Reliance Capital Limited

Earnings Conference Call for Financial Year ended 2009

April 30, 2009

Operator:

Thank you for standing by and welcome to 4Q FY-2009 results conference call for Reliance Capital Limited presented by Mr. Sam Ghosh (Chief Executive Officer). At this time all participants are only 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 *1 on your telephone. I would like to hand the conference over to Mr. Sheshadri Sen (Analyst - Macquarie Capital Securities), over to you sir.

Seshadri Sen:

Thank you. Welcome everyone on this afternoon to the annual results call for Reliance Capital. We are pleased to host the top management of Reliance Capital. I will just introduce everyone before I hand it over to Mr. Ghosh. We have Mr. Sam Ghosh (CEO of Reliance Capital), Mr. Sundeep Sikka (CEO of Reliance Capital Asset Management), Mr. Somasekharan (CEO of Reliance General Insurance), Mr. Sudip Bandyopadhyay (CEO of Reliance Money), Mr. K. V. Srinivasan (CEO of Reliance Consumer Finance), Mr. Amit Bapna (Chief Financial Officer of Reliance Capital), and Praveen Challa, whom many of you will know Senior Vice-President Investor Relations. I will hand you over to Mr. Ghosh right now. Thank you.

Sam Ghosh:

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.

And the total income from operations for the year ended March 31, 2009 increased to Rs. 59.8 billion from Rs. 49.1 billion for the corresponding previous period, registering a growth of 22%.

We are happy to report that despite the challenging market conditions, our life insurance and consumer finance businesses registered growth in revenues.

The net profit for the year ended March 31, 2009 was Rs. 10.1 billion as against Rs. 10.0 billion for the previous year, an increase of 1%.

The selling, general & administrative expenses for the year were Rs. 11.9 billion as against Rs. 13.3 billion - decrease of 11%.

In response to the changed financial environment, we focused on cost rationalization measures and improvement of operational efficiency like execution of lean six sigma programs across the businesses and utilizing a healthy mix of own and third party distribution reach. This led to a decrease in the selling, general & administrative expenses inspite of an increase in scale of operations in the various businesses.

The staff costs for the year ended were Rs. 6.0 billion as against Rs. 4.0 billion for the corresponding previous period – an increase of 37%.

This increase in the staff costs was due to our rapid expansion of operations and distribution networks and entry into four new business streams i.e. institutional broking, private equity, asset reconstruction and the launch of our cross-sell initiative, Reliance Capital Services.

The total assets of Reliance Capital, as of March 31, 2009 stood at Rs. 243 billion as against Rs. 183 billion as of March 31, 2008 – an increase of 32%

The networth as of March 31, 2009 was at Rs. 75 billion as against Rs. 65 billion as of March 31, 2008 – an increase of 15%

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 1.9 as of March 31, 2009. The company enjoys the highest top- end ratings of 'A1+' and 'F1+' by ICRA and FITCH, respectively for its short term borrowing program and 'CARE AAA' for our long term borrowing program.

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:

The average assets under management of the Indian mutual fund industry declined by 7% - from Rs. 5.3 trillion for March 2008 to Rs. 4.9 trillion for March 2009.

In line with this, during the same period, the average assets under management for Reliance Mutual Fund declined from Rs. 909 billion to Rs. 809 billion.

However, RMF continued to be India's No.1 Mutual Fund with a market share of 16.4%

For the year, the asset management business declared a net profit of Rs. 1.3 billion as against Rs. 1.5 billion for the corresponding previous period, reflecting the decline in average assets under management.

The numbers of investors have been consistently increasing. As at March 31, 2009 there were 7.2 million investors compared to 6.4 million investors at the end of March 31, 2008 - the largest body of investors amongst all private sector mutual funds in the country today.

During the year, our asset management company received approval from Malaysian Authorities to start operations in Malaysia. We are looking to start a Shariah compliant fund based on the Islamic principles.

We also received approval from Financial Services Authority in United Kingdom to commence investment advisory operations in United Kingdom

At the end of the year, our asset management company had a presence across 341 locations across India.

Going forward, we will continue to increase our presence in domestic and international markets.

During the year, Reliance Mutual Fund won several prestigious awards. It won the "Most Trusted Mutual Fund" by AC Nielsen/ORG MARG – for 3 consecutive years, the "Equity Fund House of the Year 2008" award by Morning Star – a global leader in financial research.

Reliance Capital Asset Management was appointed as one of the fund managers by the Employees Provident Fund Organization. This is a hugely prestigious account. We are currently managing Rs. 276 billion on behalf of the EPFO.

