Reliance Capital Limited

Quarter Three Earnings Conference Call – Financial Year 2008 – 2009

January 20, 2009

Operator:

Thank you for standing by and welcome to the Q3 results conference call of Reliance Capital hosted by Enam Securities. At this time all the participant's are in a listen-only mode. There will be a presentation followed by a question-and-answer session at which time if you wish to ask a question please press star one on your telephone.

I would like to hand the conference over to Mr. Praveen Agarwal of Enam. Over to you sir.

Praveen Agarwal:

Thank you. Good evening everybody, we at ENAM Securities are pleased to host the third quarter earnings conference call for Reliance Capital. I would like to welcome Mr. Sam Ghosh and the management team of Reliance Capital. I would now like to hand over the conference to Mr. Sam Ghosh. Over to you sir.

Sam Ghosh:
Thank you. Good afternoon to all of you. I will do a brief summary on our results and an update on each of our business operations and then we will take questions.

I hope all of you have received our results by now. For those who haven't, they can view them and a brief presentation on the results on our website.

Reliance Capital's consolidated income from operations for the quarter ended December 31, 2008 increased to Rs.15.9 billion from Rs.11.6 billion in the corresponding period previous year, registering a growth of 38%. We are happy to report that our businesses of asset management, life insurance, consumer finance and broking & distribution have registered excellent growth in revenues.

The staff costs for the quarter were Rs. 1.9 billion as against Rs. 1 billion in the corresponding period previous year, an increase of 97%. This increase is due to our rapid expansion of operations and distribution networks and entry into three new business streams i.e. institutional broking, private equity, asset reconstruction and the launch of our cross-sell initiative, Reliance Capital Services.

Our selling, general & administrative expenses have shown a 15% increase from Rs. 3.6 billion to Rs. 4.1 billion. This is only natural given our large scale of operations and extensive distribution networks.

The profit after tax, minority interest and share of profit of associates for the period ended December 31, 2008 was Rs. 1.3 billion as against Rs. 1.2 billion in the previous year, an increase of 12%.

The total assets of Reliance Capital, as of December 31, 2008 stood at Rs. 223 billion and the networth of our Company at Rs. 73 billion.

Reliance Capital ranks among the top 3 Indian private sector financial services groups in terms of networth. We have no exposure to money market or foreign exchange derivatives.

Reliance Capital has a conservative debt equity ratio of 1.8 as of December 31, 2008. 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.

I am delighted to inform you that recently with effect from January 12th 2009, Reliance Capital became a constituent of S&P CNX Nifty.

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

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

Reliance Mutual Fund continues to be India's leading mutual fund. It further consolidated its leadership position by increasing its market share to 17% at the end of December 2008 as against the market share of the second largest player being only 11%

The assets under management as on December 31, 2008 were Rs. 702 billion, from Rs. 789 billion last year – a decrease of 11%. For the same period, the entire Indian mutual fund industry decreased by 23%. In fact our market share for the same period went up from 15% to 17%.

The number of investors has been consistently increasing. As at December 31, 2008 there were 7.1 million investors compared to 4.4 million investors at the end of December 31, 2007- the largest body of investors amongst all private sector mutual funds in the country today.

Our asset management company has received approval from Malaysian Authorities to start operations in Malaysia. We are looking to start a Shariah compliant fund based on Islamic principles.

We have expanded our presence from 258 locations last year to 415 currently. We will continue to increase our presence in domestic and international markets.

Reliance Life Insurance is amongst the top five life insurance companies in India, in terms of new business premium and top four in terms of number of policies issued.

The annualized premium equivalent for the quarter ended December 31, 2008 was Rs. 7.6 billion as against Rs. 5.9 billion, an increase of 28%. Our market share in this business has almost doubled from 2.4% at the end of November 2007 to 4.3% at the end of November 2008. During the same period, our private sector market share went up from 7.1% to 9.7%.

In this quarter, we launched 5 new products and also re- priced the existing top selling products to improve profitability. Going forward we will continue to expand our agency force and focus on improving agent productivity.

Our current distribution network stands at 1,145 branches with an agency force of 142,843 agents.

We currently manage Rs. 45 billion of policyholders' funds for the quarter ended December 31, 2008 - up 57% from Rs. 28 billion for the corresponding previous period.

We are pleased to inform you that from this quarter onwards, we are disclosing the new business achieved profit for the life insurance business.

Our new business achieved profit for nine months ended December 31, 2008 was Rs. 4.1 billion, translating to a NBAP margin of 18.8%.

For the quarter ended December 31, 2008, we have infused Rs. 3.3 billion which brings the capital invested in the life insurance business till date to Rs. 25 billion.

Reliance General Insurance is one of the top three private sector general insurers in India, with a market share of 6.5% of the general insurance market in India.

The gross written premium for the quarter was Rs. 5.1 billion as against Rs. 5.8 billion in the corresponding previous period. As we have maintained earlier, our main focus in this business is to improve the combined ratio and move towards profitability.

The net written premium for the quarter was Rs. 4.2 billion as against Rs. 2.5 billion in the corresponding previous period – an increase of 70%. This has translated in improvement in the retention ratio to 83% from 43%.

