund average assets under management grew to Rs. 1 trillion, with a market share of 11.4%. FY14 profit before tax grew by 22% to Rs. 3.5 billion driven by higher MF AUMs and improved cost efficiencies. We have given detailed financial 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.

In FY14, Reliance Life Insurance improved its position amongst the leading private sector life insurance players, with a higher private sector market share of 7%. The total premium for the year rose by 6% to Rs. 43 billion, driven by a 40% increase in new business premium to Rs. 19 billion. The FY14 NBAP margin rose to 23.8% as against 20.2% in FY13. 83% of the new individual business premium has been contributed by traditional products and is one of the highest in the industry due to focus on non par products.

Reliance Life maintained its position amongst the top five private sector insurers, in terms of individual WRP, in FY14. Average ticket size increased by 37% to over Rs. 20,000 in FY14. We expect to continue with the improvement in productivity, as well as maintain our position amongst the top private sector insurers. Overall persistency rose from 53% in FY13 to 55% in FY14. The improvement was primarily driven by higher Agency persistency at 65%, and favourable channel mix. We will continue to build on the successful initiatives implemented in FY14, including measures such as strengthening the linkage between compensation and persistency for the sales teams, re-engineering the orphan policy and renewal management process and increasing the share of agency & proprietary channels in the overall business. Profit for the year was Rs. 3.6 billion. The profits are slightly lower than FY13 as the surrender profits have declined. Excluding surrender profits, PBT rose by 56% to Rs. 2 billion in FY14. The return on equity for the year was 26%. The declared results of Reliance Capital include consolidation of 48% stake in Reliance Life Insurance. The total funds under management rose to Rs. 183 billion as on March 31, 2014. Reliance Life Insurance has a distribution network of over 900 offices across India.

Reliance General Insurance is amongst the top 5 private sector General insurance companies in India - in terms of business premium - with a private sector market share of 7.5%. The Gross Written Premium for the year was Rs. 24 billion - an increase of 20%, one of the highest growth rates in the industry, due to our focus on new segments like Group Health and weather insurance products. The business made a profit of Rs. 641 million in FY14 as against a loss of Rs. 928 million in FY13. This year's profit includes the negative impact of the exceptional provisioning for the Motor third party pool reserves and the 'Motor Decline Risk' pool. The return on equity for the year was 8%. We expect to achieve ROE in double digits by FY15. The combined ratio is at 119% for the year as against 121% in FY13. We expect the combined ratio to improve significantly in the future as the prior period losses on account of the Motor third party pool reserves have been taken in FY14.

Reliance Commercial Finance is amongst the leading lenders in the non banking finance space. Our focus continues to be on secured asset lending to niche segments of mortgage, SME and Commercial Vehicle loans. The disbursements for the year rose by 12% to Rs. 98 billion. The assets under management grew by 6% to Rs. 173 billion. The outstanding loan book has remained flat at Rs. 137 billion. We securitised loans of Rs. 28 billion during the year - an increase of 28%. We have maintained our focus on improving NIMs and controlling NPAs, rather than expanding the book size. At the end of the year, 100% of the book continued to be secure. The total income for the year rose by 4% at Rs. 22 billion, while profit before tax increased by 26% to Rs. 4.3 billion, driven by higher margins. This translates to a return on equity of 15% as against 12% in FY13. We expect to significantly improve it further in FY15. Average yield in FY13 rose to 15.3%, an increase of over 80 basis points over last year. The net interest margin was 5.5%, as against 4.3% in FY13. The cost to income ratio was at 16% as against 15% in FY13. The gross NPAs decreased from Rs. 4 billion in December 2013 to Rs. 3.5 billion. This translates to 2.0% of the assets under management. The coverage ratio, including write-offs, at end of March 2014 stood at 58%. Excluding write-offs, the ratio was at 17%.