The asset management company was also appointed as one of the six asset managers by The Pension Fund Regulatory and Development Authority (PFRDA) to manage money under the new pension scheme.

It is the only private sector asset management company which has been selected to manage funds for both - EPFO and the new pension scheme

Now I turn to our life insurance business.

During the year, the Indian life insurance industry witnessed a decline in the new business premium by 6% from Rs. 930 billion to Rs. 871 billion. While, Reliance Life Insurance recorded a year on year growth of 28% in the New Business Premium from Rs. 28 billion to Rs. 35 billion for the year. In addition our single premium & group business declined from 33% to 16%

Reliance Life Insurance has maintained its position amongst the top four (in terms of monthly new business premium) private sector life insurance companies in India.

Reliance Life Insurance is one of the fastest growing life insurance companies in India with a private sector market share of 10.3% - up from 8.1% for the previous year

We currently manage Rs. 58.9 billion of policyholders' funds as on March 31, 2009 – year on year growth of 65%.

Our new business achieved profit for year ended March 31, 2009 was Rs. 6.2 billion. This translates into a NBAP margin of 20.9% increased from 18.8% for the nine months ended December 31, 2008.

In the presentation, we have disclosed details on the operating assumptions made in the calculation of the NBAP margin. These assumptions have been validated by an external actuary – Watson Wyatt – making us the only life insurance company in India to do so.

For the year, we have infused Rs. 12 billion which brings the capital invested in the life insurance business till date to Rs. 27.4 billion.

During the year, we launched 8 new products and also re- priced the existing top selling products to improve profitability.

Our current distribution network stands at 1,145 branches with an agency force of 149,613 agents.

Moving on to our consumer finance business; as on March 31, 2009, the loan book stands at Rs. 86 billion from Rs. 71 billion for the corresponding previous period. This loan book is well spread across 120,000 customers from 23 locations.

The focus in this business is primarily the asset quality and profitability and not growth or market share gains. In the third quarter of the year, there was curtailing of liquidity due to the global financial meltdown and its fallout on India. Consequently we slowed down our disbursals - resulting in the shrinkage of the loan book from its peak of Rs. 95 billion to Rs. 86 billion.

The average cost of borrowing for the year went up to 9.7% as against 8.3% for the corresponding previous period. As a result, the net interest margins came down to 5.6% for the year as against 6.9% for the corresponding previous period.

The business generated revenues of Rs. 12.0 billion for the year, as against Rs. 3.9 billion for the corresponding previous period – an increase of 204%.

For the year, Reliance Consumer Finance declared a profit before tax of Rs. 911 million as against Rs. 361 million for the corresponding previous period – an increase of 152%.

I am pleased to inform you that in the past year, we had received regulatory approval from RBI and National Housing Bank to set up separate subsidiaries for consumer finance and home finance respectively.

With this approval, the businesses of consumer finance and home finance will get more focus and we can offer affordable loans for fulfilling consumers' need for home purchase and other asset creation.

These companies have now been capitalized with Rs. 1 billion each and have commenced business operations.

Now I turn to our broking and distribution business – Reliance Money.

In less than two years, Reliance Money has emerged to be amongst the leading brokers and distributors of financial products in India with around 3.3 million customers and a distribution network of over 10,000 outlets across 5,165 locations.

For the year ended March 31, 2009, Reliance Money generated revenues of Rs. 3.5 billion as against Rs. 2.4 billion for the corresponding previous period – an increase of 48%.

For the year ended March 31, 2009, it declared a net profit of Rs. 368 million as against Rs. 1 million for the corresponding previous period.

The daily average stock exchange volume was Rs. 15 billion, translating into a market share of 2.7%.

Our strategy at Reliance Money is to create a robust business model with well diversified, multi product and open architecture financial distribution business. This would mitigate the risk of down turn and business concentration.

And finally our general insurance business.

Reliance General Insurance has maintained its position amongst the top three (in terms of monthly gross written premium) private sector General insurance companies in India with a market share of 6.3%.

The gross written premium for the year was virtually unchanged at Rs. 19.1 billion as against Rs. 19.5 billion for the corresponding previous period. The pace of growth was moderated in response to the general economic slowdown and the ongoing focus on improved profitability and not topline revenues.

The net written premium for the year was Rs. 14.0 billion as against Rs. 13.4 billion for the corresponding previous period. This has translated in improvement in the retention ratio to 73% from 69%.