To improve the combined ratio we have taken several measures to limit the claims costs and management expenses. Various areas have been identified where the claims experience was adverse and accordingly appropriate measures were taken to re-price the risk.

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

As a result of this, the combined ratio has shown improvement from 129% in FY08 to 114% for Q3 FY09. The combined ratio is the sum of claims and management expenses.

And on its path to profitability, the loss for the quarter ended December 31, 2008 has been brought down to Rs. 121 million from Rs. 540 million of the corresponding previous period.

In less than two years, Reliance Money has emerged as the largest brokerage and distributor of financial products in India with around 2.8 million customers and the largest distribution network of 10,392 outlets in 5,165 locations.

Reliance Money generated revenues of Rs. 1 billion for the quarter ended December 31, 2008 as against Rs. 640 million of the corresponding previous period, an increase of 60 %.

It also achieved a net profit of Rs. 219 million for the quarter ended December 31, 2008, as against Rs. 48 million of the corresponding previous period, an increase of 356%.

Our strategy at Reliance Money has always been 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.

This quarter has been challenging for the financial services industry. However, our robust business model ensured our growth with broking contributing to nearly 50% of the revenue and distribution & other services contributing the balance.

The daily average stock exchange volume was maintained at Rs. 22 billion, translating into a market share of 3.5%.

To further improve our position in the money changing and money transfer business, Reliance Money has acquired a significant share holding in Wall Street Finance Ltd. Wall Street Finance is a leading provider of money changing and money transfer services in the Country.

As on December 31, 2008, the loan book was brought down to Rs. 89 billion as compared to Rs. 95 billion as on September 30, 2008.

Our focus in this business has always been on the quality of credit that we sourced. As we indicated last quarter, we reduced further disbursals due to the liquidity crisis, high cost of borrowing and higher risk perception. The incremental cost of borrowing had gone up from nearly 11% to 14-15% impacting the normal economics of the business and the financial performance. In fact our average cost of funding for the quarter ended December 31, 2008 was 11. 4% as against 8.5% for the corresponding previous period

This loan book is well spread across 120,000 customers from 23 locations. The average ticket size for mortgages is Rs. 3.7 million and for SME loans is Rs. 1.3 million.

Reliance Consumer Finance generated revenues of Rs.3.2 billion for the quarter, as against Rs. 1.4 billion for the corresponding previous period.

The business also declared a profit of Rs. 146 million for the quarter, as against Rs. 265 million for the corresponding previous quarter. RCF reduced further disbursals during the quarter, due to the high cost of borrowing and higher risk perception – impacting the profitability of the business.

I am pleased to inform you that we have 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.

Also RBI has initiated several measures to augment liquidity for NBFCs to enable them to continue lending for productive purposes and also maintain asset quality. So once the interest rate environment eases further and these measures are in effect, we can look at scaling up this business in the two separate subsidiaries.

Thank you very much. We can take questions now.

Operator:

Thank you sir. At this time participants who wish to ask any questions kindly press star one on your telephone keypad and wait for your name to be announced. If you wish to cancel the request please press the # or the pound key.
First in line we have a question from Mr. Mahesh from Fidelity. Please go ahead.

Mahesh:

I had a question on your consumer finance business. Can you throw some light on the kind of margins that you generate in this business? And also the provisions have increased substantially in this quarter from 4 million to close to 475 million. Can you throw some light on which asset class contributed to this deterioration in asset quality?

Sam Ghosh:

KV Srinivasan will answer that one.

KV Srinivasan:

See basically the 4 million that you see of last year was actually a very, very small one simply because the business was in its state of infancy at that time. So therefore the increase seems to be fairly high. Essentially this 475 million has contributed to a very large extend by the personal loans book which obviously by its very nature is unsecured and therefore is priced for higher delinquencies. Having said that overall if you look at the provisioning levels we are at the far, far lower levels than we know anybody in the industry.

Of course this year this quarter provisioning some bonus simply because the market conditions and so on so forth. You have asked a question on the net interest margins that we generate. Typically we look at maintaining margins of about 4% on the net interest part which until half year ended 30 September we were maintaining a margin of about 4.6%. The average cost of funds having gone up by nearly 3%. Now ever since the second half of December the cost of funds have started to come down with banks passing on the PLR advantage and generally the reduction in the overall cost of funds. We expect to get back to the original levels of 3.5 to 4% in this quarter and also increase that beyond the forward in this financial year.

Mahesh:

Okay, and also about your NPA levels?

KV Srinivasan:

NPA levels are net basis are about 0.6% which is quite low considering the current situation.

Mahesh:

Okay, this translates into what coverage.

KV Srinivasan:

That translates into coverage of 62%.

Mahesh:

Okay. Alright thank you.

KV Srinivasan:

And also another thing which I want to mention here is that we do not follow the provisioning policy for NBFCs as mandated by RBI. We follow polices which are applicable to banks which are far more stringent and in some cases of asset classes we are actually more stringent that most of the banks as well. So therefore we need to read the NPA numbers in the correct light of considering that.

Mahesh:

Yes sure thank you.

Operator:

Thank you sir. Next in line we have a question from Mr. Suresh Ganapathy from Deutsche Bank. Please go ahead.

