Reliance Capital Limited

Quarter Two Earnings Conference Call – Financial Year 2008 – 2009

October 31, 2008

Operator:

Thank you for standing by and welcome to the Reliance Capital Q2 FY 2009 Results Conference Call. At this time, all the participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session. At which time if you wish to ask a question, please press “star” “one” on your telephone. Please be advised, this conference is being recorded today.

I would like to hand the conference over to Mr. Punit Srivastava of Enam Securities. Over to you, sir.

Punit Srivastava:

Yeah. Good evening. And once again welcome to the conference call of Reliance Capital. I have with me Mr. Sam Ghosh, along with other Group Heads. He will give you a brief presentation on the Q2 performance and then we can have the Q&A session. Over to you, Mr. Sam.

Sam Ghosh:

Thank you very much. Good afternoon 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 haven’t, they can view them and a brief presentation on the results on our website.

Reliance Capital’s consolidated income from operations for the quarter ended September 30, 2008 increased to Rs.13.1 billion from Rs.9.5 billion in the corresponding period previous year, registering a growth of 38%. We are happy to report that all our businesses of asset management, life insurance, general insurance, broking & distribution and consumer finance have registered excellent growth.

The staff costs for the quarter were Rs. 1.4 billion as against Rs. 0.9 billion in the corresponding period previous year, an increase of 58%. This is only natural considering our rapid expansion in our scale of operations and distribution networks.

We are delighted to inform you that in spite of such rapid growth and expansion, our selling, general & administrative expenses, have shown only a 5% increase from Rs.2.7 billion as against Rs. 2.5 billion. We have managed to contain these costs, as a result of optimization of costs, improvement in operational efficiency and utilizing a healthy mix of own and third party distribution reach.

The profit after tax, minority interest and share of profit of associates for the period ended September 30, 2008 was Rs. 2.3 billion as against Rs.2 billion in the previous year, an increase of 15%.

The total assets of Reliance Capital, as of September 30, 2008 stood at Rs. 221 billion and the networth of our Company at Rs. 71 billion. We are proud to inform you that Reliance Capital ranks among the top 3 Indian private sector financial services groups in terms of networth. We have no exposure to money market or foreign exchange derivatives.

Reliance Capital has a conservative debt equity ratio of 1.8 as of September 30, 2008. The company enjoys the highest top- end ratings of ‘A1+’ and ‘F1+’ by ICRA and FITCH, respectively for its short term borrowing program. I am delighted to inform you that recently we were awarded the ‘CARE AAA’ for our long term borrowing program – which is the highest rating for long term borrowing.

We have 15 million customers across all our businesses – through our unparalleled distribution network with over 12, 000 outlets across India.

Let me now move onto each of our businesses – starting with our asset management business:

Reliance Mutual Fund has maintained its number one position in the country. We have further cemented our position by increasing our market share to 16.3%at the end of September 2008. The market share of the second largest player is only 9.8%.

The assets under management as on September 30, 2008 were Rs. 791.8 billion.

Reliance Mutual Fund has 7.2 million investors – up from 4 million investors in September 07 — the largest body of investors amongst all private sector mutual funds in the country today. In fact our investors through the Systemic Investors Plan, has crossed 1 million and are still growing consistently.

As on September 30, 2008, there were a total of 33 schemes. Given the prevailing market conditions, no new schemes were launched during the quarter.

I am proud to report that our Asset Management Company was appointed as one of the fund managers by the Employees Provident Fund Organization (EPFO). A hugely prestigious account, EPFO will entrust over Rs. 50 billion to our company for investing in the capital markets. Of this we have already received Rs. 30 billion.

Now I turn to our life insurance business.
Reliance Life Insurance is amongst the top four private sector insurance companies in India (in terms of monthly new business premium)

The new business premium for the quarter ended September 30, 2008 was Rs. 9.2 billion as against Rs. 4.5 billion, an increase of 104%.

The current branch strength is 1,144 as against 744 branches at the end of June 30, 2008. This rapid expansion re-inforces our capabilities for seamless execution. The opening of 400 branches in such a short span of time entails massive challenges. These involve identifying and finalizing branch locations, selection and recruitment of the right personnel, infrastructure development of the branches and creation & integration of operating systems and processes.

This enhanced and wide spread distribution network will enable us to reach out to a large under penetrated market. It will help us to continue our rapid growth and gain further market share.

The numbers of agents at the end of September 30, 2008 were 211,293 as against 137,446 in the previous year, an increase of 54%.

Now I turn to our general insurance business.
Reliance General Insurance is one of the top three private sector general insurers in India, with a market share of 6% of the general insurance market in India.

The gross written premium for the quarter was Rs. 4.3 billion as against Rs. 4.1 billion in the corresponding previous period, an increase of 3%. The main focus this year is to grow this business but not at the expense of profitability.

We are delighted to inform you that our general insurance operations have turned profitable in this quarter. In this quarter, Reliance General Insurance achieved a profit before tax of Rs. 58 million as against a loss of Rs. 212 million in the corresponding previous period.

This was a result of enhanced focus on profitability and measures taken to improve it. Various areas were identified where the claims experience was adverse and accordingly appropriate measures were taken to re-price the risk.

Also various steps were taken to limit management costs. This involved cost optimization exercises like re-negotiation of branch rentals and various expenses relating to vendors, suppliers & distributors.