The focus for our general insurance business, last year was to improve the combined ratio. To achieve this, several measures were undertaken to contain the claims ratio and the management expenses. Various areas were identified where the claims experience had been 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 shown improvement from 129% in FY08 to 114% for FY09. The combined ratio is the sum of claims, commissions and management expenses.

And on its path to profitability, the loss for the year was brought down substantially to Rs. 501 million as against 1.6 billion for the corresponding previous period.

During the year, Rs. 1.6 billion of capital was infused into the general insurance business, taking the total capital invested till date to Rs. 8 billion

A quick update on the new businesses which were launched last year; Reliance Asset Reconstruction Limited, which is in the business of acquisition, management and resolution of distressed debt/assets, formally commenced business operations during the year

Reliance Equities International Private Limited is the institutional stock broking subsidiary of Reliance Capital. It commenced operations in 2008 and currently with 60 companies under research has set up over 50 FII parent accounts and over 500 sub accounts.

To capitalize on the cross sell opportunity within the Reliance ADA Group, Reliance Capital Services was set up during the year. Reliance Capital Services cross sells Reliance Capital products to the 150 million strong family of the Reliance ADA Group, comprising shareholders, customers and other stakeholders

Reliance Capital Services today is among the top 3 distributors for our general insurance business and among the top 10 for our life insurance business.

Reliance Equity Advisors has been set up with the objective of raising a third party, multi sector private equity fund. The fund will primarily focus on acquisition financing, growth and consolidation capital in India.

A team with an extensive private equity and M&A background with considerable experience in transactions across diverse sectors is in place and is endeavoring to raise funds in the domestic and international markets

Thank you very much. We can now take questions.

Operator:

Certainly sir. At this time if you wish to ask a question please press *1 on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press the # or the $ key. First in line we have Mr. Dipankar Chowdhury from Deutsche Bank.

Dipankar Chowdhury:

Hi! Good Afternoon. Two questions; firstly on your life insurance business, what is realistic new business growth possibility for FY10 or put in a slightly different way assuming that you have got a maximum of another Rs. 1,200 crores that you can re-capitalize the life insurance company with, then what you think your new business premiums will grow at?

Sam Ghosh:

I think it is very difficult at this point to say how fast we will grow, because the growth rate is really dependent on how the markets move. If the markets go up as they are going up now and if they continue on the same trend then we can obviously expect substantial growth in our business.

Now the second issue is about the capital of Rs. 1,200 crores or so. Obviously in the last financial year, we put in lot of capital to set up branches, to recruit agency managers as well as branch managers. That sort of capital expenditure is more or less not required anymore at least for the foreseeable 12 months, and our capital requirement will be considerably less to do substantial more business if that is available.

Dipankar Chowdhury:

Second question is on your Consumer Finance business, are you in a position to disclose your gross NPA figures and if possible the amount written off till date; we did not find that in the presentation?

K. V. Srinivasan:

Gross NPAs should be also read in line with the fact that we have brought down the book size from about Rs. 9,600 crores to about Rs. 8,600 crores. The overall provisioning that we have made, we basically follow the bank's norms for provisioning and not the NBFC norms, so therefore the provisioning is at about 1.5% to 1.6% on the book size basis so far, which includes the general provisioning on account of standard assets as well. So that is the position. The net NPAs are about 2%.

Dipankar Chowdhury:

What the general strategy there, are you still not comfortable to grow the book?

K. V. Srinivasan:

The strategy is always to focus very heavily on the portfolio quality and given that the second half of last year was characterized by difficult market conditions, we had brought down the book to levels that we were comfortable with in terms of the credit quality.

Going forward, clearly the focus you know which we had in fact started off 1 year ago would be to focus upon secured lending and bring down the percentage of personal loans and so on, which has been actually brought down to just about 12% as of now. That trend will continue.

Growth in the book would be clearly fairly reflecting the growth in the economy as such, which we believe that the second half of 2009 – 2010 may bring in a better amount of economic conditions there. Clearly our focus is not to be top line oriented but wherever we see sound business opportunity which will increase the portfolio quality and the profit, we will focus upon.

Dipankar Chowdhury:

Okay fine that is it from me. Thank you.

Operator:

Thank you, Mr. Dipankar. Next in line we have Mr. Rajeev Varma from Merrill Lynch.

Rajeev Varma:

Hi! Sam. Just a couple of things; one was actually just on life insurance, you know, clearly seeing you have managed to do pretty well on the margins, obviously a function of your product etc. I just wanted to understand, do you think (a) is it sustainable going forward as lot of players also now coming in with either similar products and competition, if not what is the kind of margin pressures do you see?

Second question I guess is if you can throw light on or when are you looking to probably give some disclosures on embedded value?

