Reliance Capital Limited

Q1 FY16 Earnings Conference Call

17th August, 2015

SPEAKERS: Management of Reliance Capital

Moderator: Ladies and gentlemen, good day and welcome to the Reliance Capital Q1 FY 2016 Post Results Conference Call hosted by Motilal Oswal 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 "*" and 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. Sunesh Khanna from Motilal Oswal Securities. Thank you and over to you Sir!

Sunesh Khanna: Thanks Karuna. Good morning everyone and welcome to Reliance Capital first quarter FY 2016 Earnings Call. We have with us, Mr. Sam Gosh, ED and CEO of Reliance Capital, along with the Senior Management team from Reliance Capital. Without much ado I would like to hand over the call to Mr. Ghosh, who will brief us about the results and subsequent to which we can open the floor for question and answers. Over to you Sir!

Sam Ghosh: Thanks Sunesh. Good morning to all of you and welcome to our Q1 FY 2016 earnings conference call. We have the CEOs from our business with us; Sundeep Sikka from Asset Management, K. V. Srinivasan from Commercial Finance, Rakesh Jain from Reliance General Insurance. We also welcome Gopkumar, who has recently joined us as the CEO of the Broking and Distribution segment. Also, we have with us, Sunil Agarwal and Shanai Ghosh from Reliance Life Insurance 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 quarter, the total income increased by 15% to Rs. 25 billion. The consolidated net profit for the quarter increased by 23% to Rs. 2 billion, driven by higher profits in the Asset Management, Life and General Insurance businesses, as well as the Home Finance segment. The net worth of Reliance Capital increased by 10% to Rs. 139 billion as on June 2015. In the life insurance business, we continue to be the 5th largest player in the private sector, on Individual WRP basis. Profit for the quarter rose to Rs. 352 million. In general insurance, gross written premium increased by 10% to Rs. 9 billion. In terms of gross premium, we are amongst the top five players in the private sector. Profit from the business rose by 22% to Rs. 295 million. In Commercial Finance, profit before tax for the quarter was Rs. 798 million. The return on equity rose to 12.5% in Q1 FY16. In asset management, our Mutual Fund average assets under management grew by 28% to Rs. 1.4 trillion, with a market share of 12%. We remain the 3rd largest player in the mutual fund industry. Profit before tax grew by 21% to Rs. 1.1 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:

Reliance Life Insurance**:** In Q1 FY16, Reliance Life Insurance continued to be the 5th largest player in the private sector, in terms of Individual WRP. The industry growth continued to be driven by the ULIP segment and group business. Being an agency-driven insurer, we have continued to drive steady and profitable long term growth, and chose not to rely on ULIP-driven market-linked volatile growth. As the company focused on traditional products, which formed 87% of the Individual New Business Premium as against 74% in Q1 FY15, and less on the ULIP business, Individual NBP decreased by 34% to Rs. 1.6 billion. Renewal premium rose by 8% to Rs. 4.5 billion. In Q1 FY16, the contribution of non-par business in Individual New Business Premium increased to 79%, thereby supporting margins. Overall persistency rose from 52% to 56% in Q1 FY16. The business continues to focus on Agency and proprietary channels, which have persistency above 70%. The share of third party business declined to 21% due to exit from partnerships with poor persistency. Profit increased by 2% to Rs. 352 million. The declared results of Reliance Capital include consolidation of 48% stake in Reliance Life Insurance. Total funds under management was at Rs. 159 billion as on June 2015. Sum assured of policies in force was over Rs. 1 trillion. There are over 3 million policies in force. Reliance Life Insurance has a network of nearly 900 offices and over 100,000 distribution touch points across India. In terms of enabling regulations, implementation of open architecture finally looks in sight as the second exposure draft from the IRDAI recommends that banks can partner with up to three insurers. For Reliance Life, this framework presents a tremendous window of opportunity that did not exist earlier.

Reliance General Insurance is amongst the top five private sector general insurance companies in India, in terms of gross premium, with a private sector market share of 9%. The Gross Written Premium for the quarter was Rs. 9 billion - an increase of 10%. Profit for the quarter increased by 22% to Rs. 295 million. The return on equity rose to 12% in the quarter. The combined ratio for the quarter declined from 124% in Q4 FY15 to 115% in Q1 FY16. The combined ratio for the short-tail business is approximately 100%.

