Reliance Capital Limited
Q2 FY13 Earnings Conference Call
7th November 2012

SPEAKERS: Management of Reliance Capital

Moderator: A very good morning, ladies and gentlemen. I am Aanchal Rastogi, the moderator for this call. Thank you for standing by and welcome to the Reliance Capital Limited Q2 FY2013 Conference Call. For the duration of presentation, all participants' lines will be in the listening only mode; and we will have a Q&A session after the presentation. I would like to now hand over the conference call to Mr. Parag Jariwala from Macquarie Capital Securities. Over to you, sir.

Parag Jariwala: Thank you, Anchal. Good morning everyone. This is Parag Jariwala from Macquarie Securities. We have with us Mr. Sam Ghosh, CEO from Reliance Capital and his team representing various business verticals to discuss Q2 FY13 Earnings. Over to Mr. Sam Ghosh for his opening remark and after which we can start the question and answer.

Sam Ghosh: Thank you, Parag. Good morning to all of you. We have got today, all our CEOs here; Sundeep Sikka from Asset Management; Mr. Vikrant Gugnani is here from Reliance Money; K. V. Shrinivasan from Reliance Commercial Finance; and Rakesh Jain from our General Insurance; and Malay Ghosh is on this call also. And Amit Bapna is here also.

So, we will do a brief summary on our results and then give an update on each of our business operations, and then we will take questions. I hope all of you have received our results, and a brief presentation has been uploaded in our website. The total income from operations for the quarter increased by 55% to Rs. 24 billion driven by increase in the top line of commercial finance and gains accrued from the stake sale in Reliance Capital Asset Management.

The consolidated net profit for the quarter stood at Rs. 4 billion as against the profit of Rs. 334 million for the previous period, a growth of 1,100%. The net worth of Reliance Capital increased by Rs. 49% to Rs. 117 billion at the end of the quarter. Our net debt to equity ratio improved by 35% from 2.57 to 1.67 at the end of September 2012.

We concluded the sale of 26% stake in Reliance Capital Asset Management to Nippon Life in August 2012. As discussed earlier, Nippon Life acquired 26% stake in Reliance Capital Asset Management for approximately Rs. 15 billion rendering a business valuation of approximately Rs. 56 billion for that business. Profit from the stake sale is included in the Q2 results.

As discussed in the past, we have reduced our listed equity portfolio with the divestment of securities costing Rs. 4 billion in Q2. We have also made stricter provisioning for the balance portfolio in line with our revised policy.

In our General Insurance business, we have taken an extra provisioning for motor third party claims results for the full year, in Q2 itself.

At Reliance Capital we have continued our focus our improving the operating performance of our core businesses and ensuring to increase their contribution towards the earnings mix of Reliance Capital. In Asset Management, our Mutual Fund average assets on the managements were at Rs. 853 billion and we continue to maintain a market share of 12%. We will maintain our focus on the untapped retail opportunity across all asset classes. The number of SIPs and STPs accounts are at over 1.4 million and is highest in the industry.

The retail gold fund has Rs. 29 billion in AUMs, maintaining a healthy market share of 27% in the gold fund category.

In Life Insurance, this quarter, we achieved a profit of Rs. 307 million against the profit of Rs. 82 in Q2 FY12.

In commercial finance, the total income for the quarter increased by 7% to Rs. 5 billion, the profit before tax rose by 31% to Rs. 715 million as against Rs. 547 million driven by 9% growth in interest income. Despite high interest rates, margins have stabilised in the last few quarters and we expect the earnings profile to improve significantly in this financial year. Nearly 100% of our book continues to be secured at the end of this quarter.

We have given detailed financials in 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 Capital Asset Management manages Rs. 1.6 trillion of assets across its mutual fund, pension funds, managed accounts and hedge funds. Reliance Capital Asset Management is the largest asset manager in India. Reliance Mutual Fund is amongst the top two mutual funds in India and has maintained its market share at 12%. The average asset and the management of Reliance Mutual Fund were over Rs. 863 billion as of 30th September 2012.