As a result of this, the combined ratio has improved from 129% in FY08 to 107% for Q2 FY09. Combined ratio is the sum of claims and management expenses.

Now I turn to our broking and distribution business – Reliance Money.
Reliance Money is the largest brokerage and distributor of financial products in India with more than 2.7 million customers and the largest distribution network of 10,052 outlets in 5,165 locations.

Reliance Money generated revenues of Rs.932 million for the quarter ended September 30, 2008 as against Rs. 409 million of the corresponding previous period, an increase of 128 %. It also achieved a net profit of Rs. 192 million for the same period.

The daily average stock exchange volume was maintained at Rs. 22 billion, translating into a market share of over 3%.

Reliance Money has tied up with India Post and World Gold Council to sell gold coins through the entire post office network of around 155,000 offices across the country.

We are happy to inform you that we have obtained Category I Merchant Banking License from the Securities and Exchange Board of India. This new license will enable us to provide a wide range of investment banking services such as Issue Management, Underwriting, Private Equity Advisory/ Syndication and Corporate Finance services in India.

We are also taking our first steps into the Commodities Exchange business and are in the process of acquiring a 15 per cent stake in Hong Kong Mercantile Exchange (HKMEx). With this holding, Reliance Money will become the second-largest shareholder in the commodity exchange and will have a board membership. Reliance Money will be the first Indian firm to acquire a stake in an international exchange.

We have also obtained approval from the Ministry of Consumer Affairs for acquiring a 10% stake in the National Multi-Commodity Exchange of India Ltd. (NMCE). We plan to acquire a total of upto 26 per cent stake in NMCE in two phases.

And finally our consumer finance business.
As on September 30, 2008 Reliance Consumer Finance had a loan book of Rs. 95.1 billion as compared to Rs. 80.9 billion as on June 30, 2008. This loan book is well spread across 120,000 customers from 23 locations. The average ticket size for mortgages is Rs. 3.6 million and for SME loans is Rs. 1.6 million.

Our focus in this business has always been on the quality of credit that we sourced and not just growth. However in light of the prevailing market conditions, we have deliberately further slowed down the growth till September 2008. In fact from the month of October, we have put on hold further disbursals and will review resumption as the situation in the credit markets improve.

Also secured loans account for a larger proportion of the new disbursals. The personal loans portfolio has been reduced to 13% of the outstanding loan book as against 15% at the end of the previous quarter.

Reliance Consumer Finance generated revenues of Rs.3.2 billion for the quarter, as against Rs. 0.5 billion for the corresponding previous period. It achieved a profit of Rs. 143 million for the same period.

We have always followed a conservative approach towards doing this business. We have developed in-house, stringent credit risk management systems to ensure the highest quality of credit. As a result of this, a provision of barely 63 basis points i.e less than even 1 per cent, was required till date, for non- performing loans.

We can now take questions. Please feel free to ask any questions.

Operator: We will start the Q&A session sir?

Sam Ghosh: Yeah.

Operator: All right. At this time if you wish to ask a question, please press “star” “one” on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press “hash” or the “pound” key. First on line we have Veekesh Gandhi from Merrill Lynch. Please go ahead

Rajiv Varma: Yeah. Hi Sam, this is actually Rajiv, Rajiv Varma, hello?

Sam Ghosh: Yeah.

Rajiv Varma: Yeah. Hi. Just wanted to understand two things, one is on the insurance side, are you starting to see some slowdown there also? And how does the strategy pan out, when we met last you were still talking of sustaining growth at over 100%. And the second thing was actually relating to the consumer finance business. And I was just noticing that you've taken some provisions of some 30 odd crores in this quarter? I mean is that really general or are you starting to see some NPLs coming through that?

Sam Ghosh: Nand Gopal you can answer the life insurance

Nanda Gopal: Hi. This is Nanda Gopal from Reliance Life Insurance, I will answer the first question about the insurance slow down actually instead of seeing the slow down you will actually see a very robust growth happening in case of Reliance Life Insurance.

Rajiv Varma: Sure.

Nand Gopal: Because nowadays the insurance business is clearly dependent upon the kind of distribution expansion which we are doing. You would have noticed that our branch expansions actually happened from 747 branches to other 400. We recently got the IRDA approval. Also the agency force also has gone up over 200,000 right now, compared to about 137,000 last year.
And all these measures are actually adding up to our numbers and we are continuously seeing growth year-on-year. So we do not see any kind of slow down on and we see a bigger opportunity to actually position ourselves as the fastest growing life insurance company.

Rajiv Varma: What is really your sense about on the sector over the next 12 months?

Nand Gopal: The sector is still under penetrated and especially the markets where we are present like semi urban and rural markets, there is a huge potential for further growth and especially in this kind of sentiment where people intend to really move to insurance as it is seen as one of the safest opportunity for people to use. So we believe that you know there is a good appetite for insurance and our forecast for the next 12 months is very attractive.

Sam Ghosh: We will move to the consumer finance question.

KV Srinivasan: Hi. This is KV Srinivasan from the Consumer Finance Business.

Rajiv Varma: Yeah. Hi.

KV Srinivasan: In the provisions, yes we have taken particular cautions this current quarter. These basically are norms which are actually applicable to the banks and not to NBFCs you know which far more easy norms in terms of provisioning. If you apply the NBFC norms virtually none of our units will be non-performing.

