Reliance Capital Limited

FY 2015 Earnings Conference Call

29th May, 2015

SPEAKERS: Management of Reliance Capital

Moderator

Ladies and gentlemen, good day and welcome to the Reliance Capital Q4 FY15 Earnings Conference Call hosted by Edelweiss Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Kunal Shah of Edelweiss Securities. Thank you and over to you Mr. Shah.

Kunal Shah

Thank you Karuna. Good evening all of you. This is Kunal Shah from Edelweiss Securities. We have with us Mr. Sam Ghosh– CEO of Reliance Capital and the company's senior management team to discuss their fiscal 2015 earnings. So without much ado, I would like to pass it onto you for further remarks and also to give the strategy going forward.

Sam Ghosh

Thanks Kunal and good evening to all of you and welcome to our FY15 Earnings Conference Call. We have the CEOs from our businesses with us; Sundeep Sikka from the asset management business, K.V. Srinivasan from Commercial Finance, Anup Rau from Reliance Life Insurance and Rakesh Jain from Reliance General Insurance. We are also joined by Manish Dhanuka, CFO of the broking and distribution segment, as well as Reliance Capital's CFO, Amit Bapna. Let me present a brief summary of our consolidated results and an update on each of our businesses. After that, we will take questions.

In this year, the total income increased by 17% to Rs. 89 billion. The consolidated net profit for the year was at Rs. 10 billion, an increase of 34%. The profit includes exceptional gain from sale of 9% stake in Reliance Capital Asset Management to Nippon Life. Core business profits were in line with FY14 driven by higher earnings in Asset Management, General Insurance, and Commercial Finance segments, while profits in the Life Insurance business declined due to increased positioning for discount rate adjustments and reduced surrender profits. The net worth of Reliance Capital increased by 9% to Rs. 135 billion as on March 31, 2015.

In the Life Insurance business, new business premium rose by 7% to Rs. 21 billion in this year. On an individual WRP basis, we continue to be the fifth largest share in the private sector. FY15 NBAP margin was 27.7% as against 23.8% in FY14 and, is the highest in the industry. In General Insurance, gross premium increased by 13% to Rs. 28 billion. In terms of gross premium, we are amongst the top 5 players in the private sector. Profit from the business rose by 27% to Rs. 814 million. In Commercial Finance, profit before tax rose to Rs. 4.4 billion. We have improved our net interest margins to 5.9% vis-à-vis 5.5% in FY14. In Asset Management, our mutual fund average Assets under Management grew by 32% to Rs. 1.4 trillion with a market share of 11.5%. We remain the third largest player in the mutual fund industry. Profit before tax grew by 29% to Rs. 4.5 billion driven by higher mutual fund AUMs mainly on the equity side. We have given detailed financials and operating parameters for each of our major businesses in our presentation and review report. I will now go through the main highlights in each business.

In FY15, Reliance Life Insurance continues to be the fifth largest player in private sector in terms of individual WRP. In FY15 the growth in the private sector was driven by the ULIP segment. Being an Agency driven insurer, we continue to drive steady and sustainable long term growth and chose not to rely on ULIP-driven market-linked volatile growth. In spite of this, Reliance Life's total premium for the year rose by 8% to Rs. 46 billion. The increase was driven by 7% increase in new business premium to Rs. 21 billion while the industry declined by 6%. Renewal premium rose by 9% to Rs. 26 billion. Average ticket size increased by 26% to Rs. 26,600 in the year. Overall persistency rose from 55% to 57% in FY15. Agency persistency continues to show an increasing trend and reported a persistency of over 67%. The business continues to focus on Agency and Proprietary channels which have better persistency than other channels. In FY15, new business achieved profit rose by 23% to Rs. 3.4 billion. The NBAP margin rose to 27.7% as against 23.8% in FY14, as a contribution of non-par business in individual new business premium increased to 68%. The overall traditional product formed 77% of the individual new business premium. Profit declined to Rs. 1.4 billion due to increase in the actuarial reserve with respect to non par products where the interest rates assumptions were reduced by 50 basis points and a fall in surrender income. The declared results of Reliance Capital include consolidation of 48% stake of Reliance Life Insurance. Total funds under management was at Rs. 169 billion as on March 2015. Sum assured of policies in force was over Rs. 995 billion, an increase of 13%. Reliance Life Insurance has a network of nearly 900 offices and over 110,000 distribution touch points across India.