As mentioned before, in Asset Management we continue to focus on the under penetrated retail opportunity. In SIPs and STPs, we continue to have the highest number of accounts in the industry. For the quarter ended 30th September, the Asset Management business generated income of Rs. 2 billion, a marginal decline of 2% due to 5% fall in Mutual Fund assets under management, in line with the industry. Profit before tax of Rs. 576 million was lower by 12% due to the reduction in MF in the Mutual Fund AAUMs, in line with the industry.

Reliance Life Insurance continues to be amongst the leading private sector Life Insurance players in terms of new business premium with the private sector market share of 5%. The total premium for the quarter was over Rs. 10 billion and the renewal premium at Rs. 7 billion. The new business premium was at Rs. 3 billion.

Nearly 80% of the new individual business premium has been contributed by traditional products. Our focus continues to be medium in smaller towns and cities addressing the under and uninsured opportunity. In spite of that, we have been able to increase our average ticket size to over Rs. 14,000 from Rs. 12,000 in Q1 FY13. Our strategy continues to increase the ticket size as well as achieve and maintain our position amongst the top private sector insurers. Reliance Life Insurance sold nearly 1,90,000 individual policies in the quarter ending September 30th 2012, a sequential increase of over 20% and one of the highest in the private sector. Over 5 million individual life policies are enforced as on 30th September 2012.

The profit before tax for the quarter was Rs. 309 million, an increase of 276% over Q2 FY12, additionally surplus rising from the non-participating business amounting to Rs. 1 billion for this quarter. This will be a part of the profit in the last quarter of the current financial year. The declared results of Reliance Capital included consolidation of 38% stake in Reliance Life Insurance.

Reliance Life insurance managed Rs. 194 billion of assets as on 30th September, an increase of 16%. The distribution network stood at 1,230 offices across India and the number of agents was at 1,16,000.

Reliance Commercial Finance is amongst the leading lenders in the non-banking finance space. The disbursement for the quarter decreased by 3% year-on-year to Rs. 23 billion due to continued high interest rate environment and focus on secured, yet high margin business. The assets and the management grew by 4% year-on-year to Rs. 156 billion. The outstanding loan book was at Rs. 141 billion, a year-on-year increase of 2%.

Our focus continues to be on secured lending to niche segments of home loans and loans against property, business loans, loans for commercial vehicles and construction equipment and infrastructure financing. At the end of the quarter, nearly 100% of the book was secured as against 99% at the end of the previous corresponding period.

The total income for the quarter increased by 7% to over Rs. 5 billion. The profit before tax rose by 31% to Rs. 715 million as against Rs. 547 million driven by higher yield. The net interest margin was 4.1%, an increase of 11 basis points over Q1. The cost to income ratio dropped to 16% as against 17% in Q2 FY12.

I am confident that with the stability in interest rates and repricing of assets, we will see significant improvements in net interest margins and profits.

The gross NPLs were at Rs. 2.5 billion. This translates to 1.6% of the AUM. The coverage ratio including write offs at the end of September 2012 stood at 71%.

In the broking segment, Reliance Securities is amongst the leading retail equity brokering houses in India while Quant Capital caters to the wholesale client segment. The focus at Reliance Security is on its key business verticals of equity and commodity broking, wealth management and investment banking. In the broking vertical, equity broking account increased by 4% to 700,000 and average daily turnover stood at Rs. 25 billion, a year-on-year increase of 7%. The number of commodities broking accounts increased by 2% to nearly 37,500 and the daily average commodities turnover was over Rs. 11 billion, a year-on-year increase of 44%.

In wealth management, assets and the management stood at Rs. 7 billion, an increase of 116%. For the quarter broking business, revenues increased by 12% to Rs. 648 million. Profit for the quarter rose to Rs. 99 million as compared to loss of Rs. 29 million in Q2 FY12.

