Reliance Capital
FY10 Earnings Conference Call Transcript
May 03, 2010

SPEAKERS:

MR. SAM GHOSH– CEO, RELIANCE CAPITAL
MR. MALAY GHOSH – PRESIDENT, RELIANCE LIFE INSURANCE
MR. VIKRANT GUGNANI– EXECUTIVE DIRECTOR, RELIANCE MONEY
MR. SOMA SEKHARAN– CEO, RELIANCE GENERAL INSURANCE
MR. KV SRINIVASAN – CEO, RELIANCE CONSUMER FINANCE
MR. AMIT BAPNA– CFO, RELIANCE CAPITAL
MR. MILIND GANDHI– CFO, RELIANCE CAPITAL ASSET MANAGEMENT
MS. SAVLI MANGLE– CHIEF INVESTOR RELATIONS OFFICER, RELIANCE CAPITAL
MR. PATHIK GANDOTRA– IDFC SECURITIES

Moderator

Ladies and gentlemen good morning and welcome to the Reliance Capital FY2010 results conference call hosted by IDFC SSKI Securities Ltd. As a reminder for the duration of this conference all participants' lines are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing * and then 0 on your touch-tone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Pathik Gandotra of IDFC SSKI Securities. Thank you and over to you.

Pathik Gandotra

Good morning everyone and welcome to the Reliance Capital's Fiscal 2010 and 4th Quarter results conference call hosted by IDFC Securities. We have the management team with us and Mr. Sam Ghosh, the CEO is there with us as well. So I will just handover the proceedings to Sam if he could introduce his team and go over the results briefing before we take questions Over to you Sam.

Sam Ghosh

Thank you very much. Good morning to all of you. I think I will just first introduce the team here. We have Malay Ghosh here from Reliance Life Insurance, Vikrant Gugnani here from Reliance Money, Soma Sekharan, our CEO from General Insurance, K. V. Srinivasan who looks after Consumer & Home Finance, and Milind is here representing Sundeep Sikka for the Asset Management Company because he is out of station. Okay I will go through a very quick brief summary on our results and an update on each of our business operations and then we will take questions. Sorry Amit Bapna has also joined us on the con-call, our CFO.

Okay as summary of our results 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.

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. The focus at Reliance Capital has been to create a robust, scalable & profitable business model, across all its businesses.

The endeavor is to change the earnings mix, to improve the earnings mix – increasing the contribution of the core businesses in the earnings pie.

Looking ahead, we will continue to focus on profitable growth, driving our businesses to be best of class in terms of financial performance and shareholder returns. At Reliance Capital, we continue to explore and evaluate new options and opportunities to unlock value for shareholders. We are currently evaluating various options at our operating businesses – subject to necessary approvals. Moving on to the financial results. The total income from operations for the year ended March 31, 2010 was Rs. 61 billion as against Rs. 59 billion for the corresponding previous period – an increase of 3%.

The increase in revenues was contributed by our businesses of asset management, general insurance and consumer finance demonstrating improved business performance. I am very happy to share with you that the contribution of the operating businesses towards profitability, at the profit before tax level has increased 50% year on year from Rs. 2 billion to Rs. 3 billion.

The major contributors were the businesses of asset management and consumer finance. The asset management business achieved a profit before tax of Rs. 2.7 billion – year on year increase of over 60%. While the consumer finance profit before tax grew 48% to Rs. 1.4 billion. All the businesses are on track in terms of business and operating performance and in line with Reliance Capital's strategy of profitable growth.

In general insurance, with the various steps undertaken in the previous year, we are confident of achieving breakeven in this current year. Infact we are very confident that in the current financial year, barring unforeseen circumstances, the PBT from the operating businesses would double to Rs. 6 billion.

In life insurance, the capital infusion has declined by 80% reflecting our successful move towards profitability. We have targeted to achieve breakeven in this financial year, whereby life insurance will start to contribute significantly to the profits of Reliance Capital from FY12 onwards. The net profit for the year was at Rs. 4.3 billion as against Rs. 10 billion for the previous year – a decrease of 57%.

For this year, in the finance & investments, lower capital gains were realized as planned, owing to the planned partial stake sale in the operating businesses, subject to necessary approvals. Being the sole beneficiary of its operating businesses, the full benefit of this value unlocking will accrue to Reliance Capital. And also the thrust is on increasing the contribution of the operating businesses towards profitability.

As on March 31, 2010, the total assets of Reliance Capital were at Rs. 260 billion – a year on year increase of 8%. The net worth as on March 31, 2010 was at Rs. 77 billion - a year on year increase of 4%. The dividend was maintained as last year at Rs. 6.5 per share. 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 had a conservative net debt equity ratio of 1.6 as on March 31, 2010. The company enjoys the highest top- end ratings of 'A1+' and 'F1+' by ICRA and FITCH, respectively for its short term borrowing program and 'CARE AAA' for our long term borrowing program. We have over 20 million customers across all our businesses – through our unparalleled distribution network with over 6,800 outlets across India.

Let me now move onto each of our businesses – starting with our asset management business:
Reliance Capital Asset Management manages nearly Rs. 1.5 trillion of assets across its mutual fund, portfolio management services and offshore funds based in Singapore. The total AUM has grown 32% year on year.