Reliance General Insurance is amongst the top 5 private sector General Insurance companies in India in terms of gross premium with a private sector market share of 8%. The gross written premium for the year was Rs. 28 billion, an increase of 13%. Gross premium for the private sector grew by 10% in this period. Profit for the year increased by 27% to Rs. 814 million. Return on equity was 9% as compared to 8% in FY14. Combined ratio for the year is at 121%. The combined ratio was high for the year due to an exception reversal of excess premium collected on retail Health policies in FY 2008 and a higher claim ratio of account of catastrophic events. On a normalized basis the combined ratio for the short tail business is approximately 100%.

Reliance Commercial Finance continues to focus on secured assets, lending to niche segments of mortgage, SME, and commercial vehicle loans. The business reported highest ever annual disbursements at Rs. 104 billion, an increase of 7%. The Assets under Management grew by 15% to Rs. 199 billion. The outstanding loan book rose by 13% to Rs. 154 billion. We securitized loans of Rs. 34 billion during the year, an increase of 24%. In FY15, we were able to improve our margins as well as maintain superior asset quality despite the challenging environment. At the end of the year 100% of the book continued to be secure. The total income for the year rose by 7% to Rs. 24 billion. Profit before tax increased by 3% to Rs. 4.4. billion. The return on equity was 16% for the year as compared to 15% in FY14. The net interest margin was 5.9% as against 5.5%. The cost to income ratio remained stable at 17% in FY15. The gross NPA declined by 6% from Rs. 4.6 billion in December 2014 to Rs. 4.3 billion in

March 2015. The gross NPAs are 2.2% of assets under management. The coverage ratio included write offs at end of March 2015 stood at 57%, excluding write-offs shows at 20%.

Reliance Home Finance Limited is a 100% subsidy of Reliance Capital and caters to the self-employed segment in the mortgage sector. Housing finance including home equity is a key focus of our lending business and we plan to significantly grow our housing finance assets in the future.We have shared detailed financials of Reliance Home Finance Limited in the FY15 investor presentation uploaded on our website.

Reliance Capital Asset Management manages Rs. 2.4 trillion of assets across its mutual fund, pension fund, managed accounts, and our offshore funds. Reliance Capital Asset Management is the largest asset manager in India. Reliance Mutual Fund is amongst the top 3 mutual funds in India with a market share of 11.5%. The average Assets under Management of Reliance Mutual Fund were at Rs. 1.4 trillion as on March 2015, an increase of 32%. The improvement was driven by higher equity and retailed debt AUMs. Growth in liquid funds was low at 24% as against the industry rate of 30% denoting a clear focus on achieving profitable growth. Equity AAUMs increased by 83% and were 33% of the overall AAUMs as on March 31, 2015, as compared to 24% as on March 2014. 83% of Reliance Mutual Fund’s equity schemes outperformed benchmarks in last one year, well above the peer group. In FY15, new monthly SIP registration tripled for Reliance Mutual Fund while it doubled for the industry. Also, assets in the FMP category grew by 8% while the industry declined by 21%. Reliance Mutual Fund has the highest AUM sourced outside the top 15 cities amongst the private sector asset management companies. We continue to focus on retail investor class, asset growth in this segment at 95%, while the industry growth was 51%.

Offshore AUMs continue to grow and crossed USD 1 billion as on 31 March, 2015. For the year ended 31 March, 2015, the business generated an income of Rs. 10 billion, an increase of 23%. The business achieved a profit before tax of Rs. 4.5 billion, an increase in 29%. Profit margins improved from 45% in FY14 to 48%. The cost of acquisition declined as share of the direct channel rose from 18% to 35% in FY15. Return on equity rose from 21% in FY14 to 27% in FY15. Reliance Mutual Funds continues to be amongst the most profitable industry in India. As announced in November 2014 Nippon Life raised the stake in Reliance Capital Asset Management from 26% to 35% in February 2015 with an option to increase it further by 14% in tranches. Nippon Life invested Rs. 6.6 billion for the 9% stake. The transaction represents the highest valuation recorded to a domestic mutual fund till date and valued the business at Rs. 73 billion.