Reliance Capital Asset Management manages Rs. 1.9 trillion of assets across its mutual fund, pension funds, managed accounts and offshore funds. Reliance Capital Asset Management is the largest Asset Manager in India. Reliance Mutual Fund is amongst the top mutual funds in India with a market share of 11%. The average assets under management of Reliance Mutual Fund were Rs. 1 trillion as at March 31, 2014 - an increase of 9%. Retail debt comprised of 33% of the overall debt AUMs as on March 31, 2014. 18% of our total AUMs have been sourced ‘outside the Top 15 cities’. For the year ended March 31, 2014, the asset management business generated an income of Rs. 8 billion - an increase of 5%. The business achieved a profit before tax of Rs. 3.5 billion - an increase of 22% over last year, driven by increase in Mutual Fund AUMs and lower opex. The profit equals to a ROE of 21% as compared to 19% in FY13. Reliance Mutual Fund continues to be amongst the most profitable mutual funds in India.

Reliance Securities is amongst the leading retail equity broking houses in India. The focus at Reliance Securities is on its key business verticals of equity and commodity broking and wealth management. In the broking vertical, the equity broking accounts increased by 2% to nearly 730,000. And the average daily equities turnover stood at Rs. 21 billion. The number of commodities broking accounts increased by 21% to over 48,000 with the daily average commodities turnover at Rs. 5 billion. In wealth management, the assets under management stood at Rs. 20.5 billion - an increase of 102%. For the year, total income decreased by 20% to Rs. 2 billion. The business had a loss of Rs. 235 million due to weak market conditions in retail equities as well as the commodities segments.

Reliance Money is amongst the leading distributors of financial products and services in India with a distribution network of over 7,000 outlets. In FY14, total income rose by 21% to Rs. 1.4 billion, while profit before tax was at Rs. 28 million. The business achieved a profit of Rs. 71 million in Q4 as against Rs. 58 million in the corresponding quarter last year, driven by higher insurance sales. Reliance Money is one of the largest private sector partners for Western Union Money Transfer in India and handled 3 million money transfer transactions during the year - an increase of 15%.

Reliance Asset Reconstruction is in the business of acquisition, management and resolution of distressed debt and assets. Due to tough market conditions, there was a rise in the overall NPAs in the banking sector. Consequently, there have been substantial acquisitions where Reliance ARC bid for retail and SME NPLs on a 100% cash basis or using the SR route. We expect this trend to continue in FY15. As on March 31, 2014, assets under management rose to Rs. 7 billion as against Rs. 537 million as on March 2013. Our own investment increased from Rs. 136 million to Rs. 1 billion in this period. The business made a profit of Rs. 68 million during the year.

With regards to application for banking license, we are now waiting the revised guidelines by the Reserve Bank of India.

In conclusion, I would like to say that all core businesses are on track in terms of operating performance. We expect each of these businesses to continue the trend of profitable growth on a consistent basis.

The board of directors has proposed a dividend of Rs.8.50 per share.

Thank you very much. We can now take questions.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Nidhesh Jain from Espirito Santo. Please go ahead.

Nidhesh Jain: Thank you for taking my question Sir. My question is regarding NBAP margin. What is your outlook on NBAP margin from here onwards? Do you see the remaining at the same levels for FY 15 also?

Management: No, given the new product guidelines, the NBAP margins will decline. We are still examining the impact, because it is early days yet, but we do expect that the margin could just go down by about a quarter to a third across industry. But it is a little early for us to comment on this because the year has just begun.

Nidhesh Jain: We are expecting to reach around 15%, 16%?

Management: Yes, that is estimate.

Nidhesh Jain: Thank you Sir.

Moderator: Thank you. The next question is from the line of Parag Jariwala from Macquarie. Please go ahead.

Parag Jariwala: In terms of your lending business, what kind of growth and margin and forecasting since I understand that the book is largely flat and it is mainly because of the market condition and you have already highlighted that profitability is the top priority over growth, but if you can give some guidance in terms of growth going forward?

Management: It all depends upon how the capital expenditure appetite in the market grows. Now, if everything goes well and there are some initiatives coming across from the government, we expect capex to pickup in the second half and therefore what we would be looking at is probably about 15% kind of growth in the next year. Of course, the focus is going to be on bottomline rather than topline in any case.

Parag Jariwala: In terms of CV and CE loan, what is your assessment there? I mean is the pain over or we may see some higher delinquency in terms of CV/CE?