Dipankar Choudhury:

Hi actually its Dipankar here.

Praveen Challa:

Hi Dipankar

Dipankar Choudhury:

Two questions, one is of course, can you explain recurrence of the loss in the general insurance business which actually had turned profitable in Q2, because of this large spike in claims? So what is this spike in claims due to and what is the output there?

Soma Sekharan:

Basically if you see that our combined ratio has come down and our claim ratio has come down from 75 to 70% now and this is basically… this is one because of the various steps we have taken for improving the claims.

The main reason for slight increase in the claim ratio is last year we have not taken… we were taking providing for the third party motor pool losses at the end of the financial year, where as this year we have taken these full losses during this quarter. That is the main reason. In fact if you see that our claim ratio has come down.

Sam Ghosh:
We booked up to nine months pro rata basis the full losses for the nine months in this quarter and then from January to March we'll book monthly normal levels only.

Dipankar Choudhury:

Okay. The second is there seems to be a reduction in the number of agents of life insurance business. So is it actually because we had a different number if I remember right or it seems to be a reduction in the number of agents?

Sam Ghosh:

Yes Mr. Nandagopal, CEO for Reliance Life Insurance will answer that.

Nandagopal:

If you see the life insurance business there is generally the movement among the agents who get licensed.

Normally the industry averages are if you have 100 agents within two to three years perhaps only 20 to 30 people remains or become active. And most of the agents who have been licensed with us, they came into the booth last year and before this last year.

So we have taken a decision to really put some stringent norms of performance for them and then take out all those guys who are not really very interested in the business

We also have or 100,000 agents there is more guys but not yet licensed. And we are the people who are… whom we call lead generators. They are helping in the peripheral areas of generating leads in all this. Three to four months and they will also get licensed. So it is a part of the regular process and the next year also perhaps will clean it up further and for us the over all business plan is to have about roughly 150,000 agents from the books at any given point of time.

Dipankar Choudhury:

Okay, so is this in recognition of the lower growth rate of the business?

Sam Ghosh:

No, it is part of the actual agency dynamics, agency dynamics happens continuously, there will be attrition about one third of the business, one third of the agents will go out of the books and then again some more people will come.

If you speak to even ICICI Pru or HDFC which are much more older players than us, and if you look at their agency most of the people would also would have come on boards very recently.

Their previous agents who have been recruited in the 1999 and 2001 and all. Only from that one third of them would have remained now. This is an assumption anyway. What we have done here is that anyone who hasn’t given up any business last 12 months has been taken off the books in this quarter.

Dipankar Choudhury:

Okay, okay, okay.

Sam Ghosh:

Actually it helps us to further fine tune our agents because there is no point in actually waste money on the guys who are not delivering any numbers.

Dipankar Choudhury:

Okay, one last question, Praveen if you have, if you could just give me the unrealized gains number?

Praveen Challa:

No currently it’s breakeven

Dipankar Choudhury:

Okay, alright, very helpful thanks.

Operator:

Thank you sir. Next in line we have a question from Mr. Balaji from Sundaram BNP. Please go ahead sir

Balaji:

Hi, I would just like to know the restructured assets for this quarter on a YTD basis.

Praveen Challa:

Zero.

Balaji:

Okay, also there is profit on sale of investments of Rs 205 cores, is there a breakup in that, I mean?

Praveen Challa:

It's primarily our liquid equity holdings and some bonds and some mutual fund redemptions.

Balaji:

Equities?

Praveen Challa:

Yeah there would be some listed equities.

Balaji:

Okay, thanks.

Operator:

Thank you sir. Next in line we have a question from Mr. Srikanth from Nomura Securities. Please go ahead.

Srikanth:

Hi, I just wanted to get a sense of what will be the capital infusion into the insurance company in the next 10 years?

Sam Ghosh:

I think, see, in this quarter obviously we will be putting in about 70 crores a month and then March it maybe about 120 to 140 crores depending on the business. And the following year for the whole year we put in about 60 to 70 crores a month.

Srikanth:

And would this be depended upon the growth which you are doing for example you say if it is very bad for the industry, at almost at flat growth. Would the capital infusion come down materially or will it remain around the same level?

Sam Ghosh:

If the growth comes down then capital requirements also come down.

Srikanth:

Yeah, I am trying to understand whether this 60, 70 that you are talking about assume healthy growth next year or is it just factoring in a weak growth next year?

Sam Ghosh:

Capital is required essentially for two purposes. One is in order to support your infrastructure growth and new branches. I think today we have sizable number of branches and people on board. And we also have people who have come on board very recently. So the productivity of these people improves over a period of time as the vintage also improves.

So even otherwise also in the stable state situation also your capital infusion will come down, but added to that suppose your business volumes also will come down whatever solvency which will have to create for capital that will also come down. But currently I mean from that for the pure infrastructure growth perspective we are more or less through with our expansion for this year and next year will not see perhaps same level of phenomenal expansion what we have done this year. So our expectation is further capital infusion will be less next year.

And in terms of growth I think we could ensure that we maintain more or less this year growth rate but next year it will obviously come down 15 to 20%.

Srikanth:

Okay, thanks.