Reliance Securities is amongst the leading retail equity broking houses in India. The focus in this segment is on the key business vertical of equity and commodity broking and wealth management. Equity broking account increased by 4% to over 750,900 and the average daily equity turnover stood at Rs. 17 billion, an increase of 39%. The number of commodity broking branch rose by 14% to approximately 54,600. The daily average commodity turnover was at

Rs. 3 billion. For the year the total income was at Rs. 2 billion, an increase of 35%, the profit before tax was Rs. 54 million as against the loss of Rs. 229 million in FY14.

Reliance Money is amongst the leading distributors of financial products in India with a distribution network of over 170 branches. In FY15 the total income decreased to Rs. 981 million, as the company applied for corporate Agency license and exited the insurance broking and is in the process of gradually discontinuing the gold coin businesses. The business made a loss of Rs. 309 million in the year. The company is focused solely on the distribution of our insurance and mutual fund products as compared to some of the old third party products in the past. In wealth management, Assets under Management stood at Rs. 14 billion, an increase of 59%. The wealth management segment achieved a profit of Rs. 376 million in the year as compared to loss of Rs. 9 million in FY14.

Reliance Asset Reconstruction is in the business of acquisition, management, and resolution of distressed debt and assets. As on March 2015, the Assets under Management moved to Rs. 11 billion, an increase of 59%. Total resolutions during the year increased from Rs. 650 million to Rs. 2.4 billion. The profit before tax rose by 18% to Rs. 122 million in FY15. The Return on Equity for the business improved to 6%. In conclusion I would like to say that all core businesses are on track in terms of operating performance, and we expect each of our businesses to continue the trend of profitable growth on a consistent basis. Also, in March 2015, Sumitomo Mitsui Trust Bank, Japan’s leading bank and largest financial institution invested Rs. 3.7 billion for initial stake of 2.8% Reliance Capital as Sumitomo Mitsui Trust Bank and Reliance Capital which collaborate on multiple business opportunities of mutual interest. The Board of Directors has proposed dividend of Rs. 9 per share. Thank you very much. We can now take questions.

Moderator Sure, thank you very much sir. Ladies & gentlemen we will now begin the question and answer session. We have first question from the line of Ashish G, individual investor. Please go ahead.

Ashish G I just wanted to know that, I mean year on year the margins have increased. I am talking about Life Insurance Business, so in Life Insurance Business I clearly see that new business margins have increased from 23% to 28% in FY15. So going forward due to the decrease in interest rates do you see any change, any correction in this margin?

Sam Ghosh The margins will drop because of the discount rates going down.

Ashish G Is it possible you quantify the decrease?

Sam Ghosh We are assuming a 50 basis point cut in the current fiscal. In future, some of the provisioing can be mitigated by even further shifting our products to longer term and non par.

Ashish G But are you looking to at having to sustaining this non par leading product mix with a majority non par state?

Sam Ghosh Yes.

Moderator The next question is from the line of Satish Bhatt from Anvil. Please go ahead.

Satish Bhatt I just want to know what is your outlook on the consumer finance business and how our NPA is shaping up with the other consumer finance business. So I think last quarter we had some problems regarding the consumer loans. Can you throw some lights on that?

Sam Ghosh Primarily our focus has always been on mortgages and SME type financing and we actually have had a reduction in the NPA in percentage terms as well as in absolute value quarter on quarter between the Q3 and Q4. So, on that particular note, we do not have a serious concern as of now. Overall what we have really done is that, in spite of the rather tough conditions, we have maintained our book quality pretty well and also shown reasonable increase in the profitability. Our outlook is positive.

Satish Bhatt Are you seeing any stress on the SME portfolio as of now?

Sam Ghosh No.

Moderator Next question is from the line of Gaurav J from JHP Securities. Please go ahead.

Gaurav J I just wanted to ask what is the amount of net profit barring the capital gain please?