Rajiv Varma: Right.

KV Srinivasan: So even on that conservative basis you know the overall provisioning till date is only about 0.63% of the total assets.

Rajiv Varma: Okay.

KV Srinivasan: This is very much well within the acceptable norms that are definitely much, much better than what the industry experiences.

Rajiv Varma: Sure.

KV Srinivasan: Where you will find the highest amount of provisioning actually coming about would be on the unsecured personal loans. Which is something which is well priced for number one, number two is that in any case since our focus is always going to be on growing the secured loan portfolio as Sam had mentioned. We've actually compressed the ratio of fixed disbursement of personal loans ever since April and today you know we are only doing about 6% or 7% of the monthly disbursements on personal loan. So more than 94% disbursements have actually happened on the secured portfolio.

So that's a corrective action or the preventive action that we've already taken. But I think since that the growth or let say it's not necessarily the objective but growth with huge amount of credit quality is very important as far as we are concerned. So in our entire business, you know the appraisal mechanisms and the corporate governance that has been set in, is actually towards ensuring that we grow in a healthy manner rather than, you know, chase top line perspective.

Rajiv Varma: Sure. So, just on that point in terms of the housekeeping, what the gross NPLs be? I mean so that and aggregate book, consumer book?

KV Srinivasan: Yeah. It's about 0.9 % of the book of which the 0.6 has already been provided for, so the coverage is far higher than 0.3 of 0.6.

Rajiv Varma: Right. Okay. Thanks.

Operator: Thank you, sir. Next in line we have Mr. Suresh Ganapathy from Deutsche Bank. Please go ahead sir.

Suresh Ganapathy: Hi. I had just two questions. One thing is what are your unrealized gains in investments, listed investments?

Praveen Challa: Yeah. At the end of September it was Rs.13 billion.

Suresh Ganapathy: Okay. The credit agencies are becoming more and more conscious towards the kind of leverage to the NBFCs are allowed to have and in fact even if you look at RBI guidelines, CAR ratio has to be at 15% by April '09. In that sense your debt equity right now is at 1.8, so what is the optimum potential for you so that downgrade may not happen by these credit rating agencies and what is the maximum that you can leverage on?

Praveen Challa: Yeah. Praveen here again its maximum would be around 5:1. Unless you are looking at credit adequacy of actually around 12% current April '09 and maybe 15% by April '10.

Suresh Ganapathy : That's right.

Praveen Challa: We could easily go upto 5:1 kind of leveraging.

Suresh Ganapathy: Without affecting your credit rating?

Praveen Challa: Yes, yes. 4:1 is very easy, 5:1 also couldn't be a problem. Today we are only at 1.8, yeah.

Suresh Ganapathy: So what is your, I mean, the thing is that your structure is quite complex right now. So do you have something called as a CAR, which you need to maintain? What is your CAR currently?

Praveen Challa: CAR currently would be around 35%.

Suresh Ganapathy: It's at 35%, okay fine.

Praveen Challa: Yeah. So it's way above the prescribed limits.

Suresh Ganapathy: Okay.

Praveen Challa: So we can easily go up from 1.8 to around 4%.

Suresh Ganapathy: Okay. Fine. And you were also planning to consolidate your Reliance Money accounts from this quarter onwards. Have you consolidated or this numbers doesn't include Reliance Money numbers?

Praveen Challa: Reliance Money has been consolidated. Consolidation has happened only for one last month.

Suresh Ganapathy: Okay, okay.

Praveen Challa: Only for the month of September.

Suresh Ganapathy: Yeah.

Praveen Challa: We've introduced the new segment called Others in the results.

Suresh Ganapathy: Okay. fine.

Praveen Challa: Which captures the Reliance Money financials for the month of September 2000.

Suresh Ganapathy: So that 53 crores of others is basically just for one month of broking operations that you have captured.

Sam Ghosh: Yeah. In the others segment because in this segment you have to report anything above 10%. The Other category includes Reliance Money financials for one month.

Suresh Ganapathy: Okay.

Sam Ghosh: Plus it includes couple of our smaller subsidiaries which are all clubbed into the other category

Suresh Ganapathy: Okay. So what is your approximate time line for segregating out this consumers finance business putting it under the separate subsidiary and publishing its account separate from the Reliance Capital Accounts.

Sam Ghosh: We are waiting for regulatory approval.

Suresh Ganapathy: Okay.

Sam Ghosh: As soon as they come through then we'll have the housing finance and the consumer finance subsidiaries.

Suresh Ganapathy: Together, Okay. Fine.

Sam Ghosh: We expect that as soon as in the next.

Suresh Ganapathy: Okay. fine thanks. Thanks. That's it from me.

Operator: Thank you, sir. Next in line we have Mudit Painuly from Macquarie.

Mudit Painuly: Yeah. Hi. I had a couple of questions, hello?

Sam Ghosh: Yeah.

Mudit Painuly: Yeah. With regard to AMC it's been a tough quarter. But are you seeing any redemption on the retail side in large-scale redemptions? And the second question was your cost of funding for the consumer finance subsidiary, how is the outlook for the next quarter?

Vikrant Gugnani: Hi. This is Vikrant Gugnani from the Asset Management business. Well we continue to get new customers on the retail side, we've added almost 7.5 lakh customers this year and this last month we continue on adding on new customers. In September we added another 140,000 new customers.