Operator:

Thank you sir. Next in line we have a question from Mr. Ashish Sharma from Enam Asset Management. Please go ahead.

Ashish Sharma:

Yeah, congratulations on good side of number sir. My question relates to Reliance Life, I think we have done good sort of growth in the month of December. I just wanted to check in Q4 of FY ’08 the APE contribution to the total years contribution was 43%. I mean do we see the same trend continues or contra version in the Q4 FY ’09 will be somewhat lower this time?

Sam Ghosh:

It seems that normally speaking the last quarter will give us the kind of the 40 to 50% of business. And I will explain to you most of our expansion has taken place in Q2 and Q3 and those new branches have been open now in Q2 and Q3 and these branches will take some time to settle down and most of the branches will start performing perhaps in the Q4.

So we expected we will be more or less able to maintain the same level of performance in the Q4. The market space stability is somewhat of an issue than it’s a different thing, but normally speaking we will be more or less 40 to 50%.

Ashish Sharma:

40 to 50% of the total APE would be coming in this Q4?

Sam Ghosh:

40% perhaps.

Ashish Sharma:

Okay sir, and second question is with the Reliance Money in the last phone call you were mentioning that the target was… average revenue per user was 100 per month and we were seeing incrementally a 25% jump also Q1, what sort of a trend we see in Q3 sir?

Sudip Bandopadhyay:

I think, this is Sudip here, we have seen a decent growth in that but more than that this quarter we have seen very good results from the OTC products which is gold coin selling, money transfer and money changing. So more than the broking customers bringing in additional revenue, we have got additional revenue from customers of these segments and we have increased the customer base also in these areas.

Ashish Sharma:

Okay and on the PAT level would we be able to maintain the same level we have seen in the nine months of that margin of 17- 18% would be attributable for the whole year sir?

Sudip Bandopadhyay:

I think it’s reasonably achievable. I think subject to the market not deteriorating sharply we should be in a position to maintain that.

Ashish Sharma:

Okay sir, thanks a lot sir.

Sudip Bandopadhyay:

Thank you.

Operator:

Thank you sir, next in line we have a question from Mr. Manish from Darashaw Securities. Please go ahead.

Manish:

Hello, my first question is related to the asset management company, what is the total revenue for the quarter?

Sundeep Sikka:

In ths tough quarter we have declared a total income nearly 91 crores.

Manish:

Okay and second what is the total realized profit from investments?

Praveen Challa:

From investments of Reliance Capital?

Manish:

Yeah.

Praveen Challa:

Yeah, so that's been provided in the presentation. It's roughly in the range of 205 crores at Reliance Capital stand-alone.

Manish:

Okay. In Reliance Life Insurance business what is the NBAP margin for the quarter?

Nandagopal:

NBAP margin for the nine months ended December 31 was 18.89%. This is the first time we are publishing our NBAP.

Manish:

Okay, and so what is your outlook on the ULIP product growth?

Nandagopal:

We strongly believe that life insurance is a long-term business and then if you are in it for the long term, so it really doesn't matter whether you are selling the ULIP plan or regular plan.

Manish:

Okay and what is the total Reliance Capital holding in this life after the infusion of 326 crore?

Praveen Challa:

The 100% economic interest is held by reliance.

Manish:

What is the percentage holding?

Praveen Challa:

Reliance capital directly holds 16% and through its other associate companies, it holds 100% economic interest in Reliance Life.

Manish:

Okay, so the 326 invested by Reliance…

Praveen Challa:

It's directly been invested by Reliance capital. Reliance capital is the primary infuser of all the 25 crores of capital which you have seen.

Manish:

Okay, thank you.

Operator:

Thank you sir, next in line we have a question from Kajal Jain from ICICI Direct. Please go ahead.

Kajal Jain:

Hello good evening sir, congratulations for good results. So I just want to know on the other income side of the broking business, whether it's quite large this time around 32 crores since the breakup of that.

Sudip Bandopadhyay:

As I was explaining, Sudip here, we have a large OTC business which is money changing, money transfer and precious metal retaining which is primarily gold and silver coins.

As you know the third quarter we have this Diwali festival. Every year we have good business in third quarter on this segment and this year particularly it was very good. We got quite a lot of selling of gold coins. In money transfer also, we saw very good traction during this quarter. Even in money changing where we are the largest exporter of currency from the countrywe saw lot of traction.

Kajal Jain:

Sir then what about distribution business that is there because that has remained flat.

Sudip Bandopadhyay:

The distribution is primarily life insurance selling, general insurance selling, mutual fund selling, little bit of credit card selling and loan sourcing.

Kajal Jain:

Okay and so how is the customer addition that you have seen in this quarter?

Sudip Bandopadhyay:

See, we have seen customer addition, we have seen quite a lot of customer additions as far as the broking side is concerned in the third quarter was nothing great in terms of customer addition but as I was explaining in the OTC product which is the money changing gold coin, money transfer side, we did see quite a lot of customer addition, even in the distribution piece we did see customer additions.

Kajal Jain:

So then these 2.8 million customers not all are what you have regular basis, this is a one time once purchase kind of customer also because they don't have an account with you?