Sam Ghosh Barring the capital gains, it will be roughly Rs. 750 crores on a full year basis.

Gaurav J Okay, and for the quarter base?

Sam Ghosh It will be similar to last year numbers.

Gaurav J Okay. The other question was on the CV segment, so can you just give a brief outlook on the way forward please and what is happening exactly in the market?

Sam Ghosh At this moment, definitely there is a certain amount of stress in the sector. But to my mind, the situation should improve in the next couple of quarters with some amount of early signs actually already getting visible, in terms of interest in buying of new larger vehicle that is slowly reviving. My sense is that the situation should become better from Q3 in the current financial year onwards. In any case, from our perspective, because CV loan forms a minor part of our portfolio, we do not have any overall stress as you can see from the numbers.

Gaurav J Are we into the used CV business?

Sam Ghosh We do have a small used CV portfolio which is done pretty well. In fact we want to grow that as a percentage of the total CV business.

Gaurav J Any number to that please?

Sam Ghosh At this moment our total used business would be in the region of around 25% of the total vehicles business, we would like to take it up to about 40%.

Gaurav J In what time please?

Sam Ghosh In the next financial year.

Moderator Next question is from the line of Rakesh Mookim from Barclays. Please go ahead.

Rakesh Mookim So there has been some capital infusion done in the fourth quarter in General Insurance, but the solvency continues to be about 1.53. So I just wanted to understand how do you see that going forward and do you anticipate further capital infusion into the company and the broader question is that would you think that there would be any capital requirement in any of the businesses going forward that you would need to take care of?

Sam Ghosh As the profits of the General Insurance Company itself continues to rise, I think that will offset the need for growth requirements of capital. So last year was like an in-between situation because we were obviously profitable but we did not generate enough resources to really support the growth. This year obviously the targets are much better and we hence do not expect any capital infusion. Going forward, I think with reasonable bottom line, the need for capital support is more or less taken care of and hopefully in a few years' time, we should be also in a position to really look at distributing profits also.

Sam Ghosh In terms of overall, other than commercial finance and home finance that may need capital, the company's other businesses don't need capital. In home finance, it depends on how fast they grow. Otherwise, the profits will sustain the growth there too.

Rakesh Mookim Just one follow-up on the General Insurance business, when we are saying that the internal accrual should be enough to kind of take care of the capital requirement, so what would be your assessment of the growth and the combined ratio levels that could lead to such a situation?

Sam Ghosh I think we have been growing slightly more than the industry growth rate. We have not been growing very fast. So the objective is actually to pursue profitable growth. The other thing is if you really see, we have a lot of motor third party liabilities, which obviously are maturing and getting paid off. And we are actually trying to diversify from motor to non-motor business. If you will see the breakup of our number say for last year, the commercial lines business has actually grown almost 20% plus as against the industry growth rate of about 6%. So it is a bit of a transitioning which we are trying to move on the portfolio side, which obviously will diversify our risk, improve the bottom line as well as reduce capital requirement for long tail business like motor third party liability.

Rakesh Mookim Okay. And your view on the combined ratio?

Sam Ghosh The combined ratio also has a component of interest which we pay on third party claims, which actually gets added into the claims cost. And of course the corresponding investment income gets taken below the line. So this is an element of accounting fallacy in the way combined ratio is calculated. So the right way to look at it is what is the combined ratio of short tail business and if you will see the short tail business the combined ratio is almost 100, which means we are not losing money even before investment and the investment income actually accrues to the bottom line of the company.

Rakesh Mookim Okay. Sir can the combined ratio for the business or the short tail side come down to less than 100 and what would kind of be required for such a situation, because some other companies are indeed below 100?

Sam Ghosh So we are also almost on that trajectory. I think hopefully this year we will be reasonably below 100.

Moderator Next question is from the line of Kajal G from ICICI. Please go ahead.

Kajal G If you can explain what are the losses that we have incurred because of which your consolidated profit is lower than the standalone profit?

Sam Ghosh Life Insurance business profits were lower primarily for two reasons. One is surrender charges were significantly lower and secondly is the higher provisioning for actuarial reserves.

Kajal G Sir but it is still having profit, correct? There is something negative or some provision entry must have gone which has impacted your P&L.