Moving on to our mutual fund:
Reliance Mutual Fund continues to be India's No.1 Mutual Fund with a market share of over 14.8%. The average assets under management of Reliance Mutual Fund increased by 36% to nearly Rs. 1.1 trillion in March 2010 from Rs. 809 billion in March 2009. The numbers of investor folios have remained steady at 7.5 million as at the end of March 31, 2010 – highest amongst the private sector mutual funds. We have over 1.1 million Systematic Investment Plan accounts.

For the year ended March 31, 2010, the asset management business generated income of Rs. 6.8 billion as against Rs. 4.5 billion in the corresponding previous period– an increase of 50%. The increase in income was due to 36% year on year increase in average assets under management, with debt inflows turning significantly positive as against outflows in the previous corresponding period and appreciation in the equity assets under management.

For the year, the asset management business declared a net profit of Rs. 1.8 billion as against Rs. 1.3 billion for the corresponding previous period – an increase of 46%. I am happy to share with you that the mutual fund business demonstrated improvement in profitability, inspite of challenging regulatory environment in mutual fund industry. The profit after tax to average assets under management increased to 17 basis points from 16 basis points in the previous year. At the end of March 31, 2010, the business increased its distribution network to 246 locations in India, as against 243 at the end of December 2009.

In our offshore funds based in Singapore, the assets under management increased to USD 202 million as on March 31, 2010, as against USD 127 million – an increase of 60%.

Now I turn to our life insurance business.
Reliance Life Insurance continues to be among the top 4 private sector life insurance players in terms of new business premium, with a private sector market share of 10.2%.

I am extremely happy to share with you that Reliance Life Insurance has moved up industry ranking to emerge as the third largest private sector life insurer in terms of weighted received premium. In weighted received premium, it has increased its market share in the private sector to 10.5% as against 9.8% for the previous year. The total premium for the year Rs. 66 billion as against Rs. 49 billion for the corresponding previous period – an increase of 34%. The renewal premium for the year was at Rs 27 billion from Rs. 14 billion for the corresponding previous period – an increase of 89%
The new business premium for the year ended March 31, 2010 grew at 12%, in line with the private sector industry growth. The new business premium was at Rs 39 billion as against Rs 35 billion for the corresponding previous period
The Weighted Received Premium for the year was Rs. 37 billion as against Rs 31 billion for the corresponding previous period – an increase of 17%. The private sector industry growth for the same period was 13%.

Since the focus is on regular premium policies – the single premium component of the new business premium has been reduced significantly to 7% from 13% for corresponding previous period. As on March 31, 2010, we managed Rs. 137 billion of assets – year on year growth of 117%

I am happy to inform you that for the year, Reliance Life Insurance has sold the highest number of policies in the private sector life insurance industry. The number of policies sold in the year was over 2.3 million. As on March 31, 2010, Reliance Life Insurance had over 195,000 agents – a year on year increase 31%

Our new business achieved profit for year ended March 31, 2010 was Rs. 6.2 billion. This translates into a NBAP margin of 19.06% In the presentation, we have disclosed details on the operating assumptions made in the calculation of the NBAP margin.

Our continued thrust on moving towards profitability – through improved product mix & pricing and various cost rationalization measures has resulted in better capital utilization. I am also very pleased to inform you that this year, the capital infusion reduced appreciably by 80%. In the year, we infused capital of Rs. 2.3 billion as against Rs. 12 billion in the previous year.

The capital invested in this business, till date, is nearly Rs. 30 billion. Another noteworthy achievement that I would like to mention is the effective cost management of Reliance Life Insurance. The operating costs to total premium for the year were brought down to 25% as against 39% for the previous year. In the current financial year, the operating costs will further decline to sub 20%.

Moving on to our general insurance business

Reliance General Insurance is one of the top three private sector General insurance companies in India - in terms of business premium. It has a market share of 5.7% of the general insurance market in India and 14% market share of the private sector general insurers.

The distribution network composed of 200 branches and over 4,600 intermediaries at the end of March 31, 2010.

For the year ended March 31, 2010, the Gross Written Premium increased year on year by 3% to Rs. 19.8 billion.

The net written premium for the year increased by 2% to Rs. 14 billion.

The loss for the year ended March 31, 2010 was Rs. 504 million as against Rs. 523 million for the corresponding previous period .The combined ratio (with third party motor pool) increased to 117% for the year from 114% of previous year. The increase in combined ratio and consequently the loss was because of the high claims arising from our health portfolio. We have only recently received approval from IRDA to re-price our health products.

We have also significantly reduced our exposure to Group Mediclaim products that were largely unprofitable. We are confident this will enable us to improve the combined ratio and achieve breakeven in the current financial year.

Turning to our consumer finance business.

The objective at Reliance Consumer Finance is not only credit growth per se but the quality of credit sourced. In line with this, the focus is to increase secured asset lending and de-emphasize unsecured loans. We have moved away from unsecured loans and stopped net disbursals since April 2008. The personal loan book was brought down to 6% for the year as against 12% in the previous year. In fact today, more than 88% of our loan book is secured as against 75% in the previous year. I am happy to inform you that we have continued to see excellent trends in home finance and asset finance businesses. Both these businesses have shown significant growth in revenues and profits.