So on the retail side there is no slow down, we continued because of our reach of 189 branches and 200 new locations. So makes us present in almost 400 cities. We continue to get in retail investors. We've crossed 1.1 million SIPs this quarter total in our new SIPs, Retail SIP focus and SIP Insure, SIP in Gold which is the only product in world which allows an SIP in Gold is been catching on in the retail market.

We continue to see retail growth coming in and as you heard in the life insurance business, the vast footprint is helping us continuing to get new customers in. So there is no slowdown on the retail side.

Mudit Painuly: Okay, okay. And yeah. Are you getting cost of funds for the consumer finance, what's the outlook basically for the consumer finance business?

KV Srinivasan: On the cost of funds, wherever refinancing is we're doing a couple of refinancing, which is obviously at a more expensive interest rate, but on overall book probably there will be an impact of 50 basis points or something.

Mudit Painuly: Okay.

KV Srinivasan: For new disbursements, we've put new disbursement on hold like Sam said.

Mudit Painuly: Okay.

KV Srinivasan: So, obviously in case the interest rate scenario remains to be high. The new disbursements whenever we resume will be at much higher rate.

Mudit Painuly: Okay.

KV Srinivasan: Yeah. So because we have borrowing maturities over a period 12 to 18 months, we don't see average interest rates moving up too high in the next three months.

Mudit Painuly: Okay. So there has been a 50 basis point move over the last quarter or so?

KV Srinivasan: Yeah. Around 50 basis points point move over the last quarter.

Mudit Painuly: Okay.

KV Srinivasan: And also, we would be de-pricing couple of floating rate loans and things to take care of.

Mudit Painuly: Okay. So, how much would this re-pricing; what proportion of the approximate proportion of the book would this re-pricing would be in terms of some percentage if you could give me?

KV Srinivasan: Entire, virtually the entire mortgage book which is the about 35% of your book is on floating rate basis.

Mudit Painuly: Okay.

KV Srinivasan: So, that re-pricing is done easily on basis of a monthly call that is taken in terms what the cost of funds is. Secondly another 5% is basically in the short-term investor-funding portfolio.

Mudit Painuly: Okay.

KV Srinivasan: It's only an exposure of 45 to 60 days. Every time that cycling happens, the re-pricing happens automatically.

Mudit Painuly: Okay.

KV Srinivasan: Thirdly, what we always take care is to irrespective of whatever is the interest rate prevailing in the market we make sure that the net interest margin is always maintained.

Mudit Painuly: Okay.

KV Srinivasan: Because, we believe that, there is a substantial amount of market available where you can actually, if you do your marketing strategy properly, you are able to get good credits at good rates so which is something that we've been fairly successful and maintaining in the past year and half that we've been operating at.

Mudit Painuly: Okay. Okay. So, could you just give me some data regarding your margins, net interest margins, this quarter versus the last quarter how has been the movement? Would you be able to give that statistics?

Praveen Challa: Mudit, Praveen here.

Mudit Painuly: Yeah.

Praveen Challa: You take at offline after this call; I think that share the numbers with you.

Mudit Painuly: Okay. Okay. fine, just one last question regarding the general insurance the profitability you had earlier said that it was a profitability at that were concentrating on, so how is the general outlook for that?

Soma Sekharan: Hi. I am Somasekharan, I am heading general insurance.

Mudit Painuly: Yeah.

Soma Sekharan: See this year; basically we are focusing on the good business, where we can get a better profit. In fact what we are done is this year, we have lined up our business in such manners - the business which gives us the bottom line is only targeted.

The last year - we were looking for the top line, whereas this year our entire focus is on the - of course we are looking for the top line, but simultaneously focusing for the bottom line. In this process, we have in fact - our combine ratio for the last year, that means 31st, March 2008 we are 129%. This has comedown now to 110%.

Mudit Painuly: Okay.

Soma Sekharan: That’s on this half year ending.

Mudit Painuly: Okay.

Soma Sekharan: This is a 110% - this year whereas last same quarter it was 118%.

Mudit Painuly: Okay.

Soma Sekharan: In fact, last three months we have made profit.

Mudit Painuly: Okay. Okay. So any target ratio you have in mind for this year end?

Soma Sekharan: No. We will definitely improve our combined ratio.

Sam Ghosh: Actually, at this point we don’t give you a forecast of what we have planned to do, that Soma has mentioned.

Mudit Painuly: Okay.

Sam Ghosh: Aim is to obviously move forward.

Mudit Painuly: Okay. Fine. Thanks. That’s all for me.

Operator: Thank you, sir. Next, in line we have Kunal Shah from Edelweiss. Please go ahead, sir.

Kunal Shah: Yeah. Congratulation sir, for good set of numbers, I just wanted to know the structure of the balance sheet of consumer finance business, in terms of how much is the net worth and borrowings as against to your outstanding loans?

Sam Ghosh: If you look at the consumer finance business right now, it is a business division of Reliance Capital. So whatever the numbers available on the balance sheet, are the numbers for the consumer finance business.

Kunal Shah: Okay. No, because in this, in your segmental performance capital employed is around about 39 odd crores.

Sam Ghosh: Okay.