Sam Ghosh Right. So what we have done in this quarter is against so we had capital gain coming in from our stake sale in our Asset Management business. On the other side, we had done a stake sale or we are under process of closing a deal on Reliance MediaWorks. So, wherever we thought that there was a diminution in value, we have taken that hit in Q4 itself.

Kajal G How much will be the amount that provisions have been made?

Sam Ghosh Roughly to the extent of Rs. 300 crores

Kajal G So, net of the capital gains of around close to Rs. 300 odd crores. Sir, then in terms of your Life Insurance in the industry not many players are able to make this kind of NBAP margin. So what is different is that we have our what is the reason that we have maintaining such margins and also so consistently?

Sam Ghosh I think, we very clearly have got a set of incentives and disincentives to push the right products for the customer. See, fundamentally, we believe that ULIPs tend to be volatile because when the markets go up, the redemptions are higher. When they go down the renewals do not come through. On par, one of the worries we have is that there is some , mis-selling because of the fact that the returns are based on the illustrations as mandated by the regulator, which may not come through. So we have been focusing on traditional and more so non par. It has not been a one year journey. It has been a journey over the last 2 or 3 years that we have been pushing this product. Because we believe it is only a non par that the customer knows what the returns we would get for sure over a 5-10-15 year term.

Kajal G But then nobody in the industry in the last four years or so have been making around like this kind of margins I believe.

Sam Ghosh Yeah, but then it is a function of product mix. If you go by the public disclosure, if you look at the top 5 players, you only find 2 players which have a high proportion of traditional and we are the only player with a higher proportion of non par product mix finally.

Kajal G Of the total as of now business outstanding how much will be non-Par?

Sam Ghosh Non par is 68%.

Kajal G And ULIP will be?

Sam Ghosh ULIP is 23.I think the other point is that not only the non par is high, it is also that the policies with tenure of 10 years and above as the percentage of a portfolio is over 70%, which again is very rare in the industry. See, if you are looking at what are the drivers of the margins, there are actually two things. One is the product and the second is the tenure. But we are selling non-Par which is over 2/3rd. Over 2/3rd of our business is about 10 years and you would not find anyone else with our scale and size with this kind of a product mix.

Kajal G What is your outlook on the industry now because premium on a total level has not grown for sometime now? So what is the outlook? How the industry will shape up overall now?

Sam Ghosh Unfortunately, the industry has declined for two years in a row now and frankly it depends on the product strategy. I mean ULIPs have continued to be sold by some of the large players, the way they are currently the market could see an uptick, but I am not too optimistic about the case count or the non-ULIP sales going up because there seems to be very little focus on it.

Kajal G Sir in terms of growth and the premiums.

Sam Ghosh So if the ULIP thing continues you might see some growth like I had mentioned, but if people were to move to a different product strategy to protect their margins then you know growth would be a challenge. It is a function of what others follow frankly.

Moderator Next question is from the line of Santosh Singh from Society General. Please go ahead.

Santosh Singh Sir I have a couple of questions, one on Life and second for General Insurance. On the Life Insurance front our new business premium is growing, renewal is growing but our AUM is not growing and at the same time our margins are high and we are saying that we are writing long term products. So is it that we are having a huge overrun from the persistency side because what can explain that particular criteria? If everything is growing then the AUM should have grown if you have got such a high margin.

Sam Ghosh In the segment disclosures for H1 of this year you will find that a lot of players have shown growth. Their AUM actually has declined if you do not adjust it for MTM movement. Now the fact is that we do not sell too many ULIPs. So a lot of our surrenders have got churned back into our system unlike in some other cases. That is one. Secondly, on persistency we continue to show an improvement. So our persistency is moved by about 270 basis points over the last year. In the Agency channel, for example, we are on the top quartile in persistency and in direct we are on top quartile on persistency. Yes, we do have an issue with the churn like everyone else in the industry as far as ULIPs are concerned. And I think the worst is behind us because the last big chunk of ULIPs we sold were in 2010 so I would expect to be hit by some more surrenders this fiscal and then later on hopefully the problem will go away. But again to be fair, you have to understand that this has got disguised for other players because they continue to sell the same ULIPs again what was got churned. We have not done that. So if you look at our renewal premium for example, our collections against due is 84.5% which was again, I would safely say is in the top quartile.