Reliance Commercial Finance continues to focus on secured asset lending to niche segments of mortgage, SME and Commercial Vehicle loans. Disbursements increased by 24% to Rs. 25 billion. The assets under management grew by 16% to Rs. 203 billion. The outstanding loan book rose by 13% to Rs. 158 billion. We securitised loans of Rs. 8 billion during the quarter - an increase of 85%. At the end of the quarter, 100% of the book continued to be secure. The total income for the quarter rose by 8% to Rs. 6 billion. Profit before tax declined marginally to Rs. 798 million. The return on equity was 12.5% for the quarter, as compared to 11.7% in Q1 FY15. The net interest margin was 5.4%, as against 5.7% in Q1 FY15. The cost to income ratio improved from 17.0% in Q1 FY15 to 15.9% for the quarter. The gross NPAs rose to Rs. 5.7 billion as on June 2015. The gross NPAs are 2.8% of the assets under management, on a 90 day basis. The slight increase in NPAs is mostly due to slippages in the CV/CE segment. However, as compared to the industry, the portfolio performance remains superior. The coverage ratio, including write-offs, at end of June 2015 stood at 52%. Excluding write-offs, the ratio was at 20%.

Reliance Capital Asset Management manages Rs. 2.4 trillion of assets across its mutual fund, pension funds, managed accounts and offshore funds. Reliance Capital Asset Management is the largest Asset Manager in India. Reliance Mutual Fund is amongst the top three mutual funds in India, with a market share of 12%. The average assets under management of Reliance Mutual Fund were Rs. 1.4 trillion as on June 2015 - an increase of 28%. The improvement was driven by higher equity and retail debt AUMs. On a sequential basis, Reliance Mutual Fund grew faster than the Top 5 AMCs as well as the overall industry. Equity AAUMs increased by 69% and contributed 32% of the overall AAUMs as on June 2015, as compared to 25% as on June 2014. The number of systematic investment plan and systematic transfer plan folios continued to rise for the fourth consecutive quarter, indicating an increased participation in equities by the retail investor segment. In Q1, Reliance Mutual Fund registered the highest absolute growth in retail AUMs amongst the Top 5 AMCs. Reliance Mutual Fund continues to have the highest AUM sourced 'outside the Top 15 cities' amongst private sector AMCs. For the quarter ended June 30, 2015, the business generated an income of Rs. 3 billion - an increase of 51%. The business achieved a profit before tax of Rs. 1.1 billion - an increase of 21%. Return on equity rose from 21% in Q1 FY15 to 24% for the quarter ended June 2015. Reliance Mutual Fund continues to be amongst the most profitable mutual funds in India. In April, RCAM signed a Memorandum of Understanding for strategic alliance with Samsung Asset Management. The MoU is part of RCAM's strategy to expand its product portfolio and offer world class products to Indian and global investors. As part of the alliance, RCAM would offer best-in-class domestic investment opportunities to Samsung Asset Management's retail and institutional investors.

Reliance Securities is amongst the leading retail equity broking houses in India. The focus in this segment is on the key business verticals of equity and commodity broking and wealth management. The equity broking accounts increased by 4% to over 758,600. And the average daily equities turnover stood at Rs. 19 billion - an increase of 14%. The number of commodities broking accounts rose by 24% to approx. 60,000. The daily average commodities turnover was at Rs. 3 billion. For the quarter, total income was at Rs. 423 million - an increase of 8%. The business made a loss of Rs. 54 million in Q1 FY16 as the company is re-evaluating its business strategy and discontinuing unprofitable products.

Reliance Money is amongst the leading distributors of financial products and service in India with a distribution network of nearly 150 branches. In Q1 FY16 the total income decreased to Rs. 174 million as the company acquired a corporate agency license for insurance distribution and had exited the insurance broking business in Q3 FY15. The company is focused solely on the distribution of our own insurance and mutual fund products as compared to selling all third party products in the past. The business made a loss of Rs. 115 million in Q1 as this is a slow quarter and we expect to make good the losses in the subsequent quarters.

In wealth management the assets under management stood at Rs. 17 billion - an increase of 102%. The wealth management segment achieved a profit of Rs. 18 million in the quarter as against a loss of Rs. 7 million in Q1 FY15.

Reliance Asset Reconstruction is in the business of acquisition and management and resolution of distressed debt and assets. As on June 2015, the assets under management rose to Rs. 11 billion - an increase of 31%. The total resolutions during the quarter increased by 34% to Rs. 510 million. The profit before tax rose by 51% to Rs. 44 million in quarter. The return on equity for the business improved from 6% to 9% in Q1 FY16.