Sudip Bandopadhyay:

Not like that, in fact the most of our customers I would tend to say 95% would be regular customers, even the money transfer customers are 99.99% regular customers. They have seen the remittance from our outlet from a monthly basis every month.

Kajal Jain:

So the overall 2.8 million don't have accounts… reliance money accounts?

Sudip Bandopadhyay:

No, if you are talking about the broking accounts, yes you are right, but if you are talking about having the account and business transaction with us on a regular basis, the answer is they do have.

Kajal Jain:

Sir, and of these 990,000 broking accounts how many are active traders like there?

Sudip Bandopadhyay:

Yeah, we need to do at least one trade per month. So in our case about 75% customers even in the month of December, we have seen as being active.

Kajal Jain:

Okay. Thank you, sir.

Operator:

Thank you ma'am. Next in line we have the question from Mr. Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah:

Hello sir

Sam Ghosh:

Hi.

Kunal Shah:

Yes, of course in your life insurance business, what is the current OpEx ratio and how much have it declined particularly for our NBAP assumptions?

Sam Ghosh:

OpEx ratio is about 45% to the premiums. In the business model it's taken as, the modular expenses based on a long-term projections.

Kunal Shah:

Yeah.

Sam Ghosh:

Obviously there'd be, overall about there is an expense over run right? So on a normalized basis, the expense shouldn't be over 20%

Kunal Shah:

Okay. So we have assumed it to be round about 20%, okay. Yes and what would be your employees breakup overall into in this business segments, I think.

Praveen Challa:

Kunal, Praveen here, we will take this question offline.

Kunal Shah:

Okay, no problem. And so one more thing with respect to this newly formed subsidiaries, housing finance and consumer finance, infact what would be the expected infusion into this company, is it like round about 9,000 crore of loan book?

KV Srinivasan:

We will maintain the capital adequacy of our 15% which is what is required by the RBI from April 1, 2010 onwards, so you can straight away divide this by 6 times.

Kunal Shah:

Okay. And apart from regulatory benefits in terms of CAR as well as some refinancing benefits, are we looking at something like of a different management teams for both these subsidiaries in terms of housing and for consumer financing?

KV Srinivasan:

It's just a question of re-organizing the legal vehicle structure, the business and the management team is already there. So there is no change in that part, it's just that, we just want to give it a separate focus and also get the regulatory and tax benefits.

Kunal Shah:

Okay. And so what you have been sharing on the retail and institutional in reliance broking and so how much would be like more or less the breakup in terms of volume or so, means this Rs. 2,200 crores, which is the reported in terms of average daily.

Sudip Bandopadhyay:

I would say it is 90% retail.

Kunal Shah:

Okay.

Sudip Bandopadhyay:

And balance about 10% would be on an average about 10% would be HNI's corporate institutions.

Kunal Shah:

Okay.

Sudip Bandopadhyay:

Yeah.

Kunal Shah:

Okay. Yeah, thanks a lot.

Sudip Bandopadhyay:

Kunal, just to clarify, this is pure reliance money trading platform; this doesn't include reliance equities international, which does institutional broking

Kunal Shah:

So that will be separate?

Sudip Bandopadhyay:

Yeah, that’s separate.

Kunal Shah:

Okay. And where it gets clubbed actually, it will be…?

Sudip Bandopadhyay:

Everything gets, in terms of the accounting financials; everything gets clubbed into Reliance Capital.

Kunal Shah:

At Reliance Capital level.

Praveen Challa:

Both are 100% subsidiaries of Reliance Capital.

Kunal Shah:

Okay. Thanks.

Operator:

Thank you sir. Next in line we have the question from Mr. Ajitesh Nair from Edelweiss. Please go ahead. Mr. Ajay Desh?

Ajitesh Nair:

Thank you. My question has already been answered.

Operator:

Thank you sir. Next in line we have a question from Ms. Tabassum Inamdar from UBS. Please go ahead.

Tabassum Inamdar:

Yeah, thank you. Just couple of questions on the insurance sector. Are you seeing basically any increase in surrender ratio and lower persistency ratio, given the markets have been quite bad and secondly are you looking at changing the product mix and how do you given, it’s likely that the market will remain quite volatile for a while, how do you see the growth prospects and are you looking at product changes?

Nandagopal:

As far as the product mix are concerned, I think we're still predominantly unit link business and then unit link business since we have selling on a long-term platform, where average maturity periods are now over 10 years.

So we are not seeing any basic shift happening from the unit link platform to unit link to any other business. So that's something we are pretty positive about it. So though we have about half a dozen traditional plans are there, the consumer behavior is not moving away from unit link business to traditional business.

Tabassum Inamdar:

Okay.

Nandagopal:

In case of switching also just because you know the markets have crashed, I don't think, I mean though all our plans have got the flexibility to switching from equity to debt funds, we haven't really witnessed it, serious switching patterns on the 800 debt.

As far as surrender and other things are concerned, the normal tendency is generally in case of a company, which is in the growth phase as the renters will be slightly higher, as compared to the company, which is in the stable state. And our company is growing much faster than the rest of the companies. So we have a slightly higher level of surrenders but these are all priced in the product. Currently what we would like to say is our margins have been calculated with the assumptions of certain amount of surrenders, more or less and that will slightly better off than the actual assumptions.