Santosh Singh My question is around the margins, the high margins. So we have very high margins. You are saying that on the non-Par side our persistency is high and it is just the ULIP side which is creating the problem.

Sam Ghosh No, no. I am saying that our margins are high because of a product mix which is largely non par. As far as our AUM is concerned, we have got hurt because of the fact that there have been a lot of redemption pressures because of the way the market has moved. Now, we have lost a lot of our AUMs because the customers have withdrawn money from the ULIPs. Now it has been an industry-wide phenomenon. In our case, we have not churned this back into our business because we do not believe that ULIP is a long-term sustainable option for a customer. I mean, we could look at possibly other avenues to invest. However, other companies have churned this back into their system. So in case, you were to actually look at the amount which has gone away from your AUM, as a percentage, you will find that it is lower and at its worst not very different for what it is for the other players. We have not just churned it back. Also, the margin is based on pre expense overrun.

Santosh Singh What persistency assumption are we putting while calculating this margin if it can be disclosed?

Sam Ghosh No, we do not disclose that.

Santosh Singh That is fine. And on the General Insurance side, you said that there were a couple of one-offs this year and what could be the quantum of the one-offs.

Management See we are one on the Health side from 2008, that was about 35 crores

Santosh Singh And also we had this, means this was a bad year in terms of catastrophes, so we should have big catastrophe classes as well. So what impact was that?

Sam Ghosh So the CAT impact was about 20 crores.

Moderator We have follow-up question from the line of Ashish G, individual investor. Please go ahead.

Ashish G Sir I just have a follow-up question on this question about a decrease in profits for Life Insurance business. So year-on-year the profits have almost decreased significant. So can you state the reasons for the same?

Sam Ghosh I think the one big reason is that 147 crores was added to reserves. The decrease in profit is mainly on account of on additional reserving. There is no money which has gone out of the company. It is not an operational expense. So because, we have changed the discount rate by 50 basis points which has led to additional reserving of 107 crores, 40 more crores has been on account of reserving for additional reserving for maintenance expenses.

Ashish G Sir this rate of discount which was decreased by 50 basis points, was there any particular reason for the same?

Sam Ghosh We have just taken a more conservative view and we could take a call to do that going ahead. Our discount rate was about 6%, we brought it around 5.5. And as interest rate fall, we will have to keep on dropping that further. So if the interest rates were to go up you could also release some of the liability, it will get added back to your profit. But I think important thing to understand is that money is not an expense, it has not gone out of the company. It is staying within the company. It has just gone into your reserves. It has just gone from one head to another.

Ashish G Yeah, but Reliance Life is selling more of the guaranteed products now, so it will continue to have pressure on the bottom line.

Sam Ghosh No, lowering our assumptions will only strengthen our profits because of the fact that the difference between the assumed rate and the actual rate would only go up under these circumstances. It is a more conservative approach.

Moderator The next question is from the line of Manish Shukla from Deutsche Bank. Please go ahead.

Manish Shukla First on the non par, of the 68% non-Par how much would be guaranteed return?

Sam Ghosh Non-Par is essentially guaranteed.

Manish Shukla So, there is no pure term there?

Sam Ghosh No. See part of the premium would involve Life Cover but that amount will not be significant. And that is going to be consistent across all product categories more or less.

Manish Shukla What would be the range of guarantee that you offer on your non-Par?

Sam Ghosh The IRR would be based on age, tenure and the premium paying term. These factors could be anything between 2% to 5.5%.

Manish Shukla Okay. So going back to change in assumption on discount rate leading to reserving, so realistically to assume that interest rates through the course of Fiscal 2015 - 2016 could probably be again lower by 50-odd basis points at least. In which scenario are we likely to take a similar kind of a hit next year?

Sam Ghosh Yes, we will. If such a situation happens, we will.

Manish Shukla The other thing is, I mean this is mentioned earlier. We have a YoY rise in new business margins, but could you give us the YoY delta on your expense overruns. I know you do not disclose the absolute values but then whether it has gone up by an equivalent amount or what the expense overrun is?