Kunal Shah: Yeah. So and…

Sam Ghosh: Yeah. So if you look at the P&L, which we have given in the investor presentation as well. There is a rider given to that saying that, this P&L does not include the impact of any equity funding. So at this stage it's the capital employed number, which is being in the SEBI result is more accounting rather than economic.

Kunal Shah: Okay. Okay. So that's why we are seeing in other segment it's around about 2,348 crores. It won't be specific anything like 234 crores would have been invested in institutional broking or so?

Sam Ghosh: No, not at all. If you see what ever the bulk of the incremental borrowings we are doing at the Reliance Capital level is mainly for the consumer finance business.

Praveen Challa: Okay. And if you allocated capital as per that the capital adequate requirements for a consumer finance business and if you kept it separately obviously the profitability would be substantially higher. Because we are only - it is entirely being finance on debt and the profitability are based on debts. Okay.

Kunal Shah: Okay. And still one thing on this EPFO account and so like how would be the structure difference on your PMS just like we have clubbed it in PMS, so around like 6,300 crores but I think the fee structure in both these would be different

Praveen Challa: No. Sorry, come again.

Kunal Shah: This PMS portfolio...

Praveen Challa: Yeah.

Kunal Shah: …of 6300 crores.

Praveen Challa: Right.

Kunal Shah: That even includes the one of this account of EPFO?

Praveen Challa: The EPFO account is a separate account but 20,000 odd crores are coming in EPFO account as a separate account.

Kunal Shah: Okay. So how would be the fee structure, are there how much…?

Praveen Challa: Well that is dictated by the government of there and we get one basis points of the management fee. So that's already there.

Kunal Shah: Okay. Okay. Yeah. Thank you, sir. Yeah.

Operator: Thank you, sir. Once again, if you wish to ask a question, please press, "star one" on your telephone and wait for your name to be announced. Participants, if you wish to ask any question, please press "star one". Next in line, we have Mr. Ashish Jain from Morgan Stanley. Please go ahead.

Ashish Jain: Hi. I have a question on your funding. Basically, we are primarily funded by short-term paper with either CP or working capital. Do we see that changing going ahead?

Amit Bapna: The funding pattern today, is a mix of banks as well as the money market instruments. Obviously, since the money market has dried up, there has been a clear shift to the banks for borrowing. And now that we have a long-term rating in place as well, which is AAA. We would be doing substantially large amount of long-term borrowing as well.

Ashish Jain: Okay. And just one more question on the insurance side, even the funding for insurance business would largely becoming through this borrowing I believe?

Amit Bapna: No. On the Reliance Capital balance sheet, we have debt in there, cash and cash equivalents in excess of 30 billion rupees.

Ashish Jain: Okay. Thanks.

Operator: Thank you, sir. Next in line we have V Naidu from Goldman Sachs. Please go ahead.

V Naidu: Hi. A quick question on the broking income. How much of it is from, and how much from F&O?

Sudip Bandyopadhyay: Hi. This is Sudip from the Reliance Money. As far as the market is concerned as you know about 85% is F&O and 15% is cash. And as far as our broking income is concerned, also the distribution would be almost similar.

V Naidu: Okay. And one question on the insurance - life insurance front, any sense of what is the mark-to-market on the portfolio?

Praveen Challa: Can we take that question later. I'll just check up with the Life Insurance financial team and back to you on that.

V Naidu: No problem. Thank you. One last question.

Sudip Bandyopadhyay: Yes.

V Naidu: On the consumer finance front.

KV Srinivasan: Yes.

V Naidu: It appears to me that the interest spread is about 1% of assets, is that the right number?

KV Srinivasan: Yeah. See, what we'll have to understand is that there is no equity, which is allocated to this business. So the interesting thing is the way the business is funded. The 1% of figure that you are talking about is probably right from the perspective of equity funding. But if you were to look at it as a standalone entity, it is fully capitalized; the spreads would be far larger.

V Naidu: Okay. So, I mean your NPL ratios is 0.6%, is it?

KV Srinivasan: That’s Right. That’s the actual provision. Correct.

V Naidu: Ok. Yeah. Sure. NPLs are on the gross side.

KV Srinivasan: Yes.

V Naidu: Yeah. Fair enough. Thanks.

Operator: Thank you, sir. Next in line we have Mr. Patik Gandotra from IDFC SSKI. Please go ahead.

Patik Gandotra: Hi, everyone. I have two questions. One is, when do you think you’ll be able to make a RoE in excess of cost of equity from your consumer finance business, that I believe would happen once again, borrow significantly cheap at significantly cheaper rate than you do right now?

Sam Ghosh: I think the key issue is that today we are in a starting of physical start-up phase, so what's happening is that the expense ratios are still at a stage where we’ve not reach the maximum, the optimum level.

Patik Gandotra: Correct.

Sam Ghosh: Probably in a couple of years time we should be in a position to reach the standard norms in terms of the expense ratios, when you see the return on equity as per expectation that to the current income tax.

Patik Gandotra: But no. A related issue, since you're funding is really concentrated on bank finance as you just mentioned, don't you think that will be a risk because in today's environment given the current liquidity, banks are raising PLRs. in a fairly ad-hoc fashion and asking their price. And so to pass it on to then consumer, where demand is concerned might became an issue. My question was also around, what do you think about planning to diversify your funding sources within this?