Reliance Money is amongst the leading distributors of financial products and services in India with the distribution network of over 6,300 outlets. Reliance Money sold over 200 kilograms of gold in the quarter. Reliance Money remains the largest private sector partner for Western Union Money Transfer in India and handled over 600,000 money transfer transactions during the quarter, same as last year.

The business achieved revenue of Rs. 281 million for the quarter, up by 31%. The business had a loss of Rs. 7 million for the quarter due to expansion in branch network. The number of customer touch points rose by nearly 500 during the quarter.

Reliance General Insurance is amongst the leading private sector general insurance companies in India in terms of business premiums with a private sector market share of 8%. The gross revenue premium for the quarter stood at Rs. 4.9 billion, an increase of 31%. Loss for the quarter was Rs. 1.1 billion as against Rs. 287 million in the corresponding previous period, as we took the full year impact of the provisioning for motor claims reserved in this quarter itself. And the combined ratio including third parties stood at 140% for the quarter due to the increased provisioning for the third party motor reserves. Our focus in this business is to write profitable business and improve the combined ratio further. The company is optimising its product, portfolio and is increasing its commercial lines of business. During the quarter, the General Insurance business realised a gross premium of Rs. 907 million from its commercial lines of business, a year-on-year increase of 52%.

We infused capital in this business to the extent of Rs. 1.6 billion in Q2. The total capital invested till date in this business is Rs. 17 billion.

In conclusion, I would like to reiterate that all major businesses are on track in terms of improving operating efficiencies and focusing on increasing their profits. We expect the General Insurance profit will increase significantly from Q3 onwards. I am very confident and certain that barring extraordinary circumstances Reliance Capital's strategy focusing on profitable growth will result in sustainable ROEs in the range of 16% to 18% from its businesses over the next two years.

Thank you very much. We can now take questions.

Moderator: Thank you so much, sir. Participants we would now start the Q&A interactive session. Any questions from any participants, please press "0" "1" on your telephone keypad. I repeat any questions from any participants, please press "0" "1" on your telephone keypad. Alright, I am getting one question from Mr. Veekesh Gandhi from Bank of America. Please go ahead, sir.

Veekesh Gandhi: Yeah, hi, good morning, sir. Just few questions, one is I believe, you know, you have mentioned already you booked 14.5 billion. a) where it has been booked? Is it in the RM or is it in the R-Cap?

Management: It is in R-Cap, Reliance Capital.

Veekesh Gandhi: Okay, now, if I look at your just the P&L on a consolidated basis, pardon me, but you know, I am not getting the math right probably. Is this in your presentation in the capital gains line?

Management: Yeah, it's the income from operations.

Veekesh Gandhi: So, you have booked some seven hundred odd million of, you know, losses and provisioning. Has that been netted off from the capital gains line only? If I look at your presentation slide 32.

Management: Most of it, yes.

Veekesh Gandhi: Most of it.

Management: Yes.

Veekesh Gandhi: Okay, and in terms of, you know, any losses that could be booked in the investment book incrementally?

Management: No, we have made change in provisions. So we have tightened our provisioning policy. So that's why you can see other expenses going up significantly. So we have also tightened our provisioning policy at this quarter.

Veekesh Gandhi: So would you be able to provide in terms of, you know, break-up of how much is the MTM loss, how much is the provisioning on your investments?

Management: We have provided most of it on the MTM. I will give you the break-up offline, but we have booked losses to the extent of 400 plus and we have made provisioning of 200 plus.

Veekesh Gandhi: So the provisioning would be sitting on the expenses line…

Management: Yes, that's right.

Veekesh Gandhi: Okay, great, alright. Thank you.

Moderator: Thank you so much, sir. Now, we have Mr. Ravi Ratanpal from J.P. Morgan. Please go ahead, sir.