Sam Ghosh So in case you look at our opex ratio, the ratios have improved.

Manish Shukla No, I am talking purely from an expense overrun perspective, not the OPEX ratio.

Sam Ghosh So there are 2-3 things which will happen. I mean if your renewals keep growing up, your top line is growing and your expense is growing at a lower proportion, one is that you are spending less on acquisition and secondly you are getting more income from renewals. So it is a better situation to be in from an expense point of view. And your persistency on your current book is also going up.

Manish Shukla And any plans of disclosing the EV.

Sam Ghosh No, not at the moment.

Manish Shukla The other question is Amit mentioned the 250 odd crores provision on investments. Can you just explain it once more whether the transaction has closed or you have actually taken a mark-to-market on your own on houses?

Amit Bapna We have already officially announced Reliance Media Works Exhibition Business getting sold to Carnival and the FMS business getting moved onto Prime Focus. These are announced deals. They were not closed as on 31st March but we know valuations and hence on a prudent basis we have taken some provision against the Reliance Media Works exposure we had.

Manish Shukla So now if you look at rest of your investment, both listed and unlisted, will you be still on a mark-to-market basis negative or will that be -

Amit Bapna We should be on the positive side.

Manish Shukla And what are the plans on liquidating those investments?

Amit Bapna As and when we get right exits, we are exiting them.

Moderator Next question is from the line of Namesh Chhangani from Axis Capital. Please go ahead.

Namesh Chhangani My question pertains to Commercial Finance business, so we have shown our Home Finance numbers separately, so was there any reclassification from your Commercial Finance, LAP book or the mortgage book towards this Home Finance during the quarter?

Amit Bapna No, there was no reclassification. It is just that the Home Finance balance sheet today has acquired a certain respectable size. Since that is now going to be also a key focus area for us going forward, we have started to disclose that separately rather than just being a part of the Commercial Finance.

Namesh Chhangani So it was explained LAP under the Home Finance and LAP under the Commercial Finance, what is the key difference in this?

Amit Bapna There is no key difference in respect of the underlying product offering. What difference really is that in the Home Finance balance sheet, there are certain regulatory limits on how much of non-Home Finance you can do. So we will have to adhere to those restrictions. So, therefore, substantial part to the LAP business will continue to get booked on the Commercial Finance side. It is only to the extent that we are growing the Home Finance book, the cushion will get increase, and therefore we will use that cushion to book LAP business in the HFC also.

Namesh Chhangani Original team is the same?

Amit Bapna It is the same.

Namesh Chhangani And why this separate Home Finance vertical being created? Can you just explain the rational on this?

Sam Ghosh Yeah, this was not created now. It has been created in 2009 because Home Finance is regulated by a different regulator which is a National Housing Bank. There are certain different tax laws which are applicable to the Housing Finance company. So therefore, it is obviously prudent to classify the Home Finance as a separate business from a legal structure perspective, which is why we had done that in 2009 itself. Basically we were not disclosing Home Finance as a separate balance sheet simply because it had to still acquire a certain amount of respectable size. Now that that has happened, the Home Finance balance sheet as you would notice, the AUMs have gone up to about Rs. 5,700 crores which we think is reasonable enough for us to start disclosing separately. Otherwise there is no fundamental difference in the business that we have been doing is hitherto. And going forward we will continue showing it.

NameshChhangani And on the Commercial Finance side what would be your target on the loan mix going ahead?

Amit Bapna See when you look at it as a composite of the HFC and the Commercial Finance side, primarily we would keep the mortgages book which is basically the housing plus the LAP book at about 45% or so. The SME book we should be taking it up to about 30%, so that would take about anywhere between 75% to 80% of the book. The rest of it would be primarily infrastructure financing and the vehicle side.

Namesh Chhangani So this Housing Finance plus mortgages that means you are talking about both combined commercial and HFC?

Amit Bapna That is right. So if you want further breakup, out of this 45% of mortgages that I am talking about, the idea is to get to about 25% out of that 45% into the Housing Finance, LAP will be 20%.