As on March 31, 2010, the loan book stood at Rs. 92 billion – as against Rs. 86 billion as on March 31, 2009 – an increase of 7%. This loan book is well spread across over 117,000 customers from top 16 Indian metros.

The disbursements for the year were Rs. 58 billion as against Rs. 39 billion for corresponding previous period – a year on year increase of 47%. Reliance Consumer Finance has emerged to be amongst the leading lenders in the non banking finance space.

Reliance Consumer Finance securitized loans of Rs. 25 billion for the year ended March 31, 2010. The total income for the year was Rs. 13 billion as against Rs. 12 billion – an increase of 7%. The profit before tax increased by 48% to Rs. 1.4 billion from 911 million of the previous year. The net interest margins achieved a 6% year on year increase at 5.6%. The average cost of funds for the year was 9.3% as against 10.4% for the previous year. The provisioning as on March 31, 2010 was Rs. 1.1 billion translating to 1.2% of the total outstanding loan book. The coverage ratio is 33%.

To demonstrate our focus on the secured asset lending, we have split up the consumer finance business into three lines of businesses – home finance, asset finance and unsecured loan book. The financials for each of these divisions have been given in the presentation.

Home Finance:

The outstanding home finance loan book as of March 31, 2010 was Rs. 24 billion.

The home finance division generated revenues of Rs. 3.6 billion for the year ended March 31, 2010, as against Rs. 2.5 billion for the corresponding previous period – an increase of 44%.

It achieved a profit before tax of Rs. 1.6 billion for the quarter ended March 31, 2010, as against Rs. 338 million for the corresponding previous period – an increase of over 360%.

The cost to income ratio declined significantly year on year for the year from 51% to 19%.

Asset Finance:

The asset finance division generated revenues of Rs. 6.5 billion for the year ended March 31, 2010, as against Rs. 5.3 billion for the corresponding previous period – an increase of 22%.

For the year, it achieved a profit before tax of Rs. 1.5 billion as against Rs. 399 million for the corresponding previous period – an increase of over 270%.

The cost to income ratio declined significantly year on year for the year from 64% to 43%.

Unsecured loans:

The unsecured loans division generated revenues of Rs. 2.7 billion for the year ended March 31, 2010, as against Rs. 4.1 billion for the corresponding previous period and a loss of Rs. 1.7 billion as against a profit of Rs. 175 million for the corresponding previous period.

And finally our broking and distribution business – Reliance Money

Reliance Money is a leading brokerage and distributor of financial products and services in India. It has a pan India presence with a distribution network of over 5,000 outlets.

The Company went through a significant re-structuring process – across all its lines of businesses. The thrust across was on profitability through changes in pricing & leaner cost structures & moving towards a more robust & sustainable business model. This exercise is now complete.

Going forward the focus will be on the key business verticals of broking, distribution (third party and in-house), wealth management and investment banking

In the broking vertical, Reliance Money has 640,000 broking accounts. It has increased its daily average equities turnover to Rs. 22 billion and commodities exchange broking turnover at nearly Rs. 2.5 billion.

On the distribution front, Reliance Money has two distinct arms – third party and in-house.

In third party distribution, Reliance Money is manufacturer agnostic and distributes mutual funds, life & general insurance products, loans and precious metal retailing.

It is amongst the leading Mutual fund distributors of the country distributing products of 20 AMCs, with over 500,000 mutual fund customers. It is the largest private sector partner for Western Union Money Transfer in India.

Reliance Money has tied up with India Post and World Gold Council to sell gold coins through the post office network across the country.

The in-house distribution arm of Reliance Money, leverages on the cross sell opportunity.

The customer base here has grown 200% to 150,000 customers. The business has created strong presence through 75 locations across 48 cities in India.

Already this division has become the largest distributor for Reliance General Insurance and is among the top five for Reliance Life Insurance.

Wealth Management and Investment Banking are two new initiatives of Reliance Money.

In wealth management, Reliance Money will assess financial needs and create investment opportunities for HNIs. It will create customized individual portfolios based on their diverse investment needs and risk profiles. We have put a team in place this quarter. The assets under management increased by 20% quarter on quarter to Rs. 900 million.

In investment banking, Reliance Money will address the capital requirements of enterprises through various instruments- IPOs, private placements, M&A etc.

Currently the Company is in process of putting together a professional team in place for the investment banking vertical.

Reliance Money generated the total income for the year ended March 31, 2010 at Rs. 2.6 billion as against Rs. 3.5 billion for the corresponding previous period. The profit before tax for the year was Rs. 146 million as against Rs. 581 million for the corresponding previous period.

This decrease was due to the re-structuring process at Reliance Money – across all its lines of businesses.

A quick update on the other businesses which were launched last year:

Reliance Exchange Next, a new initiative of Reliance Capital in the exchange space, commenced operations by launching Reliance Spot Exchange in the month of October 2009. The first contract on the e-auction platform being metals, subsequently also added spices in the month of December 2009. RSX has successfully completed three auctions in metals and pepper. Reliance Spot Exchange aims to bring different markets together on a national electronic platform thereby creating transparency, efficiency and infrastructure for spot markets across India

In the institutional broking space, Reliance Capital plans to acquire a majority stake in Quant Capital Group. Subject to necessary regulatory approvals, Reliance Equity International which is the institutional broking arm of Reliance Capital and Quant Capital will integrate and increase scale of operations through business synergies and cost optimization. This proposed transaction is subject to necessary regulatory approvals.