Ravi Ratanpal: Good morning. My question is on the consumer finance book. So what is the net worth in debt equity of that particular book? And how is the funding of consumer finance book has been done? Is it done from the Reliance Capital, then the money been transferred or it is done independently at the consumer finance level?

Management: The entire book basically gets funded in the ratio of 5:1 in terms of debt and equity. The one obviously is the imputed capital contribution coming in from Reliance Capital, but the other five is essentially funded through independent lines that we have with the banking system and other sources like debentures or CP. So it's not that the capital is raised and passed on. It's actually through dedicated line.

Ravi Ratanpal: Okay. And what is the net worth there?

Management: The book size is around 14,000 crores. If you divide it by 6, it will be roughly around 2400-2500.

Management: It's actually a division of Reliance Capital.

Management: It's an allocated capital. It's not an actual cash infusion.

Ravi Ratanpal: Okay, okay. And how much the parent has infused capital so far?

Management: That infusion is only to the extent of the requirement of the housing finance company, which is a different legal vehicle. So that's in the region of around 325 crores, rest of it is notional capital.

Ravi Ratanpal: Okay.

Management: Commercial finance business is not a separate legal entity. It is a division on Reliance Capital, and hence there is no capital infusion but the book size one-sixth of that, is the notional capital allocated to that division.

Ravi Ratanpal: Okay.

Management: Another is housing finance. Housing finance is a separate company.

Ravi Ratanpal: Okay. And also can you please elaborate on your consumer finance book that is SMEs and…?

Management: The mix?

Ravi Ratanpal: Yeah, yeah.

Management: The break-up is basically at around 47-48% mortgages including home loans. Home loan is about 20%. 27% would be loan against property and other commercial property. 27-28% will be the SME book; the rest of it will be basically the vehicle finance as well as the equipment finance.

Ravi Ratanpal: Okay, okay. And this book is 100% secured, right?

Management: 100% secured, yes.

Ravi Ratanpal: Okay. And what will be the average loan to value of the underlying asset?

Management: It's very difficult to say on an overall basis but if you look at the mortgage book, the average LTV will be around 50% or so. The vehicles book would be typically around 70-75%.

Ravi Ratanpal: And SME and loan against property?

Management: 50%.

Ravi Ratanpal: 50%.

Management: Yeah, that's right.

Ravi Ratanpal: SME is also 50%. right?

Management: Yeah, that's right because most of these are property backed.

Ravi Ratanpal: Okay, okay. Thank you.

Moderator: The next question is coming up from Mr. Santosh Singh from Espirito Santo. Sir, you can ask your question.

Santosh Singh: Sir, I have two, three questions. First, starting on the General Insurance side, how much third party motor pool losses you have booked in this quarter?

Rakesh Jain: Hi, Santosh, this is Rakesh. We have taken about almost a 100 crore augmentation of our reserves for third party. And as a matter of, I guess, prudence, you know, for the next two quarters, which we have actually referred earlier on, we have also taken that in Q2.

Santosh Singh: And how much is the remaining now for FY14?

Rakesh Jain: Next year will be about 60 odd crores.

Santosh Singh:	And that will be at the end of it or we will have something more also?
Rakesh Jain:	That will be the end of it.
Santosh Singh:	Okay. Now, my second question is on the loan book as such because what I can see on the balance sheet, the loans have increased by 1,000 crores. But if I look at the area of the commercial finance, that has increased by 500 crores. So what are those extra loans of 500 crores around?
Management:	It is just the fact that in the first half the securitisation activity was at the very low level because of the regulatory changes and the uncertainty as far as the PTC taxation is concerned. Hence the ratio between AUM and one book actually reduced. So, that is the only…
Santosh Singh:	What I am saying is that if you look at your own balance sheet for the commercial finance, I think the AUM is increasing by 500 crores.
Management:	Right.
Santosh Singh:	But at the consolidated level the loans are increasing by 1,000 crores. Now, I don’t think we have any other lending activity other than commercial finance. So what are those 500 crores of extra loans for?
Management:	That would be possibly the difference between the stand-alone and the consolidated, that’s what you are saying. Right?
Santosh Singh:	Yeah, yeah, the stand-alone basically.
Management:	That’s basically the housing finance difference.
Santosh Singh:	Okay, that’s housing finance.
Management:	Yeah, that’s right.
Santosh Singh:	Yeah, that’s fine.
Moderator:	Thank you so much, sir. The next person in line is Mr. Ritesh Nambiar from UTI Mutual Fund. Sir, please go ahead.