In conclusion, I would like to say that all our 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. Thank you very much. We can now take questions.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Subeer Sen from Birla Sun Life Mutual Fund. Please go ahead.

Subeer Sen: Good morning Sir, just wanted to understand in the consumer finance business, what has been the incremental slippages in this quarter?

K.V. Srinivasan: It is about 60-basis point increase in the GNPA. Now, of these 60 basis points, from the core business, it is about 35 basis points. We also made a tactical purchase of an NPA pool and as per the accounting norms specified by the Reserve Bank, as we have to book the losses upfront, the income actually tends to be back ended. Although, over a period of time, we will certainly make profits in the pool. So this is how the total thing is worked out.

Moderator: Thank you. Next question is from the line of Nitesh Jain from Investec. Please go ahead.

Nitesh Jain: Good morning Sir, my question is on life insurance business. We have seen quite sharp decline in new business premium for this quarter and you say that your third party channels like corporate agency, you have shown a decline and you have related some of these, can we get a like-to-like comparison on how agency have performed in this quarter versus last quarter?

Shanai Ghosh: Agency has also seen some decline but this decline is primarily due to change in our products category. In March 2015 itself, we decided to actually disincentivize our entire sales force from selling low-margin ULIPs because we do not believe, in the long-term, they can provide us the source of steady and stable growth. The ULIP contribution has come down from 26% to 13% and bulk of that reduction has come from agency, which is why they have seen a dip in the current quarter. However we see that this will get normalized over the course of the year because any large retail distribution channel takes some time getting used to a change of product strategy and that is what has happened. It was not entirely unexpected, but we are seeing traction for the normal solution products coming back.

Nitesh Jain: What would be your target business mix going forward in terms of product mix?

Shanai Ghosh: We are targeting around 75% of nor-par, 15% of ULIP and 10% par.

Nitesh Jain: Are you comfortable with such high proportion of non-par because other peers have highlighted that in a declining interest environment this could be a risk?

Shanai Ghosh: We have priced for it. It depends on how you price your product. So, our long-term interest rate assumptions are fairly conservative and in our pricing assumptions, we have buffers and margins for adverse deviation. So, as long as pricing assumptions are conservative and have a long-term view, I do not think that is a problem.

Moderator: Thank you. Next question is from the line of Pravin Agarwal from Axis Capital. Please go ahead.

Pravin Agarwal: I just wanted to know on the commercial finance book you said that we have 100% secured book. What kind of security we keep in terms of the SME businesses which we lend to in terms of cluster based approach which you carry?

K.V. Srinivasan: There are two types of lending that we do. Some of them are purely machinery based etc., where you do not have real estate collateral. Up to 2 Crores, we do not take any real estate collateral, beyond that we insist on real estate collateral as well, which could be a factory building or the promoters own residence or whatever. But usually, for the other types of funding, where it is not directly machinery, typically, there would be mortgage of the business' own assets or the promoter's personal property.

Pravin Agarwal: What can be the breakup between the below 2 Crores and above 2 Crores.

K.V. Srinivasan: Roughly around 40% would be below 2 Crores.

Pravin Agarwal: How has the cost of funds moved in terms of our commercial finance business?

K.V. Srinivasan: It has marginally declined. I think, it has come down by about 11 basis points or so.

Pravin Agarwal: You have stated that you have saved sometime around 11 basis points in cost of funds in Q1, any view you can give us over the last one-and-a-half months or so how it has moved or incrementally what is your sense over there?

K.V. Srinivasan: Broadly, the banking system has passed on anywhere around 10 to 15 basis points to the industry. So, our cost of funds is also broadly reflective of that. Now going forward, I think a lot will depend upon how much of the 75-basis point that the RBI has already passed on will actually move on to the industry, so that is something that we need to wait and watch. So, broadly, our cost of funds will track the base rates of banks.

Moderator: Thank you. Next question is from the line of Vibha Batra from ICRA, please go ahead.

Vibha Batra: I have two - three questions. First question is on commercial vehicle, we have seen the sale of HCVs has gone up but if you are to map the implications of that on either growth or delinquency, especially softer delinquencies and northern repo stocks, how would that be for your portfolio?