Quant Capital focuses primarily on the institutional cash equities and equity derivatives business. Apart from traditional fundamental research, it also combines quantitative and behavioral research to forecast trends and inflection for global currencies, commodities, and equities. Quant Capital has built and implemented state of the art trading, risk and operational platforms. The firm employs over 100 professionals with diverse skills sets.

Reliance Equity Advisors, wholly owned subsidiary of Reliance Capital, was set up with the objective of raising third party, sector agnostic private equity fund.

The fund has received excellent commitments from institutional investors as well as HNIs and many first-time PE investors. Fundraising will commence shortly for the international fund, the Reliance Alternative Investment Fund 1 LLC which will co-invest along with the domestic fund. The focus will be on garnering commitments from International LPs, and NRIs.

The Company has already made its first investment in the promising sector of education and is evaluating a few attractive investment opportunities in other sectors and intends to complete 3-4 investments in the current financial year

Reliance Venture Asset Management, our venture capital arm was started with an investment mandate to incubate or invest into high-growth, new business ideas and is stage, sector and geography agnostic. It today, ranks 30th in the reputed list of US-based, Red Herring Top 100 Global Venture Capital firms and is the only Indian Corporate Venture Capital firm to feature in this ranking

Its portfolio companies include household names such as India's largest online travel website 'Yatra.com' and 'Suvidhaa' - India's leading service commerce company, amongst others. Reliance Venture Asset Management has fostered relations with global premier institutions and is the exclusive India partner for MIT and Stanford University for their entrepreneurship and business competitions. It endeavors to be the preferred choice and premier partner of all its portfolio companies and assures its full commitment to them over an unlimited period of time. The Company currently manages assets of Rs. 1.2 billion

Thank you very much.
We can now take questions.

Moderator

Ladies and gentlemen we will now begin with the question and answer session. At this time participants who wish to ask questions may please press * followed by 1 on their touch-tone telephone. If your questions have been answered and you wish to withdraw a question from the queue please press * followed by 2. You are requested to please use your handsets while asking a question. To ask a question please press * and 1 now. Our first question is from the line of Kunal Shah of Edelweiss. Please go ahead.

Kunal Shah

Yeah, hello sir good morning.

Sam Ghosh

Good morning.

Kunal Shah

Sir my question was with respect to Consumer Finance, okay I think as you have mentioned the provisioning has come down I mean with the 33% kind of provisioning cover since net NPA and gross NPA has been much lower, were there any aggressive write-offs during the quarter?

KV Srinivasan

We did do the technical write offs basically from the unsecured portfolio which is why the coverage ratios decreased, if that add them back the coverage is actually in excess of what RBI requires of 70%.

Kunal Shah

Okay. So how much would be the technical write-off?

KV Srinivasan

That would be about 260 Crores which has been accumulated and provided for over the past year, year and a half.

Kunal Shah

And in this particular quarter?

KV Srinivasan

No this is the total amount that we have done so far. In this particular quarter the provisioning was only about 70 Crores.

Kunal Shah

No write-off in this quarter would be how much?

KV Srinivasan

This entire 260 was done this quarter.

Kunal Shah

Okay. So entire 260 was done, no not in this quarter ….?

KV Srinivasan

That is right. This quarter also the provisioning might have happened over the year, we just technically categorize this as a write-off. So it is only an accounting entry if you take. There is no financial implication.

Kunal Shah

And sir in the asset finance maybe the asset finance book also will be more kind of a secured in that the provisioning is going up a bit, so what is the reason for that?

KV Srinivasan

The provisioning will go up in line with the growth in the book if you look at the gross NPA from the Asset Finance book it is just over 1%. So it is far superior in terms of quality compared to the earlier book, but provisioning in absolute amount will always grow in line with the asset growth.

Kunal Shah

And sir one thing as you mentioned like in Asset Management we have seen a profitability of around about 17 odd bps, considering the environment where do we see the sustainable profitability in AMC?

Milind Gandhi

This sustainable profitability is likely to see in this region itself because while Sam mentioned in his speech that the changing regulator environment but we see a long term profitability growth on account of couple of factors one is if you look at the cost to income ratio it is coming down by 200 basis points year-on-year over a period of last 2 to 3 years which is clearly showing sign of advantage of large economies of scale, the kind of operation which we have and also from some of the cost rationalization measures which we have taken over the period of last 12 months which will improve our realizations also from the equity as well as the debt schemes.

Kunal Shah

Okay. And sir if I just look at quarter-on-quarter basis the decline in interest expenses have been quite significant at around about 25% quarter-on-quarter so can I have overall how much would be the debt in the books and what would be the decline in the average cost of funds for this quarter?

Amit Bapna

Yeah we would have debt of almost 10000 Crores as on 31st March on a standalone basis. And decrease in interest rate would be around 200 basis points over last March.

Kunal Shah

And over last quarter maybe?