Ritesh Nambiar: Yeah, hi, morning sir. If you could give some clarity on the disbursement side. You have done pretty well this quarter at the consumer finance book. Any particular reason?

Management: Actually, the disbursement has been relatively flat. In fact, there's a very small dip of some two odd percent. So it's not that we have grown it very much, but it's just that we have kept the momentum going. Most importantly, what we have done is that we have picked and chosen the customers depending upon their risk profile as well as the bottom line gains that we would get out of it. So we have not really gone for top line. We have gone more for a very calibrated strategy of trying to improve our bottom line and margins.

Ritesh Nambiar: Okay, okay. I was talking about sequentially because from Q3 last year…

Management: That's the usual thing because if you look at Q1, it's always depressed because, you know, April-May is usually the time when nobody takes any decision in terms of capex. So it's a very normal trend. If you even go through past years, it's across the board activated. So Q2 is always better than Q1, and Q4 is always better than Q3.

Ritesh Nambiar: Okay, okay. One thing on Reliance Life Insurance, I wanted to know, in fact, if I look into the gross premium return, in fact, your market share has been falling. Is the APE share also falling in the same proportion?

Management: Actually if you compare our individual weighted premium share, it remains at the same level.

Ritesh Nambiar: Okay. As of last year or last quarter? How is it?

Management: As of last year. From last quarter, it has increased marginally.

Ritesh Nambiar: Okay. Sir, what is the embedded margin or NBAP margin.

Management: The NBAP margin will be around 15%. The product mix has not changed. So I assume that it will be around 15%.

Management: I think we will declare the NBAP margin at the end of the financial year.

Management: But I assume that because the product has not changed too much, it will not change too much.

Ritesh Nambiar: Okay, okay, sir. And in both Life Insurance I just wanted to know the solvency margin, which is being maintained.

Management: As of now, it is 407%. Last year at this point of time it was 238%.

Ritesh Nambiar: Okay, sir. Thanks.

Moderator: Thank you so much, sir. Now we have Mr. Anubhav from Merrill Lynch. Please go ahead, sir.

Anubhav: Hi, sir. My key questions are on the insurance business side. On the life insurance side, I just wanted some colour like how is the distribution channel panning out and what would be the key distribution channel focus and what is driving the business for you?

Management: See, our main channels are agency channel, third party distribution, and we have set up some small verticals which are on the pilot stage. The 50% or 55% of our business comes from the agency channel. This is in two parts; one part is fixed plus variable, another part is fully variable. So out of this 55, 45 comes from fixed plus variable, which means that they didn't get commission and we have sales managers, and a part of it is both the supervisor and the agent, they are the other variable, this is about 10%. We get about 15% businesses through group insurance and the remaining part of 30% comes from the third party distribution. We do not have a bank as of today.

Management: Our aim continues to be we try and get a bank for a partner under the policy of IRDA guidelines.

Anubhav: What would be the percentage of traditional book as of now?

Management: 80%.

Anubhav: Okay. On the General Insurance side, what would be the quantum of third party loss, which has been factored in this quarter?

Management: We took about 100 crores of incremental provisioning for third party in this quarter.

Anubhav: This is the final number now. No more provisioning for this year.

Management: Yeah, nothing more for this year.

Anubhav: If I look at the combined ratios, so the combined ratio, which is published in the presentation, which is 140%, this should include the third party losses?