KV Srinivasan: Clearly, obviously the source of fund can only come from three sources. One is money market, the other is public deposit which we are not taking and the third one is the banking system. Now, the current phase of PLR increased and things like that, we believe should settle down, since even the government and all regulators are really concerned about that. So that should actually give us a fair bit of cushioning there.

And number two is that, we have not been really affected to the extent of the average cost of funds by the same way in which the market has been moving, because the way the maturity profile of the liabilities is. So, we believe that whatever we have seen as an increase in the cost of fund, we've been able to pass it on to the customers without affecting credit quality.

Patik Gandotra: Yeah. But the funding cost should have increased significantly right, on a marginal basis? I mean, average obviously, because short-term funding has gone up significantly?

KV Srinivasan: I agree. But then you never price on the basis of marginal cost.

Patik Gandotra: No. Fair enough.

Praveen Challa: I think, what also you have noticed, until the market stabilizes a bit, obviously we cannot go in a big way in this business. And we feel that until the interest rates come down at first in a reasonable position, then only can we continue our business in a more and more adjusted manner.

KV Srinivasan: Okay. It feels that if you price yourself too high, you end up getting into the surprise segment and then you know you will have credit losses.

Patik Gandotra: Yeah. The second question was around insurance. See, while the growth is very impressive, I think its coming off from a significant growth in number of branches, just the number of branches is also the growth there, which means are you earning its premiums on the same branch going up significantly or in other words if next year you stop increasing branches, I mean you get to1m800 to 2m000 branches, do you plan to go to 4,000 branches next year? So the issue is what will drive growth say over a two to three year horizon?

Nandagopal: See the growth is not actually coming due to the number of branches in places. Branches are only a facilitator. The growth is coming because of the number of agents are going up and the activity ratio of agents is going up and the productivity parallely is going up. So most of the agents and most of the, now banks have come in only this year so you would see their activity ratios will go up and the productivity will go.

And so you will the benefits of the investments which are made right now. That’s more significantly better in the subsequent years. And actually what you are seeing today is the recruitment of agents is taking place and then if we continue with the same number of branches, we don’t envisage any kind of a maximum number of branches further.

But we envisage even, the number of agents will definitively go up, but I assume they will go up to 400,000 and even above next year. And that is in addition to the activity ratios and productivity ratios, will help us maintain our growth rate.

Patik Gandotra: No because we've seen ICICI. ICICI Pru Life to be precise that once they have taken a step back on the network expansion three four months back and you've now seen that the growth rate in premium has come down to single digits. So it's just an industry concern, maybe I am not sure you are envisaging that. But I mean that’s the worry that one has in a scenario like this?

Nandagopal: Now see, I am not talking about ICICI Pru or retail we are talking about the base, whatever the base which we have it we are in a position to maintain a much better growth rate.

Patik Gandotra: Okay.

Nandagopal: And you'll also see that most of our basic productivity unit is agent. And the agent has come in place only this year and he's been trained and then he will produce in the last three to six months. And you see as the agents are actually getting used to the business of selling life insurance and they have become MDRT members. They have become more committed and their productivity levels will go up. So business will become much more stable and predictable.

And that is as far as agency is concerned. But other point which I also mentioned is also in addition to everything we had also developing alternate distribution channel, prime distributor now on the alternate terms basis is Reliance Money. Reliance Money is now doing significantly well which Sudip will actually mention about subsequently.

And in addition to that we also are working on other distribution channels. So these things are going to grow up into give us the further way of growth. So not only through branches, we'll also be expanding through none-branch related alternate distribution channels.

Patik Gandotra: You don't see an impact of the current market conditions on the insurance premium growth?

Nandagopal: No.

Patik Gandotra: Okay.

Sudip Bandyopadhyay: Hi Patik, Sudip here. Since you're not asking me any questions let me go ahead.

Patik Gandotra: No I was going to ask you. I was going to ask you anyway.

Sudip Bandyopadhyay: I can't wait any longer for it.

Patik Gandotra: Yeah. Tell me, sir.

Sudip Bandyopadhyay: So let me you that, you know, as far as Nanda's business, life insurance is concerned. We are growing significantly, I am sure you are aware also in the market.

Patik Gandotra: Yes.

Sudip Bandyopadhyay: Whatever we have done last year we will do three times plus this year, as far as insurance is also concerned.

Patik Gandotra: Correct.

Sudip Bandyopadhyay: So, I think a significant part of the growth in the insurance business will be generated by us also.

Patik Gandotra: Fair enough.

Sudip Bandyopadhyay: And as far as, you know we don't have any interest income because we don't do margin funding, IPO funding.

Patik Gandotra: Correct.

Sudip Bandyopadhyay: So, as far as Reliance Money is concerned ours is entirely fee-based income and that is a very, very stable thing. Even in this market, you'll be surprised that we have a daily turnover of 2,200 crore plus on a daily basis.

Patik Gandotra: Okay.

Sudip Bandyopadhyay: And with the market volume the way it has shrunk, we are doing on an average about 3 to 5% of the total market volume.

Patik Gandotra: Yeah. That's very impressive.

Sudip Bandyopadhyay: Very clearly what is happening Patik, is because of the market conditions people are flocking more and more to us.

Patik Gandotra: Okay.

Sudip Bandyopadhyay: So our turnover growth, our business growth has been and of very robust.