K.V. Srinivasan: First of all, the CV business in our overall portfolio is a very minor part of it. It is hardly about 10% to 15% of the total portfolio. There is certainly a said amount of uptick in the sale of new commercial vehicles compared to the same time last year. While it is yet to gather acceleration, I think the important factor is that the pace of new NPLs coming in has decelerated partly because of the market environment hopefully would be a little better going forward, plus, we have also taken a lot of risk management measures in terms of putting some analytics based controls and scorecard etc., which has resulted in significant reduction in the fresh flow of NPAs. So, going forward, I would expect the situation to improve quite considerably. Second factor you mentioned was the repossessed vehicles market. Now that is also relatively stable today than what it was probably about six to eight months ago. So these two signals would tell me that probably the future in terms of the next six months should be a lot better than what it is today.

Vibha Batra: But losses on repo would that be in the range of say 35% to 45%?

K.V. Srinivasan: It would be around 30% to 35% that is the normal range that we have seen.

Vibha Batra: It is not worsened but it has not improved either.

K.V. Srinivasan: No, it has not certainly deteriorated but I am expecting, going forward, especially in the heavy commercial vehicle, the repo market to actually improve.

Vibha Batra: What would be your outlook on construction equipment?

K.V. Srinivasan: At this moment, we do not see a very strong growth in that segment. I think the secular issues with the sector need to be taken care of before the situation improves. So we are on a wait and watch game.

Vibha Batra: My second question is on the clusters in SME. So do you follow the same approach for less than 2 Crores and more than 2 Crores and what would be your main clusters for the SME book?

K.V. Srinivasan: Now, as far as the cluster definition is concerned, we have looked at all the clusters which are there in the country and we have chosen a few of those, where we believe the financial performance of the SMEs in it plus the growth prospect of the particular industry look good. So we have chosen about 23 such clusters across the country, which would include various forms of pharma, engineering machine tools, food, etc., and what we have really done is that we have created products, which are specific to the needs of the relevant industry in terms of cash flows and stuff like that and that is exactly what we are focusing upon. Now as far as the below 2 Crores and above 2 Crores is concerned, primarily, the focus of the cluster approach is to focus on the lower ticket ones and as far as the larger ticket cases are concerned, some of our largest exposures would be to the educational sector and the healthcare sector.

Vibha Batra: The question is on investment philosophy which is especially for your insurance company and also the asset management company. Now banks are likely to come with this hybrid instruments for tier 1, in terms of stance on investment in such instrument if regulatory clarity comes to some of your businesses would you be open to investing in this and especially the spread that are being quoted on these instrument what would be your view?

Sundeep Sikka: I think it is too premature to say that whether we will be investing in it or not. You have to understand every investment product, whether it is in asset management or life insurance has a particular mandate; if the spreads are interesting and mandate allows us to invest in those products, I think we will be open to it.

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

Sameer Bhise: Hi, just had a quick question on the LAP and SME book one is that average yield on the LAP book is around 15% what would be the incremental yield?

K.V. Srinivasan: Incremental, it will be around 13.75 to 14 and we are not going far below that.

Sameer Bhise: Okay, and when deciding between, say I believe the end customer segment for both the products, LAP would be largely similar, how does one decide between what product to eventually sell to the customer?

K.V. Srinivasan: From an end use perspective, clearly it is something that we monitor very strongly both in the LAP as well as in the SME segment. Therefore, whether it is LAP or not, it is not kind of free use sort of lending that we do. Primarily, the focus has to be on investing that money into the business for future cash flow generation. Having said that, we have certain internal norms in terms of what is going to be into LAP and what will be into SME. I will give a simple example. If it is a commercial property related lending, it will be probably in the LAP side rather than the SME side, but if it is factory building which is getting financed, it would be in the SME side right. So, I am just giving an example, there are certain various other rules that we follow internally to ensure that we know what we are talking about. Second factor is that if the primary collateral, let us say, is machinery and the secondary collateral is the property, it would be an SME business.

Sameer Bhise: What proportion of the LAP book would be commercial property any broad indication?

K.V. Srinivasan: It would be somewhere in the region of 25 to 30%.

Sameer Bhise: Okay, because yields on both books are largely similar.

K.V. Srinivasan: Look ultimately it is an end used based thing and depending upon the kind of customer that you are targeting and the sort of end use the pricing gets determined, those two things actually determine the risk profile. Now since we do not expose ourselves to much of the builder segment LAP, the yields would be in the region of around 14 and not in the 16 to 18 ratio.

Sameer Bhise: Okay and is there classification or a larger SMEs tend to go the SME route and the smaller one in the LAP or vice-versa?