Management: Yes, yes, it includes them.

Anubhav: So if we exclude the third party loss, what would be the combined ratio?

Management: It should be about 116%.

Anubhav: Okay. If I look at the business mix is, still motor forms a major portfolio of the business. Do we continue to see that this would be the trend or we are moving away from motor and we would be riding more of fire and engineering?

Management: Motor is the largest segment. So every company, which operates, does significant amount of motor. For us the focus has been actually to grow the non-motor business to give the balance in the business. And, you know, it is heartening to see that the commercial lines of business we started to focus about the year back, you know, has grown about 52% in the current quarter and basically the proportion of commercial line business has improved from 22 to 26% and to that extent motor is moderated. So in some sense, it will be a journey of few quarters. It will come to a better balance, and hopefully a much better de-risk strategy.

Anubhav: Okay. Thank you.

Moderator: Thank you so much, sir. Now, Mr. Amitabh Sonthalia from SKS Capital wants to ask another question. Please go ahead, sir.

Amitabh Sonthalia: Yeah, hi. Good morning. Just had a few quick questions. I was just looking at your consolidated P&L, which is available to us in which you have given the break-up of income. So as per that, your capital gain is about 917 crores and EBT is 542. So net worth for capital gains, you made a loss of almost 400 crores on the other businesses. Is that on a PBT basis?

Management: Yeah, that would be correct because we've done 200 crores of stringent provisioning which we spoke about, which is roughly 200 crores, and in General Insurance there was a loss of 100. So if you add up these and plus there would be some small expenses, so that would be roughly in the range 350-400.

Anubhav Sonthalia: Just wanted to understand you mentioned something about ROE target of 15 to 18%, that the company is striving to achieve, so which translates to…even if we take a 15% ROE on your present network, it almost translates to about 1,500 to 2,000 crores level of annualized profitability. So on a recurring basis, how do we intend to achieve that outside from our regular business operation?

Management: You see, our focus is that each of the business is closer to the ROE target. Asset management already is achieving much more than that. Commercial finance by next year they should achieve at least 15% ROE. Life will hit about 10-12% and going forward they should hit about 15-16% and General Insurance, from next year profit may be not 10% ROE but going forward they'll be much higher. And broking and distributions, they should next year again hit a 15-16% ROE. Once we achieve that, then at the capital level other than increased payments on holding company level debt. We should then be achieving a similar rate going forward.

Anubhav Sonthalia: As a consolidated level for our cap share holders, when do we see some healthy ROEs in double digits?

Management: FY-14, FY-15. FY-14 certainly, we should hit about 10% or so and FY-15 we should hit…

Anubhav Sonthalia: Okay. And you also reported…you mentioned something in the call earlier about having scaled down your equity exposure and having provided for the mark to market losses on investment book, but I also saw that you reported in one of your press releases that your investments and equity is about 1,400 crores at book value. So if you can just help me out by giving the approximate current mark to market. After having provided for the mark to market losses, what would be the current value of that book?

Management: What we said is on the listed equity side. It's roughly 1,400 crores book. The MTM is not significant anymore after having provided. So almost entire thing is reflection of the current market value.

Anubhav Sonthalia: Okay. If I read line correctly, it's mentioned 1,400 crores as cost, I think. So is that after providing for the…I am just trying to get the clarification whether that's the current market value roughly of the estate portfolio or is it the cost value and there isn't much of a difference in the two?

Management: No, that's pre-provision, that 1,400 crores number. After having made provisions of roughly 200 crores, after making a provision of 200, the balance 1,200 is what is there on the book now and that will be actual realizable value almost.

Anubhav Sonthalia: Okay. And how much of this would be… does this include the group company stakes or this would be…?

Management: It does.

Anubhav Sonthalia: Okay. And what would be the rough split between the group company and the non-group company?