Management: My sense is that pain is by and large over, but whatever little delinquency increases that we saw was primarily on account of the medium and heavy commercial vehicle segment and that too in the large fleet operators. Retail, which is what we have been focusing upon the past one to two years, is doing extremely well, so that has actually helped us to manage the situation on the CV/CE front as well. So, I think that trend will continue, but as I said in line with the outlook on the capital expenditure, the M&HCV segment also will probably revive post monsoon.

Parag Jariwala: In terms of mutual fund business, you said that retail accounts for 33% of the debt scheme, so what is the general difference between the fees in terms of institutional clients and retail clients?

Management: Broadly, if you were to look at it, liquid schemes normally have a realization of about 15 to 20 basis points compared to schemes wherein the retail investors invest, they have an earning upside anything up to 75 to 125 basis points depending on which schemes; whether it is a short term fund, whether it is through FMP, whether is to do a dynamic bond fund, the credit opportunity fund, so the big difference is between the institutional side, where you earn 15 to 20 basis points and in retail, you are earning anything up to 100 basis points.

Parag Jariwala: Okay, and how has been the trend in terms of retail as a proportion of overall debt scheme? Is it increasing or it is flat since last one year?

Management: From our perspective, what we are trying to do is, we are trying to focus very heavily on the retail debt part, because we live in India and there is a big opportunity. In the Asset management industry, when it comes to retail investors, they have always seen equity. But if you were to see, 98% of the financial saving are parked into banking system. What we have taken, is a long term view that we will be pushing in this segment very aggressively and if you see, gradually over the last three to four years, we have been increasing our retail debt book and that will be our focus in coming years also.

Parag Jariwala: Thank you so much.

Moderator: Thank you. The next question is from the line of Namesh from Axis Capital. Please go ahead.

Namesh: Good evening Sir. Couple of questions from my side. The first one is on the life insurance profitability. I think you mentioned that excluding the surrender profits, your PAT increased to Rs.2 billion, which indicates Rs.1.6 billion of surrender profits during this year. So, can we expect the base to be Rs.2 billion and a growth on that or the profitability will be the impacted to the extent at Rs. 1.6 billion for the next year?

Management: Yes, I think that is a fair assumption. Yes, you are correct. We expect to rebase that number to Rs. 2 billion.

Namesh: Since you have launched the new products in the insurance side, and it has been almost two to three months, so how are you seeing the pickup in the market of the new product acceptability from the agent side as well as from the consumer side?

Management: I think it is pertinent to note that in Q4, we are the only large company which has grown. If you look at the private industry in Q4, when the products were launched, there was a decline of 12% whereas our annualized growth was 6%. I think we seem to have done a better job of seamlessly launching these new products in the insurance industry. The uptick obviously has been on a lower base. We have seen challenges in cities, but it is getting better.

Nimish: Third question is on your consolidated side, you have earlier mentioned that the banking license, we would like to deleverage the loan book to some extent, because if I look at the total loans in your balance sheet it is somewhere around Rs. 22,000 Crores and the loan book in the commercial finance is on the lower side. So, I just wanted to know what is the strategy on that; whether the non-core investments and the non-core loan book will run off from this level?

Management: We continue to stick to our strategy of deleveraging. We will look at exiting non-core business over the next couple of quarters.

Nimish: Have you done any sort of non-core investment sell-off during this quarter?

Management: We have done some small ones, but we will be speeding up, because the unlisted part takes a little time before we can actually exit. On the listed equities also, when the time is right, we will look at exits in most of them.

Nimish: If you could just give me this particular quarter's net interest margin for commercial finance business?

Management: For the quarter, it is about 5.4.

Nimish: Thank you sir. That is it from my side.

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

Kajal Gandhi: Can you share within this capital gain dividend number which you have given for the full year Rs. 1,521 Crores, how much will be the capital gains and how much will be the dividend?

Management: Capital gain for the year is not significant.

Kajal Gandhi: If you can share what is the plan ahead when we are looking at MCX right now?

Management: Since the process is still on, we would not like to make any comments right now.