K.V. Srinivasan: I cannot see any such kind of a trend, it is essentially the nature and the purpose for which the loan is taken and the kind of collateral that is there determines the classification.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: Good morning. Sir, in your coverage to the media you have even mentioned above the right issue being programmed, are we contemplating any rights issue and if so what is the size?

Mr. Ghosh: I am sorry. That is regarding this commodity exchange, we have this stake of 26 % in Indian commodities exchange ICEX and there we are rebuilding the business and a plan is there to go rights issue and then bring the capital back up to about 100 Crores and then restart that business.

Saket Kapoor: That is not operational right now.

Mr. Ghosh: The Company is there, we have a licence but it is dormant, so we want to restart that business. We have 26% stake in that business and the ICEX board has to decide on the right issue, timing and pricing etc.

Saket Kapoor: Who are the major shareholders for ICEX?

Mr. Ghosh: MMTC 26% and we are 26%.

Saket Kapoor: And remaining?

Mr. Ghosh: India Bulls has 14% and then a few banks.

Saket Kapoor: Okay. In the PMS segment what is our book size portfolio management?

Sundeep Sikka: Presently, it is about 2,500 Crores and this does not include the EPFO.

Saket Kapoor: We have mandated now to be manager in the EPFO segment.

Sundeep Sikka: This PMS 2,500 is separate and balance 90,000 Crores we manage is of the EPFO. At EPFO, we have been there from day one. This is the third time we have got the license.

Saket Kapoor: That is pertaining to equity investment other than that you have been managing EPFO money in various other segments?

Sundeep Sikka: EPFO money, it is defined as per the mandate given by EPFO, the present EPFO mandate that has been given to the asset management company is only about debt and because right now what they are doing is they are investing in equity through ETFs only, so at this point in time, the mandate available to the portfolio managers, is only debt.

Moderator: Thank you. We have next question from the line of Kajal Gandhi from ICICI Direct. Please go ahead.

Kajal Gandhi: Good morning Sir. What is the reason for your total expense in the consolidated rising so high?

Amit Bapna: In terms of overall expense growth it also includes premium paid on reinsurance ceded as well as business operating expenses.

Kajal Gandhi: Can you share some light on your general insurance, what kind of portfolio you have in the motor and health side? Where is it growing now?

Company Speaker: I think both are growing. Both motor and health reflects the need for the Indian environment. The motor is growing by about 12%, but the challenge in motor has always been the profitability, especially on the third party side. Our book of motor is about 60% of our total book. So, this continues to be a good focus area and health continues to be about 20% of our overall book and has grown about 30% in this year, reflecting more or less the opportunity. So, both put together on the retail side almost 75% of the book consist of motor and health.

Kajal Gandhi: Within motor, what kind of portfolio that you will have, is it more towards passenger or commercial?

Company Speaker: Typically, the private car and the two wheelers have reflected better loss ratios for the industry, so that continues to be a focus for us. Commercial vehicle, of course, is supporting the segment, and we continue to do that appropriate to the track record we have in our books.

Kajal Gandhi: Because we have seen uptick in CVs, so is that driving motor currently?

Company Speaker: It is partially there, but some sort of repricing has also taken place in the third party rates at the beginning of the year. So this is a more of a value uptick than a volume uptick.

Kajal Gandhi: What is the outlook that you are seeing for the industry now after all the losses are behind?

Company Speaker: I think, we continued to reflect the India story, I guess the economic environment will support us to grow in double digits. What needs to be seen is that it is on the lower end or the higher end.

Kajal Gandhi: Are you seeing LAP is one thing which is being good profits also, you are seeing some slippages coming there?

K.V. Srinivasan: We do not have any such issues in the LAP portfolio. Having said that, we became fairly conservative on the LAP outlook some 6 to 8 months ago and we have been gradually bringing down the disbursals in the past two quarters and gradually moving out of the metros into the smaller towns.

Kajal Gandhi: Sir, I was not able to understand initially you said about the NPA 60 basis points breakup?

K.V. Srinivasan: What I said was that we had purchased NPL portfolio as a tactical opportunity. As per the RBI guidelines, the income from the portfolio is usually back-ended. So you make the provisions upfront. You first recover the principal and then only the income portion can be recognized. So, therefore, there is certain amount of upfronting of the losses which is exactly what we have and therefore that is exactly what is reflecting about as part of the increase in the GNPA. The rest of it is inherent to the business per se.

Kajal Gandhi: This is 35-basis points?

K.V. Srinivasan: Yes.