Management: Group Company would be around 900-odd crores because it includes RMW, RBNL and RCOM.

Anubhav Sonthalia: Okay. Right. And going forward, is investment book going to be a significant part of our operations equity in that sense?

Management: No, it won't.

Management: We haven't been increasing that book

Management: Yeah, so we will be working towards reducing our investment books, listed and unlisted as well. We have done that over the past few quarter. We'll continue to de-grow that book.

Anubhav Sonthalia: Okay. There have been some disclosures of our cap increasing stake in some of its group companies. One of them…I mean, I cannot remember which one but I do remember seeing the disclosures on that front in the recent past.

Management: It was there last financial year. We have not done that this year at all. So it is very clearly degrowth.

Anubhav Sonthalia: Okay, sir. From hereon you are categorically saying that there will not be any increase in…like equity stake group company or otherwise?

Management: Yes.

Anubhav Sonthalia: Alright. That is all from me. Thanks.

Moderator: Thank you so much, sir. Any other questions from any other participants, you are requested to press "0" "1" on your telephone keypad. Now, we have Mr. Ravi Ratanpal from JP Morgan again. Please go ahead, sir.

Ravi Ratanpal: Sir, just now you mentioned that in the provision of around 200 crores was done for a commercial finance business…

Management: No, no. It was not for commercial finance. You are talking about holding company investments, right, not the commercial finance book?

Ravi Ratanpal: I will tell you where I am coming from. See, if you remove the capital gains of one time, actually we are making a loss of somewhere around 400 crores, correct? And then you have given that break-up, the loss was because of 200 crores of excess provisioning being done, 100 crores on General Insurance. So this 200 crores was for commercial finances or…?

Management: No, no. For our listed and unlisted equities, we have made stringent provisioning for diminution in value of investments, not commercial finance book.

Ravi Ratanpal: Okay. Okay. Sorry, I got it wrong thing. Thanks.

Moderator: Thank you so much. Now, we have Mr. Nischint from Kotak Securities. Please go ahead, sir.

Nischint: Sir, what would be the rate of interest on home loans?

Management: Current market would be obviously a little lower but the book itself is somewhere close to about 13%.

Nischint: But this is home loans or home equity?

Management: Home loans.

Nischint: Okay. Home equity would be how much?

Management: That would be around one-and-a-half percent more.

Nischint: Okay. And how do we see this particular segment of yours vis-à-vis, you know, the other segment targeted by larger banks and larger housing finance companies? Is it the reason, I mean, because it is targeted to self-employed or something because of which the rate of interest is higher?

Management: Absolutely right. And also what we are doing is we are gradually moving to the smaller towns where the demand-supply situation is as lot more favourable and the competition is a little less.

Nischint: Sure. Okay. Now, moving on to General Insurance, you know, any guidance as to where the combined ratio would be, you know, over the next couple of quarters because I believe you have said that the combined ratio even excluding the third party losses was around 116%?

Management: See, in General Insurance, we are running a bit of legacy book and put a third party. We think we have significantly overcome the gap. I think going forward we should be very close to 100 combined. I see the business is becoming positive and hence, you know, to that extent that can only help if the combined ratio is around 100.

Nischint: Okay, sir. That is something that should happen from within next couple of quarters or whatever you agree?

Management: Yes, it is a journey but if we keep improving with every passing quarter.

Nischint: Sure. Any guidance on, you know, how is the MTM losses or provisions would be on the investment book?

Management: About the MTM loss?

Nischint: Is there any guidance because you have made large provisions and…?

Management: Yeah. So we have more or less taken care of the indirect losses

Nischint: Here after you do not really see any significant…?

Management: No, no.

Nischint: Okay. On the mutual funds side, maybe if you could talk a little bit about the new regulations and how you are really going about, what is the business strategy now, whether you are really looking at expanding or, you know some colour on that?