Kajal Gandhi: Because at one side, we are planning to sell investment that we hold and then again we are continuing to invest in some other things, so how is the strategy moving?

Management: If there are opportunities, we will always look at buying things. That goes without saying, but obviously in terms of Reliance Capital's investment book, we are looking a diversifying some of the investment and those are quite substantial.

Kajal Gandhi: In your Q4, broking and distribution, broking has made a loss, whether the quarter was quite good from the equity perspective?

Management: Retail equity volumes have declined substantially.

Kajal Gandhi: Can we expect in the next year also the expense to go up or is it going to be constant in these levels, Rs. 150 Crores run rate?

Management: The expenditure will reduce significantly over the next year and we are expecting the incomes also to move up. If we do land up in a stable government, I am sure, the retail participation will increase, so that is what we are looking forward to.

Kajal Gandhi: If the profit number for the quarter standalone Q4 or total Q4 has been significantly larger than whatever past you have reported, so it has to be seen as commercial finance giving a strong number or there is something else also to it?

Management: The profits have come in from all businesses. Commercial finance overall is the biggest profit, but I think Q4 has been significantly better than the previous Q4 for four of our businesses, which is both the insurance businesses, asset management as well as commercial finance.

Kajal Gandhi: What is the outlook on the asset management now?

Management: We remain positive on it. I think if you see, overall equity markets are also doing well over the last five years. Overall equity assets in the industry have been around Rs.2 lakh crores and we have seen net redemption throughout. Now, from our point of view, while equity has been flat, we have been increasing our profits by changing the profile, the product mix. I think our debt is contributing towards the profitability now. The good thing is now with equities bouncing back, we believe a lot of investors who have been on the fence line, should come back. We believe next three to five years should be very good for the asset management industry.

Kajal Gandhi: In this quarter particularly, if you see the asset management income has not seen any substantial growth, but the bottomline is on account of expense, so what is it?.

Management: Expenses have come down and these are consolidated numbers. Over the last few quarters, we have shutdown a couple of our international subsidiaries and related expenses have come down significantly.

Kajal Gandhi: Thank you very much. Sir just one thing, if you can share what is your outlook of consolidated profitability or return ratio over time. Where do you see them?

Management: The aim is to get most of our businesses to about 18% ROE or more.

Kajal Gandhi: Do you have any timeline by when you will start reaching the double digit at the consolidated levels?

Management: At consolidated level, as soon as we start deleveraging. There is high interest cost attached to the investments. Within the next 12 to 18 months, our aim is to plan divestments quite substantially.

Kajal Gandhi: Thank you.

Moderator: Thank you. The next question is from the line Praveen Agarwal from Axis Capital. Please go ahead.

Praveen Agarwal: I had one question on this, in Reliance Commercial Finance we have seen a 40 basis points is decreasing G&PA. So have you sold off any bad asset between the quarter or written off in the books?

Management: We have not sold off or written off. It is primarily because we manage to solve two large cases and that is exactly the result of it, otherwise there is no significant change and there is no question of doing any sell off simply because the guidelines permitting the sell off to ARC is effective only from April 1.

Praveen Agarwal: This provisioning write back is only because of that particular element?

Management: Substantially yes, because we managed to keep two cases, which were contributing to certain amount.

Praveen Agarwal: Historically we had stress in the CV space to certain extent, so can you highlight on the sector which related to these two cases?

Management: These two cases wherein the SME portfolio and not in the CV. CV is far more retail, so these are the two chunky cases which were there in the SME portfolio which we have now managed to solve.

Praveen Agarwal: Okay, thank you.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for their closing comments.

Sam Ghosh: Good thing has been that our performance in all our businesses has been very good and if you look at for the whole year also, we are not having any extraordinary capital gains of any sort. It is really from business performance and from the business that the profits have been generated, and going forward, as I mentioned earlier, as soon as we can start deleveraging a bit from the Capital level, the profits will obviously go up, but for the business also each of them will continue increasing their profitability and increasing their ROE. Thank you very much for attending this conference call.

Moderator: Thank you member of the management. Ladies and gentlemen, on behalf of Axis Capital, that concludes this conference. Thank you for joining us. You may now disconnect your lines.