Sam Ghosh:

On the first bit, the new business margin that we are now achieving, we will try and sustain that obviously and that is our focus, and that is why the products we are also coming out with have fairly high margins. Obviously, it is going to be tough for our agency force to go out and sell those products but that is how we are training them, and so far we have been quite successful in doing that, and our endeavor is that we continue with that because it is no point doing business at low margins, so that is why you find that is the clear direction away from single premium as well as group business towards regular premium business.

Rajeev Verma:

Sorry to interrupt, I mean most of that is being on, you know, are they still ULIP products or are you also expecting product mix to change.

Mr. Sam Ghosh:

We are selling mainly ULIP products, there is very little sale of traditional business, but all our products are now coming towards products with some sort of guarantee in them. They will become capital guarantee that would be obviously being exercisable after 10 to 15 years if the customer stays with us.

The second issue about embedded value, we are in the process of getting that also audited and looked at by Watson Wyatt, so in due course we will obviously have that available.

Rajeev Verma:

All right okay. Sorry can I just ask you also on general insurance what is the kind of your outlook on industry going through, still some de- tariffing etc., I mean are we really see over the next 12 months?

Praveen Challa:

Rajeev, Mr. Soma Sekharan, our CEO of Reliance General Insurance, will answer this question.

Soma Sekharan:

De-tariffing has taken place one year back and all the effects of de- tariffing already have come in the industry and that is the reason the industry has grown last year only by 9% only. Now, in future what we are looking is the rate may not go further and we can also see that the leading private sector companies are not very aggressive in quoting premiums. Of course the public sector companies are very aggressive as well as the new companies coming, but in spite of all these things what we expect is the rates are going to be firmed up now.

Rajeev Verma:

Okay, thanks a lot.

Operator:

Thank you, Mr. Rajeev. Next in line, we have Rohan Juneja from Front Point.

Rohan Juneja:

Hi guys. Can you just comment on your tax rates, it seems like the tax rate was much lower quarter over quarter and year over year please?

Amit Bapna:

We are a MAT paying company, so that is one of the reasons why our tax rates are so low.

Rohan Juneja:

Okay, so do you think this is sustainable tax rate going forward or how should we model it out for the next year?

Amit Bapna:

I think what happens is that the businesses are in independent subsidiaries, so they all attract regular taxes etc., whereas Reliance Capital which is the parent company, we are MAT paying and hence tax rate is around 11%, and going forward we continue with that.

Rohan Juneja:

Thank you.

Operator:

Thank you sir. Next in line we have Kunal Shah from Edelweiss.

Kunal Shah:

Hello sir. Sir, firstly with respect to your investment book, what would be the unrealized gains as of now and what would be the cost of investments post booking of this income of round about Rs 387 crores in this quarter?

Praveen Challa:

The MTM would be flattish as of right now on the listed securities. What was other question?

Kunal Shah:

Cost of investments outstanding as of 31st.

Praveen Challa:

The cost of listed equities as of 31st was approximately Rs 1,900 crores.

Kunal Shah:

Okay.

Praveen Challa:

This is listed equity.

Kunal Shah:

Okay, and other thing was with respect to your other businesses, mainly like the Reliance Institutional Equity, Reliance Capital Services and ARC, how much would have been the loss which would have been there in the full year on all these businesses, what would be the amount of investment?

Amit Bapna:

ARC it was very negligible because we are just in the process of starting business there, and beside that other businesses like the Reliance Equity International Capital Services everything put together would be an annual loss of some Rs 30 crores.

Kunal Shah:

30 crores?

Amit Bapna:

Yeah, all three companies put together.

Kunal Shah:

Okay, and this average daily trading volume which is reported of 15 billion, that is for the full year, may be like in the first 9 months we had seen it around 22 odd billion?

Sudip Bandyopadhyay:

Hi! What we have given is the daily average volume of equity trade going through us for the last quarter of the last financial year.

Kunal Shah:

So, it is only for Q4?

Sudip Bandyopadhyay:

It is only for Q4, on an average about Rs 1500 crores daily trading volume went through our platform.

Kunal Shah:

This is purely retail?

Sudip Bandyopadhyay:

This is purely retail.

Kunal Shah:

Okay, and how much customer addition in this like no doubt we are seeing customer additions going up, but what is the outlook now in this kind of environment?

Sudip Bandyopadhyay:

I think very clearly it will depend on how the market moves. During the first month of the current financial year we have seen very good traction because as you know the markets have been good. I think the new customer addition on the equity broking segment will completely depend on how the market moves going forward.