Moderator: Thank you. Next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: On commercial finance, I now we have discussed in detail about LAP versus SME, but just a little curious why do you have the differentiation, I know that ideally the risk profile should be different which is exactly the reason why we have this, but apparently the rate of interest that you are charging for both the portfolios seems to be similar?

K.V. Srinivasan: The difference actually comes across in two ways. One is what activities are you funding under the SME or under LAP that is one. Number two, is the way in which you underwrite a case is a little different. The SME one is a little more forward looking and the LAP one is more on the basis of established numbers and past track record. Number two is that we do not do obviously, we do not do machinery finding under LAP, so therefore, those kind of things will come under the SME segment per se and third factor is that, the focus from an industry perspective is much sharper in case of the SME other than in case of LAP. So it is more, an internal way in which we are looking at things and to my mind these few things that we spoke about do reflect the change or difference in the perception in the risk that we look at and pricing is not necessarily the same. Pricing is actually is a little different.

Nischint Chawathe: May be this quarter is just coincidentally appearing to be very similar.

K.V. Srinivasan: Yes.

Nischint Chawathe: On the mutual fund side, are we seeing incrementally the impact of change in distributor payout regulations?

Sundeep Sikka: There have been some changes, which have been initiated by AMC, but I do not see any major changes coming up going forward. Broadly, I think we clearly see the size of the industry increasing. We have seen industry touching 13 Lakh Crores, so in absolute terms definitely, I believe there will be an increase in the payout, but as we go ahead, as far as the margins are concerned, the payout per unit will keep coming down because of economies of scale**.**

Nischint Chawathe: But do you see kind of distributors shying away or kind of losing business to any extent or?

Sundeep Sikka: I do not see any reason, I think like I mentioned this to give you a perspective last year industry paid up total distribution commission of Rs. 5,000 Crores. This year, it has paid Rs. 7,000 Crores, so that is why I said, I think there is an opportunity. As per CRISIL report also, in five years' time this can go as high as Rs. 20,000 Crores. So, I think, there is definitely a case at how the distribution is going to re-evolve because earlier with the way it was happening it was a pure vanilla distribution. Now, I think advisor is coming to play, technology is going to be there, so there is going to be the change of a distribution of mutual funds happen. But I think as far as our distributors are going to shy away, I do not see a reason because it is the kitty of Rs. 7000 Crores that has a potential to go to Rs. 20,000 Crores. I see more and more distributors coming in.

Nischint Chawathe: Okay, just now final one on the investment side, if you could just share the developments and the plans for divesting stake in some of the businesses on some of the investments?

Amit Bapna: Yes, we have divested a lot of listed equities over the last couple of quarters, we are looking at divesting some of unlisted stocks also, it is just that it takes a little more time, so over the next few quarters, we will be liquidating.

Nischint Chawathe: And anything specific on the entertainment ventures?

Amit Bapna: Yes, on the entertainment side, we have exited the exhibition business; we closed the transactions, where we sold our exhibition business for Rs. 700 Crores to Carnival. We are in the process of closing the transaction with Prime Focus as focus as well, so our FMS business will also get sold off and that will also reduce our exposure to entertainment business. So like we have maintained over the last few quarters, we are putting in all efforts to reduce our exposure in various investment in corporate loan book.

Nischint Chawathe: And finally just last one if I can ask, this was on the life insurance side with the recent guidelines on bank tying with three insurance companies, have you had any dialogue with any of the banks and any interest or anything that you can share right now, what is the sense right now would you be able to tie up with any of the larger banks also?

Shanai Ghosh: We are certainly optimistic about this guideline and yes, we have been talking to several banks. Unfortunately, we cannot share the details right now, but the response is encouraging. We do think that there is upside for us.

Nischint Chawathe: Okay and any plans for sharing EV, I think going forward, not for this year, but next financial year certainly**.**

Shanai Ghosh: Yes, we could look at it for next year. That is the possibility.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: Sir earlier you told that you will be reducing the corporate lending and investment. What would be your thrust areas and where will that money be deployed?

Amit Bapna: That will go to deleverage the balance sheet and we will eventually want to grow our commercial and home finance business because that is the only business which continuously requires capital to grow.

Saket Kapoor: Okay and the point now that towards the payment bank options we are also in the race for?

Company Speaker: No, we are not.

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

Sameer Bhise: Just had a follow up question, any specific reason why the NPA pool was not brought into the ARC, but the consumer finance piece?

K.V. Srinivasan: Primarily, we have the expertise to understand that and take care of that kind of asset and that precisely why it just was a tactical this thing. In a strategic sense, obviously, the focus of the ARC would be to buy NPA pools, but it was just a tactical situation that came in front of us and we thought it was a good business opportunity.