Patik Gandotra: How much of Reliance insurance premium do you distribute, roughly, last month say to just take a month's example because it will been increasing every month right?

Sudip Bandyopadhyay: We do about 3% of what Reliance Life is doing and in fact what we will like to do is we'll like to grow this share.

Patik Gandotra: Okay. My final question was for Nandagopal what's the persistency ratio in the Life Insurance business right now?

Nandagopal: Pardon.

Patik Gandotra: What is the persistency ratio?

Nandagopal: See we follow the LIMRA seven months persistency and currently about 70%. The important point is we have taken the persistency outlook in our current product pricing and we have more or less priced it at around the same level of persistency.

And I just feel that companies which are growing faster will always have initially lesser persistency than perhaps companies who are already stabilized into their businesses. So we are more or less in tune with our plan projection.

Patik Gandotra: So, is it come off a bit right from last year? You were saying as per plan, it has come off a bit from last year right. Last year it was slightly higher.

Nandagopal: Yeah. See as our base is growing and as we are growing faster and we are getting new premiums from newer segment there seems to be a little bit, I mean stabilized.

Patik Gandotra: Yeah.

Nandagopal: But at the end you'll see that the third quarter, sorry the fourth quarter actually contributes almost 50% of our businesses. So whatever the persistency currently now at the end of August and September perhaps will also undergo a little bit of change at the end of the financial year.

Patik Gandotra: Fine. Thanks a lot.

Nandagopal: Thanks.

Operator: Thank you, sir. Next in line we have Mr. Partho Gupta from IISL Capital. Please go ahead sir.

Partho Gupta: Hello.

Sam Ghosh: Hi, Partho.

Partho Gupta: Hi. Sir can you provide a sense of your NBAP margins.

Nandagopal: NBAP margins depend upon the kind of product which you are selling; we do have a variety of products. We have about 23 products on the individual side. The range of margins we have is roughly about 15-20%. So maybe average you can take it about 17%.

Partho Gupta: And sir what will be the trend going forward. Like with increasing competition do you believe that margins will sink further from the current level?

Nandagopal: See with respect to the kind of allocation charges that the product is having now we are more or less maintain the same kind of margin in all kind of products. So we do not see much of a pressure on these margins.

Partho Gupta: Okay. Sir one more thing like if we see your persistency ratio that is at 70% is significantly lower than peers like HDFC and others. So is it like the future profitability is getting compromised at the expense of.

Nandagopal: You know the point which I want to make it is HDFC is in business for eight years and we have been in business for only three years.

Partho Gupta: Okay.

Nandagopal: As I mentioned to you our company which is growing faster and you will actually notice that we are going much growing, much faster than HDFC.

Partho Gupta: Okay.

Nandagopal: So obviously companies which are going faster and that to in the initial years of their growth, they will have lower persistency but has you'd compared HDFC persistency in the initial years with ours for asset type this kind of comparison.

Partho Gupta: Okay.

Nandagopal: But by the time we settle it down or our process are settling down our agents are getting new start in the renewal streams, I think our persistency will be more or less inline with the industry but the fact which I want to mention here is, we have actually factored this kind of persistency in product prices.

Partho Gupta: Okay. And Sir one last question, like if you can provide us the capital infusion Plans and your various subsidiaries like life and general, broking and consumer?

Praveen Challa: Praveen, here. Mainly the capital will be required by the Insurance Businesses, Life Insurance will require something in the range of around 7 billion to 10 billion rupees and General Insurance will require at the most 1 billion rupees.

Though currently the broking business does not require any further capital for expansion and in case of consumer finance, we will be borrowing money and kind of funding that business. We don't look at any equity fund infusion in the consumer class.

Partho Gupta: And this will be done over the next one year or later over the period?

Praveen Challa: Yeah. Over the next one year.

Partho Gupta: Okay, okay thanks Praveen.

Operator: Thank you, sir. Next on line we have Sunaina Vasudev from Outlook Profits.

Sunaina Vasudev: Hello.

Sam Ghosh: Yeah.

Sunaina Vasudev: Yeah. Hi. Just a couple of questions on your Life Insurance business. Firstly I just wanted to understand how you are defining the lapse policy and in terms of the time frame. And if you could give, just give me a sense of your lapsation ratio?

Sam Ghosh: See the, generally the industrial practice is to calculate the persistency on the thirteen month basis.

Sunaina Vasudev: Yeah. Okay. Fair enough. Okay.

Sam Ghosh: That means it doesn't get renewed as the thirteen months as is considered lapsed. So that's how we also calculate our own lapsation.

Sunaina Vasudev: On the thirteen month, is it?

Sam Ghosh: That's correct. What is your second question?

Sunaina Vasudev: I just wanted to get a sense of your proportion of link policy?

Sam Ghosh: See, we are substantially selling Unit Link Business about 95% above its Unit Link business. And that's inline with the market trends anyway. And so we are happy to sell what the market wants.

Sunaina Vasudev: Has there been any change in the strength any kind of greater emphasis on traditional policies in the last say 6 months over so?

Sam Ghosh: Well, not exactly, as you would have noted, irrespective of the kind of technical fluctuations the market is going through. And we need adjustment for this company we continue to sell what the people wants.

Sunaina Vasudev: Could you give me a sense of the split of the portfolio in terms of traditional policies also what exactly there would be?