Kunal Shah:

It means since yours is like revenue per customer model, if we just work out back ways considering the broking income and the average customers, then it comes to around about like Rs. 170 per month. So, is that the correct way to assume?

Sudip Bandyopadhyay:

I do not think you can generalize to that extent, it will be somewhat like that but you cannot standardize it like that. Again, there is obviously a link with the turnover, obviously as you rightly said there is a link with the incremental customer addition which we are doing and all this to a great extent will depend on how the equity market moves going forward. As I was saying and you know all of us know April has been a good month till now and subject to the election results being the way the market wants, I think we should continue to see an upturn in the market.

Kunal Shah:

The question was mainly with respect to like we are charging around about Rs. 500 for 2 months and that rates also we have increased it over last one quarter, so may be like this Rs 170 which is purely coming in from broking means average revenue per customer of Rs 170, are there various other schemes which are available?

Sudip Bandyopadhyay:

There are multiple schemes, you know, we have currently about 5 schemes available for the customers. There is a scheme as you rightly said for Rs. 500, there is a scheme for Rs. 1,500, there is a scheme for Rs. 2,500, there is a scheme for Rs. 5,000, and there is a scheme for Rs. 10,000. So, a large trader a guy who trades heavily will opt for a scheme of about Rs. 10,000, you know somebody who trades slightly lower may take a scheme of Rs. 5,000, so the one you are talking about Rs. 500 is for the real retail guy, you know the guy who trades very very limited amount of shares. So the schemes are multiple. There are about 5 schemes currently running and the customer can choose any of them. As things stand today, I think about 40% of our customers would be on that Rs. 500 and 60% would be on other schemes, because they are large traders or at least not the real retail guy who takes that Rs. 500 scheme.

Kunal Shah:

All the schemes are for 2 months period?

Sudip Bandyopadhyay:

No, you have yearly schemes, you have half yearly schemes, you have all combinations, and beyond the 2 months there is a turnover limit as well. So, let us say you have selected a scheme for 1 year but you crossed the turnover limit you have an option of again renewing and taking the next card.

Kunal Shah:

Okay. Again with respect to this combined ratio, how do you see this combined ratio going forward over next 1 or so years from these current levels of 114%?

Soma Sekharan:

We have brought down our combined ratio from 129% to 114%. This is including the pool losses of almost 3% to 4%, and you can also see that our claims ratio has come down considerably as compared to 75% the last year this has come to 72% this year, plus our operation and management expenses also has come down. These two things we are constantly watching and we are taking enough steps to see that these expenses are reduced. In fact we have done two things. #1, as far as our management expense is concerned, we have made lot of controls on the expenses side, in fact we will say that basically what we have call is expenses control in the sense the renegotiating with various landlords for our reduction of the rent and etc. The second thing as far as the claims are concerned, if you see the total claim amount which we have paid, the major portion of the claims are going a substantial amount is we are spending for the survey fees. What we have done is, we have insourced this survey activity and thereby we are substantially reducing the claim ratio.

Kunal Shah:

Okay.

Soma Sekharan:

Our focus obviously is to continue reducing our combined ratio towards 100%, that would be the target of our company and then taking it further down.

Mr. Kunal Shah:

Okay sir, thank you.

Operator:

Thank you Mr. Kunal. Next in line we have Sumit Agarwal from Enam Securities.

Sumit Agarwal:

Hello Sir, can you give me the losses made by the life insurance company for the full year?

Sam Ghosh:

What you can see is the amount of capital we have injected into the company, in fact that includes two things in it. One is capital for solvency requirements and one is for expense over run. You will notice in my presentation, I think I stated about Rs 1,230 crores was the capital infusion for the full year.

Sumit Agarwal:

But sir you told the accumulated losses like last year it was around Rs 1,300 odd crores, so this year obviously the loss for the year would have come down, I suppose.

Sam Ghosh:

If you look at solvency capital requirements, that would be in the range of Rs 200 to 300 crores, may be Rs 250 to 300 crores, so therefore the balance would be for covering expense over run.

Sumit Agarwal:

Okay. Thanks a lot sir.

Operator:

Thank you Mr. Sumit. Next in line, we have Mr. Srikanth V. from Nomura Securities.

Srikanth V.:

Hi! Basically, I have 2 to 3 questions. First is on Reliance Money. On the top line I see that the distribution income has come down, I mean this quarter it is around Rs 15 crores, last quarter it was Rs 20 crores. Traditionally, I thought that life insurance should be strongest in Q4, so why is it down?