Tabassum Inamdar:

What about persistency, are you seeing…?

Nandagopal:

Talking about the persistency, the persistency's we are in line with our assumptions which has build into our product ratings.

Tabassum Inamdar:

Thank you. Just one more thing, in terms of losses on Reliance Life, given that you have seen a significant slowdown, what are the kind of losses and have you seen sort of reduced losses because the growth rate has clearly been much longer?

Nandagopal:

See, what happened is obviously the main reasons for loss of our life insurance income is because of expense overrun. If your business slows down then automatically capital comes down, so the losses also will be lower.

Tabassum Inamdar:

Can you say the numbers in terms of the losses for insurance?

Praveen Challa:

Just one minute. In terms of total losses is Rs. 772 crores is the total losses for the nine months till December 2008.

Operator:

Thank you ma'am. Next in line we have the question from Mr. Arun Jain from Shubkam Capital Please go ahead.

Arun Jain:
Hi sir. I just wanted to know sir, what did the entire month premium for December in life insurance business?

Sam Ghosh:

I am sorry.

Arun Jain:

What was December premium?

Sam Ghosh:

We have done Rs. 352 crores, second percent jumps from the November limits.

Arun Jain:

352.

Sam Ghosh:

Yeah.

Arun Jain:

Okay. And did you book any mark to market loss on your investment?

Sam Ghosh:

In which investments are you talking about?

Arun Jain:

I am talking about R cap consolidated investments, which is quoted in your books.

Praveen Challa:

Yeah, we have provided for some diminution of investments.

Arun Jain:

Okay. Can you tell me that you maintain from proprietary trading book, what is the profit of that proprietary book?

Praveen Challa:

We have given that, right? That's Rs.205 crores.

Arun Jain:

Okay.

Praveen Challa:

Book profit.

Arun Jain:

Okay, this is only book profit. Okay, I understood. Once again I am asking you this question once again, what are the investments you are looking for all business in FY '10?

Praveen Challa:

That could depend on from the volume of growth which we are targeting, typically if you look at it historically and even going forward.

Life insurance is going to be as far of the most capital-intensive businesses as going forward, we have also created these new structures of the consumer finance business that would require more capital. So but at this point of time, really because the growth going forward remains to be seen how it comes across.

Arun Jain:

Okay.

Praveen Challa:

So the capital requirements will be linked to the kind of growth, which we are targeting in the respective business, at this point of time, it could be difficult to give a view.

Arun Jain:

Okay, thank you sir.

Operator:

Thank you sir. Next in line we have the question from Ashwini Kumar from JM Financial. Please go ahead.

Ashwini:

Good evening, sir.

Sam Ghosh:

Good evening.

Ashwini:

Sir in the financial and investment division, the total income is half by 110 crores but your PBT is lower by kind of 22 crores; can you shed some light on that, sir?

Praveen Challa:

Yeah, because the cost of investments would be a bit higher.

Ashwini:

Okay. So what are you… may be said that…?

Praveen Challa:

Also, if you look at it, the overall expense level.

Ashwini:

Okay.

Praveen Challa:

Which is typically reliance capital stand-alone would have gone up.

Ashwini:

Okay.

Praveen Challa:

Yeah, and we have also provided for some diminution of investments, that's why the difference between the income and PVT is larger than what it was…

Ashwini:

So what would be a want of diminution of investments, which are…?

Praveen Challa:

I will get back to you on that we like kind of the exact number. Its Rs. 29 crores.

Ashwini:

Okay, sir. And just some few more questions sir.

Praveen Challa:

Sure.

Ashwini:

In your life insurance business, the single premiums have declined to 73 crores from where the 155 crores.

Nandagopal

Yes.

Ashwini:

So what’s the reason for that, sir?

Nandagopal:

No, actually we as a company more focused on the regular long term business with our single premium business will give you only one short relationship and it will not really help in the long term business.

We are really focused, business turn also our endeavor is reduced for our exposure of single payments to less than 10%, in line with our business subject to.

Ashwini:

In general insurance business, your gross premiums have gone down while your net premium is increased.

Soma Sekharan:

The gross payment has come down because, this year our focus is on bottom line and what we have done is that we have done away with loss making business during the current year and our retention has also increased. If you see that out of total business, almost 80% is retail business and our maximum return is coming from this.

Ashwini:

Okay. And what has the profitability of your reliance international equity?

Praveen Challa:

Reliance equity international at this point they have just started business. So there is negligible… it's around 13 crores negative for the 9 months.

Ashwini:

Okay.

Amit Bapna:

And we would be looking at around 15 to 16 crores, but for the nine months it 13 crores.

Ashwini:

Okay. And so in the consumer finance business, what's the basic yields, which you get from various sectors such as mortgage and the other sectors?

KV Srinivasan:

By and large on a composite basis, we target net interest margin of about 4%.

Ashwini:

Okay.

KV Srinivasan:
So it tends to vary with the product in case of personal loans or any other product it's obviously more and in case of home loans it will be lower. So it depend up on the mix that we follow, currently we have about 35% into mortgages and about 12% into personal loans and the balances are in secured assets either on the SME front or on the vehicles.