Management: In the hindsight, if you would have just seen over the last two, three years even though the industry has relatively been flat but we have been very excited about the opportunity. We have seen a lot of regulatory changes which have come up. And we are very, very bullish on the industry overall. We at this point of time have the largest branch network. We plan to double our network over the next three to four years' time and then even we are going to be hiring more people. I think we believe this industry is, you know, poised for growth and with the infrastructure that we have built up and what we have invested further that we benefit disproportionately.

Nischint: But you would be making further investments in the business or is it something that you are just kind of saying that okay now this is the opportunity, you know, we have capitalized on the business that the investments that you have made?

Management: It is both the things at the same time. And we have already invested with about 250 branches that we have which is the largest branch network. We believe we will be at a far better position compared to the competition because as you are aware of the new regulation that we have, an extra 30 basis points can be charged to schemes where the business is coming from outside the top 15 cities, and because of the network that we have and we have been there for about nearly more than three years now. We believe we will gain because of that compared with industry. At the same time, in spite of having the largest network because we are bullish on the sector itself, we will invest further. For both, we will be encashing on the investments which we have done in the last three years, and at the same time we will be investing a lot of our profits for future expansion.

Nischint: Okay. On a net-net basis, you are looking at the profitability of the business. Do you really see that with the regulations coming in the profitability would improve or is it something that whatever comes in and something which at least for next couple of years would be required to be invested, you know, or passed on to other parties?

Management: It will all depend on business of the industry. From our perspective, like I have mentioned, you know, we were investing in branch network into infrastructure, into technology. Like I have mentioned earlier, it will take some time because if we take time for the competition to catch up on it. Like I said, a part of our future profits will be invested by us. So this will not try to, you know...definitely, this will increase the profit but like I mentioned. We believe the industry is in such a state that a lot more needs to be done and profits will definitely increase. It will not require any substantial investment going forward because what we are trying to do is going into very small cities and towns where the cost of operations and the cost of execution is far cheaper. And also to add to it, the cost of raising funds from smaller cities and towns is also much lower. So it actually reduces the overall cost of customer acquisition.

Nischint: Okay, sir. To that extent, you would be a beneficiary of this?

Management: Others will also benefit. 100% I think a mutual benefit. We might benefit more than the industry. That is what we feel at this point of time.

Nischint: Sure. Thank you very much and all the best.

Moderator: Thank you so much, sir. The next person in line we have is Mr. Kiran Khera from Reliance. Please go ahead, sir.

Kiran Khera: Sir, what would be the effect if any of the recommendations made by the Usha Thorat Committee on our businesses?

Management: Our understanding is that the impact on our operation is fairly minimal because whatever the committee has recommended we have been following those norms from day one. So I do not expect too many negative impacts happening on us at all. If anything, it will certainly help bring in a certain amount of level playing field between the banks and the NBFCs and our sense is that it will be a beneficial thing for the industry overall.

Kiran Khera: Okay. Sir, one more question just for the case of clarification. What is the exact capital that we have got on the sale of our 26% Reliance asset stake?

Management: It is roughly 1,400 crores.

Kiran Khera: No, no. That is the gross proceeds, right?

Management: Yeah.

Kiran Khera: So what would be the capital gains?

Management: It will be roughly 900 crores.

Kiran Khera: 900 crores. And that is pre-tax?

Management: Yes.

Kiran Khera: Alright. Okay, sir. Thanks a lot.

Moderator: Thank you so much. sir. Any other question from any other participant, please press "0" "1". I repeat, any questions from any other participants you are requested to press "0" "1" on your telephone keypad. Sir, at this time there are no further questions coming up from the participants. You can take over the floor for final remarks.

Management: Sorry. Are you referring that to me? Thank you to all of you. As we have mentioned, all the businesses are looking very positive and going forward for this quarter we should see a much better result. Thank you very much.

Moderator: Thank you so much, sir. Thank you so much, participants. With this we conclude the conference call for today. You may all disconnect now. Thank you and have a great day.