Sudip Bandyopadhyay:

Basically, what has happened is as you know last year and even during the last quarter, we have been getting income from mutual fund distribution income and we had other distribution like IPO distribution and other things. Now what happened is because of the depressed market conditions during the last quarter of the last financial year, the mutual fund distribution income was negligible so was the IPO and other product distribution income. Life insurance distribution income I think we did maintain the kind of income which we were getting last year and last quarter, but because the contribution from other product distribution was absolutely negligible during the last quarter, there has been a dip in the income on a quarter to quarter basis.

Srikanth V.:

Okay. In terms of the costs, non staff I mean even the staff cost are going up, but the non staff costs are going up considerably Q-on-Q, is it further expansion what is driving those?

Sudip Bandyopadhyay:

In fact what has happened is we had these branches and all which we had set up over the last 1 year. The cost came for these expenses of incremental branches and incremental distributions

Srikanth V.:

But I am looking at Q-on-Q, not Y-on-Y.

Sudip Bandyopadhyay:

I know, even during the last quarter, we had these expenses on the incremental branches and incremental infrastructure which we had set up and there were few businesses which we were spending on like the money transfer, money changing, and other businesses which we had spending on, that is why the expenses have increased.

Srikanth V.:

Where do you see it, is it sustainable level or you are going to see further investments into the business next year?

Sudip Bandyopadhyay:

No, what we are doing is we are doing cost rationalization and I think you will not see an increase in cost during the next quarter definitely.

Srikanth V.:

Okay. There is also a question on in terms of the costs in RCAM, I did not understand this line item where again there is a Q-on-Q increase in other costs. This could be administrative and other expenses from Rs 20 crores in Q3 to Rs 37 crores in Q4.

Sundeep Sikka:

When we talk of administrative expenses, what has happened is we had opened a lot of branches and increased the staff strength also, so it is because of that the overall administrative cost has gone up.

One thing that we see saw because of opening of branches, I mean I am sure you will appreciate that in asset management business a team plays a very moderate role both in terms of stickiness as well as valuation. I think we will be reach to inform you that as far as the mutual fund business is concerned we saw an increase of 52% in our folios, which are less than Rs. 5,000. I mean that shows a retail penetration and which shows the benefit of this block expansion and people expansion.

Srikanth V.:

Next question is on Reliance Life, persistency for this full year in the way we calculated the data we have seems to be around 60%, which is broadly at the level it was last year, is not the level that you are working with in your NBAP margin assumption or should we assume some sort of improvement in this going forward.

Sam Ghosh:

First thing is we work on a 13 month persistency basis and that is over 70%, but if you look at the NBAP margin there we stick in over a 5-year period about 50% persistency, so we have been fairly conservative because Watson Wyatt made us take a fairly conservative approach saying that based on the current market conditions we may find lapsation be at a fairly high level…..

Srikanth V.:

But as a management, are you okay with this lapsation period or you think it is below what you wanted to be?

Sam Ghosh:

Sorry, what was the question?

Mr. Srikanth V.:

As management are you happy with these persistency rates or do you think there is some issue that you need to look into. How do you see these lapsation periods?

Sam Ghosh:

In over 13-month persistency we are at over 70% which is within our product design.

Srikanth V.:

Okay. The last question, if you could give me broad breakup of your balance sheet on the assets side into various categories on a consolidated basis?

Praveen Challa:

Hi this is Praveen. I will give you those numbers off line.

Srikanth V.:

Okay, thanks. Thank you. That is it from me.

Operator:

Thank you Mr. Srikanth. Next in line, we have Ajinkya Dhavale from Motilal Oswal.

Ajinkya Dhavale:

Hello. I just have one question. Your unrealized gains on the investment book have come to zero, the overall business model was that the gains will be utilized to fund various businesses, now how that matrix changes in this current environment?

Sam Ghosh:

I think the issue is that yes obviously as we go along each of our businesses will start increasingly giving us profitability and obviously slowly we will not have to rely on investment gains. At this point we have cash and other cash equivalents of nearly Rs 1,500 crores to support the cash requirement of various businesses. As I said earlier I think life insurance does not require that much cash injection this year, so negligible compared to what we put in the last financial year.

Ajinkya Dhavale:

If I have to just broadly take the capital investment expectations for FY 10 and FY 11 into all the businesses, assuming that you carve out the subsidiaries as well for consumer finance?

Sam Ghosh:

It will be somewhere between Rs 300 to 500 crores or so, besides life capital infusion in other subsidiaries would be negligible.

Ajinkya Dhavale:

Okay, overall Rs 300 to 500 crores per annum.