So average NIMs would be somewhere 4% is what the target. This quarter of course that has gone down because of cost of funding.

Ashwini:

Okay. That's all for me too. Thank you.

Operator:

Thank you, sir. Next inline we have a question from Mr. Rohan Juneja from FrontPoint. Please go ahead, sir.

Rohan Juneja:

Hi, guys. Most of questions have been answered. Just one quick one, can you talk a little bit about your leverage and any debt maturities that are due in next six, nine months

Praveen Challa:

Leveraging is roughly today we have 130 billion rupees of loan and approximately 40 to 50% of this would be falling due over the next six to nine months.

Rohan Juneja:

Okay, thank you.

Operator:

Thank you, sir. Next inline we have a question from Mr. Amit from Religare Securities. Please go ahead, sir.

Amit:

Sure. Can you repeat the capital that you are planning to infuse in the insurance in next one year? You had already provided that but I couldn’t hear it.

Sam Ghosh:

It’s about 70 crores per month. But that’s dependent upon the level of growth which we experience.

Amit:

If the current growth continues then it would be around Rs 70 crore per month.

Sam Ghosh:

Yes, that’s correct.

Amit:

Okay, thank you.

Operator:

Thank you, sir. Next inline we have a question from Seshadri Sen of Macquarie SEcurities. Please go ahead, sir.

Seshadri:

Most of questions have been answered. Thank you.

Sam Ghosh:

Thank you.

Operator:

Thank you, sir. Next inline we have a question from Mr. Narayanan from Canara Bank. Please go ahead, sir.

Narayanan:

Good evening.

Sam Ghosh

Good evening.

Narayanan:

Regarding the expansion of the business continuously for that you have to employ lot of employees, but your employee cost fees drastically QoQ – from previous quarters your employee cost fees is somewhere around 50 crores and 52 crores. But today's this quarter it's 28.6 crores only?

Praveen Challa:

See, typically what we do is we also provide – if you look at the payment structure and the sales force which we have typically almost 80% of our employee based would be sales people and the sales people have a very heavy incentive linked payments to that in the pay package would be amounting to almost 60 to 70%.

Narayanan:

Okay.

Praveen Challa:

So because the variable fee in the current scenario would be lower than this targeted. That's why the lower provisions have been met for instance.

Narayanan:

Okay. One more question, sir. Almost the cost of the capital employed and the interest portion is increasing.

Praveen Challa:

That's primarily because of the consumer finance business.

Narayanan:

The capital –there is no increase in capital employed.

Praveen Challa:

Yes.

Narayanan:

But there has for this quarter interest fees heavily increased?

Praveen Challa:

Yeah, that's primarily because as we mentioned earlier the interest cost did go up significantly. The incremental interest cost which has definitely impacted the profitability of the business.

Narayanan:

Okay. Thank you for that.

Operator:

Thank you, sir. Next inline we have a question from Shashin Upadhayay from Alchemy. Please go ahead, sir.

Shashin Upadhayay:

Yeah. Just wanted to check on couple of things, in consumer finance what could be the average duration of assets and liabilities, including mortgages?

KV Srinivasan:

For mortgage the average duration is about seven to eight years. All the other products the average is between 20 to 22 months. So that's the kind –

Shashin Upadhayay:

And incomes, liabilities.

KV Srinivasan:

In terms of liabilities currently if you look at the debt portion, it is somewhere in the region of around 15 to 16 months.

Shashin Upadhayay:

Okay. And so in terms of insurance I just wanted to know the proportion of business that is being done by alternate channels?

Nandagopal:

Yes, an alternate channel business essentially consists of third party distributions which includes Reliance money and of course a few cooperative banks.

Shashin Upadhayay:

All right.

Nandagopal:

So the alternate channels business is growing, perhaps much faster than agency business. Currently over 25% of that business is coming through the third party distributors and than our ordinary distribution channels.

Shashin Upadhayay:

So the premium contribution is 25%.

Nandagopal:

More than 25%.

Shashin Upadhayay:

More than 25%. Sir, I just wanted to understand your loss break up by solvency expense and recurring losses if for the assumptions?

Praveen Challa:

Will get back to you on that

Shashin Upadhayay:

Oh, yeah. That's it. That's it from my side. All right. Thanks.

Operator:

Thank you, sir. Next inline we have a question from Ajinkya Dhavale of Motilal Oswal. Please go ahead, sir.

Ajinkya Dhavale:

Hello.

Sam Ghosh:

Hi.

Ajinkya Dhavale:

Yeah, hi. Good evening. Two questions, one on the asset management piece. I'm just looking at to the segmental performance reported in the press the steady format and the financial numbers looks quite different in the asset management piece. So is there any mistake in the presentation?

Praveen Challa:

There is no mistake in the presentation. See if you look at it the SEBI format –

Ajinkya Dhavale:

Yeah.

Praveen Challa:

In the SEBI format what we do is we take the Reliance Capital consolidated financials.

Ajinkya Dhavale:

Yeah.

Praveen Challa:

And then it is classified according to the nature of revenues or the source of revenues.

Ajinkya Dhavale:

Okay.