Amit Bapna

Over last quarter there will be around 40 to 50 basis points decline. And we are consistently going and borrowing for longer term so that there is no ALM mismatches. In spite of these long term borrowings, interest cost on the basis points have come down by 30 to 40 basis points on a quarterly basis as of write now and as we speak these are AAA rated NCDs and hence the cost of funds are bit low now.

Kunal Shah

And sir can I have the amount of maybe like average funding cost for this quarter and what it was in Q3?

Amit Bapna

Average funding cost in Q4 for the incremental borrowings would be around 8 and quarters percent

Kunal Shah

Okay. And how much it was in Q3?

Amit Bapna

Q3 would be around 8.68-8.70.

Kunal Shah

Okay. Then overall this 25% decline in interest expense so has our debt really gone down?

Amit Bapna

Debt has now gone down on the RCL books because we have those two new businesses which have started so at RCL level the debt has gone down.

Kunal Shah

So currently this net debt or this is gross debt 10000 Crores?

Amit Bapna

It is gross debt.

Kunal Shah

And how much it would be in Q3?

Amit Bapna

Q3 would be around 12000

Kunal Shah

Okay sir and there is also one line item I think in the revenues and expense so maybe operating expenses was slightly higher and even in the segmental breakup if we see then in others there was such a significant rise of 57 Crores. So maybe there was some Gilt trading so can I have how much would be the profitability overall on account of this.

Amit Bapna

On Reliance Gilt we would have made it a crore but what happens is because you are trading on a continuous basis your income as well as your expense side go up a bit, that is because of the trading volume.

Kunal Shah

And sir on life insurance how do you see it going forward in terms of the growth?

Malay Ghosh

Hi this is Malay, Malay from the Life Insurance.

Kunal Shah

Yeah hello sir, very good number in the month of March in terms of premium mobilization, sir congratulations on that.

Malay Ghosh

Thank you so much, thank you.

Kunal Shah

Sir just wanted to know the guidance as to now how now you would guide seeing the traction which was there in the month of March.

Malay Ghosh

Yes for the current year we see the industry growing at around 10% and we look at a 15% kind of growth for the whole year. In fact in life insurance for the whole market it will be a quarter-to-quarter kind of guidance. We have to move that way as the traction comes; we will be able to say more.

Kunal Shah

Okay sir yeah thank you.

Moderator

Thank you Mr. Shah. Our next question is from the line of Vijay Sarathi of BNP Paribas. Please go ahead.

Vijay Sarathi

Good morning. What's the latest thinking on exiting from your non-core businesses?

Sam Ghosh

I think we have mentioned we are not exiting any of the businesses, what we are trying to do is making some stake sales and we are in the process of discussion with various partners and as and when the outcome comes out obviously we will advise .

Vijay Sarathi

Okay even as far as stake sales are concerned you have talked about stakes sales in couple of businesses, so any latest guidance on that front?

Sam Ghosh

Yeah some of them are in advanced stages and some are with regulators, so until the outcome is clear only then we can advise you.

Vijay Sarthi

Thank you.

Moderator

Thank you Mr. Sarathi. Our next question is from the line of Vipul Goel of Karma Capital. Please go ahead.

Vipul Goel

My question is around the ULIP regulation, basically the SEBI regulation which has come in and what is the response by RBI as of now and what does it mean so far as regards to marketing ULIPs?

Malay Ghosh

See as of now as things stand the IRDA interaction to life insurance companies is to carry on business as usual. We are also, like the market, eagerly looking at the jurisdictional guideline by the court as and when it happens and till that time it is business as usual for us.

Vipul Goel

So you are issuing new policies in ULIPs?

Malay Ghosh

As of today our ULIP basket is complete and we are, as you know from the last quarter onwards we have been developing our traditional products in the universal life products platform.

Vipul Goel

Okay so you are working more on the traditional products?

Malay Ghosh

No actually as of today previously our ULIP to traditional was above 95% in ULIP and 5% in traditional. Now in the last quarter we have seen adequate traction in traditional which was about 20% in traditional in the last quarter and going forward we want to take it about 30%, so that way the entire product will be more balanced.

Vipul Goel

So the marketing side, what is happening, so your still pushing on the standard ULIP products as well?

Malay Ghosh

As I told you its business as usual till formal direction comes, if we are asked to register ULIP with SEBI we will go ahead and do that.

Vipul Goel

Okay thanks.

Moderator

Thank you Mr. Goel. Our next question is from the line of Punit Srivastav of Daiwa Capital. Please go ahead.

Punit Srivastav

Yeah good morning. My question is again partly on this IRDA-SEBI row which is going on. Just need to understand what is your assessment for coming quarter. Do you see some impact happening on your top line sales, the premium getting affected? What is your personal assessment on this?

Malay Ghosh

Personal assessment is that the business will not be affected. As we have seen the whole thing as it has happened across the world, we have all kinds of arrangements across the world, closer to home, Life Insurance and asset management are seen by two different regulators, though in U.K. it is a super-regulator, in the U.S. all regulators look into ULIPs and this jurisdictional direction as and when it comes from the court, it will be welcome for the industry and there will be no confusion there. As far as the top line is concerned, as far as the going forward is concerned for the Life Insurance industry, as of today we do not see anywhere any confusion after the IRDA direction has come in and we also have this SEBI's order of keeping it the initial order in abeyance came out, there is no confusion today in the market place.