Sam Ghosh:

Yeah, at least for this coming year, which will happen through internal approvals.

Ajinkya Dhavale:

Okay. That it is. Thanks.

Operator:

Thank you, sir. Next in line, we have Mr. Rohit Shimpi from SBI mutual fund.

Rohit Shimpi:

My question is what is the total debt on the standalone balance sheet currently and what would be the duration of same I mean would you have taken advantage of recent conditions in funding to increase the liability duration?

Amit Bapna:

Our net debt would be around 14,000 crores. Yes, we are working towards increasing our tenure. We have done a couple of 3-year kind of borrowings from banks. We have issued NCDs on a private placement basis to lot of investors. So we are working towards increasing the tenure and the borrowing costs have also substantially come down since the last quarter and liquidity is very comfortable as of today.

Rohit Shimpi:

Okay, so what would be the liability duration we had like right now?

Amit Bapna:

It will be around 15 months.

Rohit Shimpi:

Okay, and vis-à-vis asset duration continuing to be around 3 years?

Amit Bapna:

Pardon me.

Rohit Shimpi:

Vis-à-vis asset duration continuing to be around 3 years?

Amit Bapna:

Asset duration would be around 24 months or so.

Rohit Shimpi:

Okay. Your strategy would be to now try and closely match towards the asset duration?

Amit Bapna:

What we are trying to do is we have set up these two subsidiaries, one is for housing finance. So, the housing finance portfolio may shift into that home finance business company which we managed to get re-financing and couple of longer-term borrowings there. So, effectively it will reduce the ALM mismatch at capital standalone level, and we have had some gap which we will continue with.

Rohit Shimpi:

Okay. Thanks a lot.

Operator:

Thank you Mr. Rohit. Once again, participants who wish to ask a question please press *1 on your telephone keypad and wait for your name to be announced. Next in line, we have Mr. Nischint Chavathe from Kotak Institutional.

Nischint Chavathe:

Hi! I just wanted to get a sense in terms of the consumer finance business I see a sharp swing in the PBT, I mean PBT has come down quite sharply on a quarter-on-quarter basis. I just wanted to understand what is the reason for that? The second thing is your presentation also says that you have equity allocation of 13 billion including capitalization of two subsidiaries. I just wanted to have discussion on it.

K V Srinivasan:

Okay. The quarter-on-quarter PBT has obviously come down because of two reasons. One is the margin compression because the cost of funds went up post the liquidity squeeze in October which we have now seen signs of actually coming down, so we do expect that to correct itself over a period of time. Secondly, you know the thing Amit Bapna just mentioned on the ALM mismatch, since we are working on correcting that the risk factor for future also on margin compression will come go up. So therefore we see that to be a lesser of a problem in the current conditions. It is just that the last quarter obviously we had to take the corrective action on that, and that is what is getting affected there.

The other part is that we have all along been following a very conservative provisioning policy, although we know we could very well make use of the NBFC norms for NPA provisioning and so on we have chosen to take the norms which are applicable to commercial banks so that we make provisioning much ahead of time, so there is a certain amount of provisioning increase which is there, plus also we make a provision on account of the standard assets even though we are not NPA as per the banking norms we provide for standard asset provisioning, so those have actually reflected in the lowering of the PBT on the last quarter.

Nischint Chavathe:

What would be outstanding provisioning right now on the balance sheet including…..

K V Srinivasan:

It could be about Rs 137 crores.

Nischint Chavathe:

So over 1.6%. Okay, and what about the Rs13 billion of capitalization.

K V Srinivasan:

This is basically to reflect the 15% capital adequacy requirement which suppose now the RBI has pushed it back by about a year which was originally supposed to be adhered to from April 1, 2010, onwards. We are working towards that. We are essentially maintaining a 6:1 sort of capital adequacy ratio.

Nischint Chavathe:

But just for clarification, as on 31st March these businesses could still very much in the standalone balance sheet, they were not yet transferred?

K V Srinivasan:

That is right. It is more a sort of a notional allocation.

Nischint Chavathe:

Okay, and 13 billion would be the equity allocation that you would have done to work out the interest cost for the third as well as the fourth quarter?

K V Srinivasan:

That is right.

Nischint Chavathe:

Okay, so both the quarters it is 13 billion number?

K V Srinivasan:

It is comparable.

Nischint Chavathe:

Another thing was, I mean if I look at the profile of segment wise breakup, I see a marginal increase in the loan exposure for CV loans, I mean specifically if you look at most of the private banks and other players in the industry the broad sense that we get is get it otherwise where possibly players have been going slowest, may be except one or two like Sriram, have been going slowest in the CV segment and for you vis-à-vis all the other segments CV is the only one which has actually shown up quarter-on-quarter growth. Any specific comments on that?