Sam Ghosh: Its leas than 5%. Our traditional plans; we have, perhaps 2% to 3% term plans.

Sunaina Vasudev: Okay.

Sam Ghosh: The balance into a normal endowment plans.

Sunaina Vasudev: Okay. Thank you so much. That's it for me.

Operator: Thank you, ma'am. Once again, if you wish to ask a question, please press, "star one" on your telephone keypad and wait for your name to be announced. Next in line we have Mr. Ganesh from Edelweiss Please go ahead sir. Mr. Ganesh.

Ganesh: Hello.

Sam Ghosh: Hi. Hello. We can hear you.

Venkatesh: Yeah. This is Venkatesh actually. Okay. My question is could you give me some sense on the disbursements in your consumer finance business in last quarter, how had they been?

KV Srinivasan: Yeah. The incremental disbursals are only Rs.15 billion.

Venkatesh: Over the entire quarter.

KV Srinivasan: Yeah. Over the entire quarter.

Venkatesh: And how much was in for the previous quarter?

KV Srinivasan: In the previous quarter.

Venkatesh: Sorry.

KV Srinivasan: It was 12 billion rupees.

Venkatesh: Okay. And broadly to which sectors have these disbursals meant in this quarter?

KV Srinivasan: If you look at the investor presentation on the website the detail break-up has been given about the allocation.

Venkatesh: All right. I am so sorry. All right. Thanks a lot.

Operator: Thank you, sir. Participants, if you have any questions, please press “star one”. Once again, if you wish to ask any question, please press, “star one” on your telephone and wait for your name to be announced. Next in line we have Nischint from Kotak Security.

Nischint Chawathe: Just wanted to check in the market volume that you have disclosed for the Reliance money, does that include Reliance equities international?

Sam Ghosh: No, it doesn’t. It includes only reliance securities; it doesn’t include reliance equities international.

Nischint Chawathe: Okay, so sorry, basically what you are seeing is that this only the retail it doesn’t include the institutional is it?

Sam Ghosh: It doesn't include institutional it was only retail.

Nischint Chawathe: Okay. And in term of the averages realization and the broking business would it be somewhere closer to may to 2.5 to 2.7 bips?

Sudip Bandyopadhyay: Our business model is completely different, it is not a transaction wise brokerage, so this would not be a correct way to look at it.

Nischint Chawathe: So, some number if you could may be just?

Sudip Bandyopadhyay: We don't track it transaction wise we transact it as per customer per month revenue. So it's a completely different from tracking tax revenue includes what else be back to back.

Nischint Chawathe: Okay. May be you could share that in terms of you know average revenue per customer which was there in the previous quarter we got it this quarter or something?

Sudip Bandyopadhyay: Yeah. I can share some numbers but I think if you try multiplying it and arriving at a figure it will not because we are continuously adding customers.

Nischint Chawathe: Okay.

Sudip Bandyopadhyay: As of now I think per customer we are having the realization of close to about 100 rupees.

Nischint Chawathe: Okay.

Sudip Bandyopadhyay: But the objective is too raise it.

Nischint Chawathe: Okay. And what would have this number been let’s say in the fourth quarter and the first quarter?

Sam Ghos Sudip Bandyopadhyay h: Sorry.

Nischint Chawathe: What would this number have been in the first quarter and let’s say in the fourth quarter last year?

Sudip Bandyopadhyay: Yeah. In fact I think every quarter-on-quarter we have seen a growth of about 25% in this number.

Nischint Chawathe: Okay.

Sudip Bandyopadhyay: Yeah.

Nischint Chawathe: Okay, fine. Thank you very much.

Operator: Thank you, sir. Next in line we have Mr. Viraj Gandhi from ICICI Direct. Mr. Viraj?

Viraj Gandhi: Hello. One of my questions has already been answered if you can just let me know the customer addition in your Reliance Money side.

Sudip Bandyopadhyay :Yeah. Customer addition we are continuously adding, we had a customer base of close to 2 million as on 31st March, which we have increased to 2.7 million as on 30th September.

Viraj Gandhi: Okay, thank you.

Operator: Thank you.

Praveen Challa: Before we end the call just wanted to give you an update on the other businesses at Reliance Capital. We have started our institutional broking business, which is Reliance Equities International, they have started operations we have a team in place, a 60-member team in place. They have started operations in the cash segment of NSE and BSE seeing healthy customer traction out there, adding new clients every day and hopefully in a quarter or so we should be able to the report good numbers to you out there.

Our other two businesses in the asset reconstruction company and the private equity fund again we have a team in place. And you know as and when the market conditions improve we are looking at starting the operations in each of these businesses. In the private equity fund we are targeting to raise around $500 million to a billion dollars depending again upon the market conditions somewhere in the first quarter of next year.

And another business initiative which we have started internally is Reliance Capital Services, this particular venture is focused on cross selling the Reliance Capital products to the entire family of Reliance Anil Dhirubhai Ambani customers and shareholders which would be in excess of 100 million people and this operation again has started operations and we've almost 1,000 people across 25 locations working in this office.

Praveen Challa: Are there any other questions?

Operator: There were no questions Sir.

Sam Ghosh: Okay. Great and thank you every one.

Praveen Challa: Thank you very much

Operator: That concludes our conference for today. Thank you for participating on Reliance Conferencing Bridge.

You may all disconnect now.

----THE END----