Praveen Challa:

And when you come down to the each business section, we show the financials of the operating company or the subsidiary

That is more at the operating company levels. So at the operating company level maybe asset management would have income from asset management but other income as well like financed investment.

Ajinkya Dhavale:

Yeah, yeah. Okay. Now because in the last year third quarter 123 crores of asset management income that tallies in both the thing but current year as for the quarter it is 111 crores topline.

Praveen Challa:

Yeah, would include some other income from other subsidiary.

Ajinkya Dhavale:

Okay, okay, fine. That is the one thing and other thing is that the profit differential is quite huge I mean in the presentation you have shown profits have grown from 28 crores to 34 crore, right?

Praveen Challa:

Right.

Ajinkya Dhavale:

And now in the SEBI format it’s showing like PBT some Rs 25 crores to 19 odd crores.

Praveen Challa:

Yeah. In the SEBI format as we mentioned it is classified according to the source of revenue. So that's what for the asset management business. Rest of the profit money Reliance Capital Asset Management has come from the financial investment income. Today we have a net worth of almost 800 crores.

Ajinkya Dhavale:

Okay, okay. So the interest income you have removed from the asset management piece looking in this. Yeah, I got. I got your point.

And second question the consumer finance fees you said the third quarter there was a slight pressure in the margins but I just looking into the NPLs QoQ your NPLs has grown and loan book has decreased. So I mean and actually the interest expense have remained flat QoQ. I'm just unable to reconcile these three things that are loan margins and the percent in NPLs has grown and loan book has decrease.

Praveen Challa:

See QoQ that it is a reclassification. Do you know if it observes in large scale there was no allocation of equity to this business.

Ajinkya Dhavale:

Correct.

Praveen Challa:

This time we have allocated equity which is roughly of 12,00 crores.

Ajinkya Dhavale:

Okay, okay. So maybe if we like compare like-to-like this quarter could have been in the consumer finance.

Praveen Challa:

Yes.

Ajinkya Dhavale:

Okay. So now the YoY is comparable, QoQ is not comparable.

Praveen Challa:

Yes.

Ajinkya Dhavale:

Okay. Thanks. That's it.

Operator:

Thank you, sir. Next inline we have a question from Mr. Manish Chowdhary from Citigroup Research. Please go ahead, sir.

Manish Chowdhary:

Hi, most of my questions have been answered. Thank you.

Sam Ghosh:

Thank you.

Operator:

Thank you, sir. Next inline we have a question from Shashank Khade from Kotak Securities. Please go ahead, sir.

Shashank Khade:

Hi, my question is pertaining to the investment book. I heard you say that most of the gains on the investment books have been booked and right now you are on breakeven level.

What exactly is the size of the investment book right now and given the fact that last couple of years you actually had sizeable gains and that used to take care of substantial quantum of the profitability. What's your sense on the investment book going forward?

Praveen Challa:

Currently the investment book is roughly 18 billion rupees of listed equity investment.

Shashank Khade:

Okay.

Praveen Challa:

Yes, but actually it is at break even currently bit is subject to the market and is difficult to say at this point of time. You know how it's going to stand out going down the line but again the portfolio spread across almost 20 to 25 securities and in some securities we do have substantial gains.

It remains to be seen of course given today's uncertain market how things to be about to be but in terms of the capital requirement for our businesses we have adequately capitalized going ahead. So we do not anticipate any capital dilution.

Shashank Khade:

In terms of the investment book is Rs. 18,00 crores.

Praveen Challa:

Yes.

Shashank Khade:

Do you have unlisted equity and debt as well?

Praveen Challa:

We have unlisted private equity kind of investments of in the range of Rs. 400 to 450 crores.

Shashank Khade:

Okay, and debt?

Praveen Challa:

Debt would be primarily be roughly in the range of Rs. 700 crores. This includes money market funds and we have corporate loan that of around 3,000 crores.

Shashank Khade:

Rs. 3,000 crores. Okay, thanks a lot.

Sumit Agarwal:

Monisha.

Operator:

Yes, sir.

Sumit Agarwal:

Monisha, we will take one more question only.

Operator:

Sure, sir.

Sumit Agarwal:

Thank you.

Operator:

Thank you Mr. Shashank. The last question comes from Ritesh from SPA Securities. Please go ahead, sir.

Ritesh:

Good evening, sir.

Sam Ghosh:

Good evening.

Ritesh:

Sir, I want to confirm out of the total revenue how much has institutional equity broking as well as reliance money equity booking contributed, how much? Hello?

Praveen Challa:

Institutional broking hasn't contributed anything. The entire contribution is from Reliance money at this stage. Institutional broking is a separate company. Reliance Equities International hasn't contributed anything.

Sudip Bandopadhyay:

The broking income is roughly in the range of Rs. 49 crores.

Ritesh:

Okay. All right. It's helpful.

Sam Ghosh:

Thank you.

Ritesh:

Thank you.

Corporate Participant:

Thank you.

Operator:

Thank you, sir. I would like to hand the flow back to Mr. Praveen Agarwal. Over to you, sir.

Praveen Aggarwal:

Thank you, Monisha. We would like to thank the management team of Reliance Capital and all the participants. Thank you everybody.

Operator:

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