Punit Srivastav

Okay and one question our your NBAP margins obviously its remaining high but assume that if the commission is raised or lowered, just assume that, how do you see your margins getting impacted positively or negatively?

Malay Ghosh

See last time onwards we had talked about the NBAP as a percentage coming down a little but volumes remaining same or more along with the growth. We have shown that though the NBAP as a percentage has come down by about 0.75% or so, but the total NBAP remains the same under the same assumptions and actually we are very confident that current NBAP level we will be able to maintain. And now with growth in our total premium income as also the other assumptions coming closer to what we had assumed because we are getting the time advantage of seeing how our assumptions are working out, I think we will be able to keep the NBAP percentage at this level.

Punit Srivastav

Okay thanks a lot.

Moderator

Thank you Mr. Srivastav. Our next question is from the line of Pankaj Agarwal of Execution Noble. Please go ahead.

Pankaj Agarwal

Good morning sir. Sir what is going to be your strategy going forward for retail broking in terms of pricing and distribution? Like in pricing, more of fixed price products or variable price products?

Vikrant Gugnani

Hi this is Vikrant Gugnani. On the broking and distribution side we reduced our cost significantly by about 35% in the last quarter itself. So the focus now is on in enhancement of yield. While we do have fixed price products we are aggressively moving towards the percentage broking platform. Today while we started this move sometime in September last year, we have from about 3% of our customers almost ten percent of customers now on the variable pricing platform. The focus will continue on moving customers with variable pricing and that's evident from our upside on volumes from about 1.6 billion debt to about 2.2 million debt by March.

Pankaj Agarwal

And in terms of distribution it would be more franchisee based distribution or on branches of through net based trading?

Vikrant Gugnani

It's a dual strategy, while we continue to build our direct team, we are continuing to expand our franchisee model because if we need to cover 6500 locations at a low cost basis obviously we have to have a dual strategy.

Pankaj Agarwal

And in your insurance business given all the controversies that ULIP policies have generated over in the last 5-6 months, do you see this premium allocation charges and policy management charges going down going forward?

Malay Ghosh

Actually in the month of January as you will be aware that we have the circular from IRDA on ULIP about catching of charges? Now from the month of July we will be required the review the commission also in the benefit illustration. I think these two measures will put at rest the concerns about the ULIPs and many misconceptions of the market will go actually. ULIP commissions and traditional life insurance commissions are almost the same; it depends on the need and variable market segment. I do not think after July there will be much issues left in the market to talk about.

Pankaj Agarwal

Okay thank you very much sir. Thanks a lot.

Moderator

Thank you Mr. Agarwal. Our next question is from the line of Kajal Gandhi of ICICI Securities. Please go ahead.

Kajal Gandhi

Hi good morning everybody. Just wanted to know can we get the top line breakup of Reliance Money?

Savli Mangle

Yeah we can give that to you separately offline.

Kajal Gandhi

Okay. And sir if you can share with us where across the industry everybody has seen a fall in turnover mainly because broking market turnover itself has fallen average deal within this quarter, we have seen this sharp jump. So if you can explain that?

Vikrant Gugnani

As I said with your moving customers on the right pricing model has had its impact plus we have got a clear strategy on our customer target segment. So actually our volumes have moved up contrary to the industry as you correctly pointed out.

Kajal Gandhi

Second thing is if you can give us the gross NPA numbers, absolute numbers?

KV Srinivasan

The gross NPA absolute numbers its 326 crores so that's about 3.5% of the on books size.

Kajal Gandhi

And net NPA?

KV Srinivasan

Net NPA is 219.

Kajal Gandhi

219 crores, okay. And sir right now as we have seen your branches and customers coming down drastically like broking of funds have moved down very drastically. So do you see this having any impact on your plans ahead? Like 9 Lac odd customers have already come down.

Vikrant Gugnani

See as you are aware we were going through a re-structuring exercise in the last two quarters. But the focus was on closing and reducing costs on accounts which had been opened three years ago at zero balance but never traded. And over the last six months we made an effort to re-activate these accounts and if those accounts did not yield anything with the processing cost, so we have cleaned our books, everybody is now focused, low cost on driving future growth.

Kajal Gandhi

But is there any direct co-relation with the number of outlets coming down from 10,000 to 5,000 and new customers coming down. It's the customers of those franchisees which have closed down?

Vikrant Gugnani

It is a mix. In the earlier days we only had the franchisee model, we did not have a direct model so it's primarily the accounts that have been opened in 2007-2008 and secondly the franchisees which no longer were in the business also have now got reduced so their locations have also got reduced. Now it's a focused strategy, we are not spreading ourselves; things are hence keeping our costs under control and focus on correct target segment.

Kajal Gandhi

Sir and if you can share anything with us on your growth ahead on this insurance divestments?

Sam Ghosh

On the insurance divestments as I mentioned earlier that we are in discussion with parties and till we come to a final conclusion then only can we disclose anything significant on this front. But this year we are fairly advanced stage.

Kajal Gandhi

But there is every possibility that that will happen this year? Because you were believing from last quarter that it would happen and that some deals would have got booked in the last year itself which did not happen.