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

Manish Shukla: Good morning every one. First on the commercial finance, so is this 25 basis points the only bought out pool in there or do you have anything else?

K.V. Srinivasan: Yes.

Manish Shukla: Is it fully provided and what is the extent of provision on this?

K.V. Srinivasan: As per the RBI norms.

Manish Shukla: No sir, which is what proportion?

Company Speaker: It is a small Rs. 50 Crores portfolio we have significantly provided for it.

Manish Shukla: Secondly, quickly on life insurance point that you made about reorienting the agency channel and the fact that you are de-emphasizing the third party distributions also, could it mean that A, considering that right now it is still ULIPs and as you rightly said, with ULIPs this year is likely to be a bit challenging in terms of growth for Reliance Life because (A) you are transitioning how you distribute your products and (B) the products which are in vogue in the market you are rightly not emphasizing on selling them

Shanai Ghosh: Yes, this year is going to be challenging but we have put the necessary initiatives in place and we hope that we will be able to meet the challenge, but you are right this year is going to be challenging, moving against the market is not really easy.

Manish Shukla: The second question on life is that could you give us some rough sensitivity as to let us say 100 basis points change in interest rate, what is the kind of impact it is likely to have on account for your non-par portfolio, we saw one impact in the fourth quarter last year where you had to make provisions and since then the share of non-par has only inched up, I am just trying to understand the sensitivity around let us say 50 basis points or 100 basis points move in interest rates?

Shanai Ghosh: I think it is kind of indicative. But it is a little difficult to give you that number because it depends on how much business you have written in the last quarter, what is the renewal, so it is kind of difficult, of course, there will be an impact. But, as of now, we feel that the valuation interest rate is reflective of our current liabilities. In fact we are more than comfortable, we are fairly conservative.

Manish Shukla: But like last year will impact if any will be visible only in the fourth quarter or is there intra year assessment as well, which happen?

Shanai Ghosh: There is a continuous assessment and whenever we feel the need to take that step, we will do it, so last year the step was taken in the last quarter, it was not that we wanted to make it in that quarter, it depends on the environment.

Moderator: Thank you. We have the next question from the line of Santosh Singh from Societe Generale. Please go ahead.

Santosh Singh: Hello sir, just couple of questions. One was on the general insurance business, actually the number of policies underwritten is falling, so what is causing that because is it a change in the business mix which you are trying to bring in, is that the reason or is it something else?

Rakesh Jain: I think Santosh, basically we are trying to move away from some of the third party led motor insurance business and my sense is that it is more to correct the loss ratios than to do the number of policies.

Santosh Singh: What could be the split of combined ratio between expense ratio and claims ratio?

Rakesh Jain: I think expense is about 26% and claim is about 88% actually, it has fallen by a percent this year, it was 89 last year, it has fallen a percent less.

Santosh Singh: Expense ratio has moved up.

Rakesh Jain: Yes, expense is a function of the segment you solicit, 1% frankly is more used tactically to source quality business, it is always going to be bit of balancing.

Santosh Singh: On life insurance, I understand that you are trying to move towards better quality business, but just had one question that when can we expect the AUM to start moving up because it saw a sharp decline now, it is almost like Rs.16,000 Crores.

Shanai Ghosh: AUM decline is function of some of our ULIP portfolio running out, the older ULIP portfolio. Next year onwards, I think we can start looking at the trend reversing and also the fact that we are not going after ULIP driven growth will also impact because ULIPs are AUM builders. Traditional products are not necessarily AUM builders in the initial years.

Santosh Singh: Because you had Rs. 750 Crores of inflow in this quarter and we had total Rs. 1000 Crores of reduction in AUM that means our AUM without any investment returns has moved down by Rs. 1750 Crores?

Shanai Ghosh: We have had surrenders that is why the AUM reduction is going by, but also wanted to say that since we are consciously not pursuing ULIP driven strategy, if you sell a ULIP product today, the addition to AUM is four times the addition that you would have in the traditional product in the first year and also the mark-to-market increase that you would get in a ULIP, you do not get in a traditional product, so that is why our AUM growth will not be that aggressive as you would see for some of our peers who have a 80%, 90% or even 50% ULIP mix, but the trend will start reversing and the decline is primarily due to some of the older portfolio that is running off and since ULIP contribution as such declined after FY11, we should see this trend reversing now.