K V Srinivasan:

Basically this is reflective of the customer segment that we are present in. We are not very much into the pure retail kind of a segment because the risk perception on that is not favorable, so we believe in more the larger ticket exposure where the demand compression is not being so much as it has happened in the retail segment, #1, and #2 also the CVs put together actually commercial rate this segment also includes substantial part of the construction equipment which is given its very nature towards the infrastructure and other sort of segment is recession proof, so most of it is going towards government funded projects and all that. So, we have seen a substantial revival of the demand in that in the last quarter, especially in March.

Nischint Chavathe:

Just finally one question on Reliance Money, any specific reason why the volume came off so sharply I mean from 20 billion to 15 billion on a quarter-on-quarter basis?

Sudip Bandyopadhyay:

This is the average daily trading volume. If you see the last quarter of the last financial year volumes in the market had really dipped from you know if you look at what used to happen during the early part of the financial year, it used to be about 100,000 crores daily turnover on BSE plus NSE put together, which came down around to 40,000 crores daily turnover BSE and NSE put together. I think every single brokerage house would have faced a similar reduction in volumes, same thing happened in our case, but I must tell you that currently during the month of April our volumes are back to where it was. This is average daily trading volume.

Nischint Chavathe:

That is right, but this is for, I mean I am just trying to compare the third quarter and the fourth quarter numbers?

Sudip Bandyopadhyay:

Okay.

Nischint Chavathe:

Okay, because the market numbers are kind of almost the average daily volume compare for the market, on a quarter-on-quarter basis is almost been stable, that has not really moved down as sharply.

Sudip Bandyopadhyay:

I think if you really look at the months of January, February, the markets were really depressed and I think the retail, if you really see, we are completely in the retail segment, and retail had really moved away from the market, so I think that resulted in the downward pressure on the volumes.

Nischint Chavathe:

Okay. Thanks a lot.

Seshadri Sen:

This will have to be the last question please.

Operator:

Okay. We are having a last question for Mr. Shashin Upadhyay from Alchemy.

Shashin Upadhyay:

I just wanted to know on your consumer finance book what would be the spreads that you would be comfortable with and what would be the incremental yields that you would be getting right now.

K V Srinivasan:

I did not catch the first part.

Shashin Upadhyay:

The spreads

K V Srinivasan:

Okay. Typically, we try and maintain a 4% margin but it varies upon the kind of business mix that we do and as we do more course correction towards the secured portfolio we will try and maintain this particular number.

Shashin Upadhyay:

What would be the blended yields right now on the book sir, the incremental blended yield for this current month?

K V Srinivasan:

It could be somewhere in the region of around 13.7%.

Shashin Upadhyay:

Given the current economic scenario, would you be looking at expanding this book aggressively or would you want you kind of confirm with your strategy of maintaining a leverage of six times?

K V Srinivasan:

Clearly, as I said earlier the focus is on building a quality book and profitability, so wherever we see opportunity in line with these two strategies we would certainly pursue that, and we believe that there are certain segments where the demand growth would be better and therefore we would like to tap those opportunities. With the setting up of the home finance and the NBFC separately, we would be in a position to focus upon the areas which were either to we have not been very strong on especially home loans and so on, so that is one area we will certainly look for, but ultimately everything depends upon how the economy really moves and you know we would not compromise upon the risk perception at all.

Shashin Upadhyay:

In terms of ARC business, when do you think the ARC business will be kind of fully functional, we are right now in kind of mode of setting up the whole business, so by when do you think it will start kind of being in the business or start reflecting P&L line.

Sam Ghosh:

I think we have already started doing some assets, though some small retail assets, but obviously from this financial year we have decided that we will start looking at some larger assets as we come across them. Again, the focus would be that can we get some fairly sizable asset where we know we can get a good return on it as well as be able to resolve it within a fairly reasonable period of time.

Shashin Upadhyay:

Okay, thank you sir. That is all from my side.

Sam Ghosh:

Thank you very much.

Operator:

Thank you sir. At this time, I would like to hand the flow back to Mr. Seshadri Sen for the final remarks. Over to you sir.

Seshadri Sen:

Thank you very much everyone for joining the call and hope to join you during the next quarter as well. Thank you.

Sam Ghosh:

Thank you so much.

Operator:

Thank you sir. That does conclude our conference for today. Thank you for participating on Reliance Conferencing bridge. You may all disconnect now.