Sam Ghosh

Yes I agree, it got delayed a bit. But I think in the first half hope we can try and pull through some transactions.

Kajal Gandhi

Okay sir, thank you very much.

Moderator

Thank you Ms. Gandhi. Our next question is from the line of Nitin Jain of ILFS. Please go ahead.

Nitin Jain

Thank for giving me a chance for the question. My first question is on the life insurance business. I am doing a simple maths to look at your NBAP margins makes you believe that your NBAP margins in the life insurances business have sharply dropped. If that's the case like can you comment on that?

Malay Ghosh

No actually the December quarter ending itself we had given the guidance to the market, based on the circular on cap on charges we had actually reduced both the commission level as also the profit margin level. We believed that with this the volume of business will go up even if NBAP margin comes a little down, the total absolute volume will remain the same. And actually we will be moving over with growth in business and that has actually happened. Our last quarter business after the capping of charges, the total volume of business has actually grown and if you look the last 12 months, NBAP as a volume remains the same as the previous one year's NBAP And we think the NBAP as 19.05% will remain stable at that level.

Sam Ghosh

Actually from the December quarterly conference that we had said 18.5 or so. So even at 19 that means it's a very good position.

Nitin Jain

Okay so can you tell us what is your NBAP margins for this last quarter?

Malay Ghosh

We calculate it on a year-on-year basis.

Nitin Jain

Okay. Also wanted to talk in the life insurance business, what is the total PBT looking like?

Malay Ghosh

It's actually at loss and it is around 260 crores.

Nitin Jain

For the whole year?

Malay Ghosh

For the whole year.

Nitin Jain

And in your press release you said that you expect to breakeven in this current financial year.

Malay Ghosh

True that will be our target

Nitin Jain

Okay. Coming to your general insurance business, I am seeing in your general insurance business that your losses have leaped this quarter. As you cited earlier that there were some health insurance claims, so wondering that what is your guidance for FY11, do you expect that run rate which you have achieved in Q4 in terms of losses to maintain or what are you seeing in FY11?

Soma Sekharan

See the losses for the last year was basically on account of health insurance and health insurance also both group Mediclaim policies as well as the individual Mediclaim policies both contributed for this. As far as individual Mediclaim is concerned we have got the price revised and IRDA has approved it and we started selling the new products as per the revised rate. And it is going to give us the same rate for our renewal policies also. And what we have done is, we also started re-pricing the group mediclaim policies. Wherever it is making losses and if the prices are not as per our sales, we are not accepting group mediclaim policies now. Another reason for our loss for last year was more contribution for the TP losses. So with the revised pricing we are confident that health portfolio will definitely give us good bottom line for the current year.

Nitin Jain

Okay. And last question is on the consumer finance business. I am seeing that the other income this quarter for the consumer finance business summation of the three individual business is you have is 6.6 crores which is higher on a YOY basis but probably the same as on a QOQ basis, can you tell us about this comparison, this is just fee income?

KV Srinivasan

This is mixture of lot of things. It comprises of fee income, it comprises of foreclosure charges, comprises of securitization gains all of that put together.

Nitin Jain

Okay thanks.

Moderator

Thank you Mr. Jain. Our next question is from the line of Nischint Chawathe of Kotak Securities. Please go ahead.

Nischint Chawathe

Yeah hi. Just want to understand in the asset management business your advisory PMS is down from 14 billion to one billion on a quarter-on-quarter basis. Am I reading this rightly?

Milind Gandhi

Yeah.

Nischint Chawathe

And any specific reason for this?

Milind Gandhi

Yeah advisory was, the insurance business where we were advising to our general insurance business as per the regulatory changes that will not have. That is the reason.

Nischint Chawathe

Okay and I read somewhere in the presentation it says that 15% of AUMs are from 246 locations in India, this is a, I think, direct mobilization or something. So this refers to the mobilization during the quarter or outstanding AUMs.

Milind Gandhi

This is as on date, outstanding AUMs.

Nischint Chawathe

And how do you see this number moving and what is your strategy on this, because with the change in regulations and trying to put all the things together?

Milind Gandhi

Yeah as the industry is always been driven been a pull strategy, while we move to the push to pull strategy, it is likely to improve but will remain at around 15-20% in terms of the direct mobilization.

Nischint Chawathe

Okay. Now moving to life insurance, I see that your persistency is somewhere closer to around 55 odd percent, do you really see the number moving up and how do you see it really changing it over the next one or two years?

Malay Ghosh

See our persistency as per the IRDA guideline of calculating it is over 60% as we saw last year and we are looking at about moving it to 70% during the current year. We have seen the tractions which have happened in the last quarter. I think people were coming back and they are renewing their policies.

Nischint Chawathe

Okay. Again here I see somewhere saying that 27% of your business is through self help channels, maybe if you could explain that?

Malay Ghosh

You mean life insurance?

Nischint Chawathe

Yeah.

Malay Ghosh

Oh…you have talked about this 27% of all customers transactions are through self help channel?

Nishit Chawathe

Yeah that's right.

Malay Ghosh

It is about servicing. It is on IVRS. If any customer wants to make certain changes in his address, in his nominations and other things, he calls up IVRS and that is what it is.