Santosh Singh: The number is quite big because from outflow perspective if I am only talking about so end of it, it could be 10% of the opening AUM, which we have lost in a quarter.

Shanai Ghosh: We also had some foreclosure, our ULIPs have product features that if the premium has not been paid in the last two quarters then the product needs to be foreclosed in the system, so that is an automatic foreclosure.

Santosh Singh: Okay, so that means at least at the speed of reduction in AUM should stop may be from next quarter?

Shanai Ghosh: Yes, it should.

Moderator: Thank you. We have next question from the line Dhaval Gada from Motilal Oswal Securities. Please go ahead.

Dhaval Gada: Thanks for the opportunity. First question was on the, just a clarification when you said short-tail business what all do you exclude from that line, short-tail business combined ratio 100%, so what all we exclude?

Rakesh Jain: Basically I am excluding the third party liability, so that gives a better perspective of the impact of third party on a standalone business.

Dhaval Gada: I just wanted to understand on the combined ratio last year we saw a couple of major events like earthquakes and floods, so where do you see the combined ratio for FY16 settling down, how much improvement do you see on the claim side coming from that perspective?

Company Speaker: No, we just hope that we have a benign year this year. CAT events are difficult to predict, but for sure, we expect the ratios to come down. The short-tail business is to be within 100, the long-tail business, I think, will come down though a bit gradually, so it takes two, three years for it to moderate. Overall, I think, we should do much better.

Dhaval Gada: So how much did the CAT events cost in terms of combined ratio last year?

Company Speaker: We had about Rs. 20 Crores impact, so it would be about 3%.

Dhaval Gada: Second question was on the distressed asset business, I just wanted to understand the AUM mix of Rs. 1100 Crores how much is non-retail SME in that portfolio?

Sam Ghosh: Roughly retail is about 30%, balance 70% is SME. So we do not have large corporate exposure; it is all between pure retail and SME category.

Dhaval Gada: Just in terms of thought process, what is the specific reason why we are not entering into mid and large corporate is it from capital consumption perspective or any other reason why we have not ventured into that business?

Sam Ghosh: The way it works is from a cash flow perspective, SME and retail always give you the cash flow, so therefore, you do not have to put in any further capital or any to raise borrowings. But our plan is to get into corporates in due course, so we are doing capital raise and then we will also increase debt and then focus on that segment. But we thought that at least in the beginning, having retail and SME will give you the cash flows, so therefore, we can continue growing the business without requiring any funding.

Dhaval Gada: How much capital are you looking to rise in that business?

Sam Ghosh: The aim is to raise about Rs. 100 Crores.

Amit Bapna: We hold 49% stake in the ARC business. The current networth is around 130. We will probably raise another Rs. 100 Crores or so, and then we can leverage the book a little bit and continue to grow retail and SME segment and do a little bit of corporate as well.

Dhaval Gada: Okay perfect and finally on the life insurance side just on the non-par, so if you can just split between how much is the guaranteed business in that and the non-guarantee of the term insurance business, how much would that be?

Shanai Ghosh: Term insurance is negligible, but in non-par, everything is guaranteed; non-par itself means benefit is assured to the customer, so it is an implicit guarantee in the product.

Dhaval Gada: When I say guarantee, so someone is assured 3%, 5%, like a non-term business, how much that percentage be?

Shanai Ghosh: It depends from product to product.

Dhaval Gada: Okay and if you can share what would be the average duration of the non-par portfolio?

Shanai Ghosh: It is about 10 years.

Dhaval Gada: In terms of the margins that you have reported in Q4 in that margins I just wanted to understand what is the post cost overrun margins for us?

Shanai Ghosh: We do not disclose that.

Dhaval Gada: Okay and in terms of capital in the life insurance business, because the growth has slowed down and because of the changes that have taken place what is the idea on capital because the consumption would come down significantly, so how do you see the capital position moving and what is the plan on the capital side?

Shanai Ghosh: We have a very comfortable solvency situation. The growth is low for this quarter, but we have done a projection and the capital is sufficient to accommodate growth for the next foreseeable future.

Company Speaker: So, capital is not constraint here.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand over the floor back to Mr. Sunesh Khanna for his closing comments. Over to you Sir.

Sunesh Khanna: I would like to thank the senior management team of Reliance Capital for sharing the perspective on the results and also I would like to thank all the participants for joining the call. Thanks a lot.

Moderator: Thank you very much sir. Ladies and gentlemen on behalf of Motilal Oswal Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.