Namesh Chhangani And on the overall consolidated side, any plans to further deleveraging our book because as we see the loan book on the consolidated side still growing at a faster pace than your Commercial Finance overall loan book.

Sam Ghosh Yes, as we have also mentioned that we are in the process of doing some stake sales, etc., we will deleverage using that method, plus obviously there are certain large ICDs, etc., which are coming up for maturity which will bring the exposure down.

Namesh Chhangani And in the General Insurance side we have seen that the growth in the Health Insurance segment is at a faster pace now. So firstly any plans for any foreign partners or any talks are on with any foreign partners because the norms are also out now.

Sam Ghosh No, I think our plan as we have mentioned in the past also is that we may hive off the Health business into separate entity and find a partner, otherwise we will run it as Reliance.

Namesh Chhangani So firstly it could be the Health Insurance will carved out onto separate entries, then we will look out for partner?

Sam Ghosh Yes.

Moderator Next question is from the line of Hitesh Gulati from Espirito Santo. Please go ahead.

Hitesh Gulati So my question is on the non par side. Given that most of the products are guaranteed this, so do we hedge them against any interest rate swaps or something?

Sam Ghosh Yes, we so. What we do is that we manage duration so that there is no mismatch between what we are supposed to offer when and what is available to us at that point in time.

Hitesh Gulati What percentage of our non par products would be hedged?

Sam Ghosh So right now we are managing duration and we do that on a continuous basis. But I would not be able to answer that what percentage is hedged. But I can say that it is more or less matched and we do not see an issue over here.

Moderator The next question is from the line of Kajal G from ICICI. Please go ahead.

Kajal G Every time we make some sale and there is huge risk provision that we see every time in the P&L. So when do we think we will be able to reach double digit ROEs because that is why the moment is not being seen in the stock also?

Amit Bapna I think this time because we have RMW sale at the same time, and we have seen it what the mark-to-market position was. That is why we took that cut. Otherwise there is only upside in our entire investment.

Kajal G So is it that if all the other investments are sold today, there is none of the investments where we will have to book losses?

Sam Ghosh On an overall basis.

Kajal G And then all the related companies of Reliance which were in the past in our books, are all of them now in MTM?

Sam Ghosh Primarily, we had investments in Reliance Media Works & Broadcast. Media Works is something which we have already looked at selling. Reliance Broadcast is a radio business which has turned positive.It is doing EBITDA of over Rs. 100 crores on an annual basis. So I think these two businesses have done well. Reliance Big Entertainment where we held preference shares, we have redeemed most of it over the last few months. And so I do not say there is anything much left there.

Kajal G In the Reliance Group Investments, is there Reliance Exchange Next?

Sam Ghosh So Reliance Exchange Next also we have taken all that and we have already provided for that in the past. That was last year itself.

Moderator Next question is from the line of Gaurav J from JHP Securities. Please go ahead.

Gaurav J Just an extension of the previous question. Any particular target ROE you have in mind and the timeframe piece on a consolidated level?

Amit Bapna Yeah, we are obviously looking at about 15-18% ROE, you know that is our target. But till we do all the divestments of all these Proprietary investments then only - because ultimately each of our business if they achieve a 15% to 18% ROE, then the company achieve that similar ROE.

Gaurav J So any timeframe?

Amit Bapna Our aim is within the next 12 to 18 months we try and get to that sort of ROE.

Moderator Next question is from the line of Ashish G, individual investor. Please go ahead.

Ashish G Sir I have a question on the distribution mix. The condition mentions that you have around 80% of the business coming from Agency and Proprietary channels. So I would just like to know the contribution of digital channel out of that.

Sam Ghosh So digital is about less than a percentage of our sales currently.

Ashish G Okay. And could you also give a breakup of Agency and Proprietary within this 80%?

Sam Ghosh Agency is well in excess of 60%.

Moderator As there are no further questions from the participants I would now like to hand over the floor back to Mr. Kunal Shah for his closing comments.

Kunal Shah Thank you sir for your time and thank you all the participants for participating on the call and all the best for the future quarters. Thank you.

Moderator Thank you very much sir. Ladies & gentlemen on behalf of Edelweiss Securities Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.