Nishit Chawathe

This is not referred to origination.

Malay Ghosh

No it's not referred to origination. It is referred to customer services, after sales.

Nischint Chawathe

Maybe I will maybe just come back from my side. The other thing which I noticed was that the average premium for the quarter had gone up to around 18,000 per policy from 12000-13000 and specially given the fact that traditional policies have gone up and your focus has been on kind of lower end products, so what is really happened this quarter?

Malay Ghosh

No that was part of this strategy, in the last quarter income tax plays an important role in the mind of the customers and also we had one product launched in the last quarter which was on the ULIP platform on a high salary guarantee product and that also got very good response from the clientele. So while we got slightly lower average premium on traditional, on the ULIP we got slightly higher and…

Nischint Chawathe

That pushed up the number?

Malay Ghosh

Yes.

Nischint Chawathe

Okay. Now finally just one clarification on the NBFC side, did you mention that the securitization profits are booked upfront?

KV Srinivasan

This depends on the kind of transaction the securitization is being involved, if it a direct assignment then through a structure you are able to book the profit, whereas the bulk of the deals that we have done are on the pass through certificate basis, where you cannot recognize profit upfront and the net revenue gains actually come over the period of loan.

Nischint Chawathe

In the home finance SBU, is the other income, is the securitization income a part of the other income?

KV Srinivasan

Securitization yes, it also includes bundling of insurance that we have seen a major success in and plus your foreclosure charges which was a little higher year because of the falling interest rate regime plus the normal processing fee on increased business.

Nischint Chawathe

Okay and what would be the tenure of the products which you have securitized?

KV Srinivasan

Typically it depends. Now in case of the home finance or the mortgaged business the typical tenure would be in the region of around 6-7 years, average tenure, whereas in case of the asset finance it typically ranges between 18-24 months.

Nischint Chawathe

Okay and the yield on home finance, I mean I am talking about the assets which have been sold down.

KV Srinivasan

Yield on?

Nischint Chawathe

Home finance? Specially referring to the assets which have been sold down.

KV Srinivasan

I think it will be very difficult to say that because it depends upon the pool characteristics. What we always look for is the margin rather than the absolute amount, but typically we would expect to keep the margin over 2% to 2.5%.

Nischint Chawathe

No the point actually that I was trying to make was do the customers have a right to pre-pay and in that case do we have a risk of a reversal of this income?

KV Srinivasan

That has been sufficiently provided for.

Nischint Chawathe

Okay.

KV Srinivasan

So we understand the trend in terms of the foreclosure so therefore a certain amount of provisioning gets made while we recognize the revenue upfront. Also what we do is that we do not take into account any future foreclosure charges, which effectively manages the risk of pre-closure.

Nischint Chawathe

Okay. Thanks.

Moderator

Thank you. Our next question is a follow-up from the line of Kajal Gandhi of ICICI Securities. Please go ahead.

Kajal Gandhi

Hello sir, just one thing again, I heard you were mentioning that the going forward FY12 life insurance should add to profits. Correct?

Sam Ghosh

That's right.

Kajal Gandhi

Sir but as far as I understand as of now the share holdings it is not getting consolidated.

Sam Ghosh

That's correct. What we are trying to do is by end of this financial year we will ensure the structure is opened up so that we can control it.

Kajal Gandhi

So the share holding patterns will change for life insurance from this year.

Sam Ghosh

End of this year.

Kajal Gandhi

Okay and sir what would be your targets for the loan book growth?

KV Srinivasan

Typically we expect the credit growth in the market to be around 20% and I guess our growth would be broadly in line with that.

Kajal Gandhi

In line with RBI targets of credit?

KV Srinivasan

Around 18-20% is what the estimates are, so I guess we will be in line with that, probably a little better but by and large yes.

Kajal Gandhi

Okay sir, thank you.

Moderator

Thank you Ms. Gandhi. We have a question from the line of Sachin Upadhyay of Alchemy Shares. Please go ahead.

Sachin Upadhyay

Good morning sir. Just wanted to understand one thing, what is the accumulated losses in life insurance book?

Malay Ghosh

Around 2800 crores.

Sachin Upadhyay

And by this year we will be consolidating that on our books, no sir?

Amit Bapna

No, what will happen is that the end of this financial year we try and open up so that that company can consolidate.

Sam Ghosh

Definitely losses will be available for Reliance Life to set off against the future profits. It will not come on to RCL consol books.

Sachin Upadhyay

No, only thing is that the tax, we would also get certain tax benefit in case of consolidation on this particular losses coming?

Amit Bapna

No but that will not be available on a consolidation levels, it will be available for Reliance Life

Sam Ghosh

Stand alone the company, there is no change there.

Amit Bapna

Stand alone Reliance Life will be benefited.

Sachin Upadhyay

Okay right thank you.

Moderator

Ladies and gentlemen that was the last question. I know hand the conference over to Mr. Pathik Gandotra for closing comments.

Chinmaya

This is Chinmaya, I would like to thank the management and the participants for this call. Thank you so much.

Sam Ghosh

Thank you so much.

Moderator

Thank you. Ladies and gentlemen on behalf of IDFC Securities Limited that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Service and you may now disconnect your lines. Thank you.