Reliance Capital
Q3 FY10 Earnings Conference Call Transcript
February 01, 2010

Operator:

Thank you for standing by and welcome to the Reliance Capital Limited 3Q FY10 earnings conference call presented by Mr. Mudit Painuly. This call is hosted by Macquarie Capital Securities.

At this time, all the participants are in 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 *1 on your telephone. Please be advised, this conference is being recorded today.

I would like to hand the conference over to Mr. Mudit. Over to you, sir.

Mr. Mudit Painuly:

Yes, hi, all. Welcome to Reliance Capital 3Q FY10 earnings conference call.

With me are Mr. Sam Ghosh (CEO - Reliance Capital), and the senior management team of Reliance Capital namely Mr. Vikrant Gugnani (CEO - Reliance Capital International Business), Mr. Malay Ghosh (President - Reliance Life Insurance), Mr. Sandeep Sikka, (CEO - Reliance Capital Asset Management), Mr. K. V. Srinivasan (CEO - Reliance Consumer Finance), Mr. Soma Shekaran (CEO - Reliance General Insurance), Mr. Amit Bapna (CFO - Reliance Capital), and Ms. Savli Mangle (Chief Investor Relations Officer - Reliance Capital).

So, without further delay, I would like to hand over the floor to Mr. Sam Ghosh. Over to you, sir.

Mr. Sam Ghosh:

Good morning 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.
The focus at Reliance Capital is 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 quarter ended December 31, 2009 was Rs. 14.8 billion as against Rs. 15.7 billion for the corresponding previous period – a decrease of 6%.

The net profit for the quarter was at Rs. 632 million as against Rs. 1,315 million for the previous quarter – a decrease of 52%.

The steady revenues and decrease in profits were due to the planned lower contribution from finance & investments, while the other core businesses of asset management, insurance and consumer finance maintained steady revenue flows.

For this quarter, in the finance & investments, lower capital gains were realized as planned. This is in line with the proposed value unlocking plan at our operating businesses.

Being the sole beneficiary of its operating businesses, the full benefit of value unlocking will form part of Reliance Capital's net profit for
the current financial year. This will accrue significant capital gains in this financial year.

As on December 31, 2009, the total assets of Reliance Capital were at Rs. 242 billion – a year on year increase of 8%

The net worth as on December 31, 2009 was at Rs. 78 billion - a year on year increase of 7%

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 net debt equity ratio of 1.4 as on December 31, 2009.

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 6,500 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 No.1 Mutual Fund with a market share of over 15%

The average assets under management of Reliance Mutual Fund increased by 71% to nearly Rs. 1.2 trillion in December 2009 from Rs. 702 billion in December 2008.

The recent regulations change in the asset management industry whereby the entry loads on equity funds have been removed, have lead to significant negative impact on distribution commissions as these entry loads used to be passed on as distributors' commissions.

This has extensively affected equity inflows and retail participation. Despite this, the number of investors have remained steady at 7.2 million as at the end of December 31, 2009 as against 7.1 million investors at the end of December 31, 2008 – an increase of 1%. The number of SIP accounts has crossed one million.

For the quarter ended December 31, 2009, the asset management business generated income of Rs. 2 billion as against Rs. 915 million in the corresponding previous period– an increase of 115%.

The increase in income was due to 71% year on year increase in average assets under management, with debt inflows turning significantly positive as against outflows in the previous corresponding period. The thrust on equity continues, with inflows continuing to remain positive.

For the quarter, the asset management business declared a net profit of Rs. 479 million as against Rs. 257 million for the corresponding previous period – an increase of 86%.
At the end of December 31, 2009, the business increased its distribution network to 243 locations in India, as against 226 at the end of September 2009.

During the quarter, Reliance Capital Asset Management launched a new product feature - 'Reliance Smart Step'. It was the first fund house to launch a unique facility to invest across all debt/ liquid & equity schemes based on a scientific model.

I am also very pleased to mention that the Company won the highly acclaimed international award – 'Asia Risk Award for Asset Manager of the Year 2009', for its robust risk management practices. It is the only Indian asset management company to be awarded this prestigious award.

In our offshore funds based in Singapore, the assets under management increased to USD 185 million as on December 31, 2009, as against USD 152 million – an increase of 22%.

At our international asset management business front, we have appointed Mr. Ian Lancaster as the CEO of the Malaysian subsidiary. He will lead our venture in Islamic asset management business.

Moving on to our life insurance business.
Reliance Life Insurance continues to be among the top 4 private sector life insurance players with a private sector market share of 9.3%.

The total premium for the quarter Rs. 16 billion as against Rs. 11 billion for the corresponding previous period – an increase of 40%.

The new business premium for the quarter ended December 31, 2009 was Rs 9 billion as against Rs 8 billion in the corresponding previous period – an increase of 11%.

The renewal premium grew by 115% for the quarter to Rs 7 billion from Rs. 3 billion for the corresponding previous period.

Since the focus is on regular premium policies – the single premium component of the total premium has been reduced significantly to 7% from 11% for the financial year ended 2009.

The APE for the quarter was Rs. 8.3 billion as against Rs 7.6 billion for the corresponding previous period – an increase of 8%

As on December 31, 2009, we managed Rs. 115 billion of funds – year on year growth of 134%.

I am happy to inform you that for the third consecutive quarter, Reliance Life Insurance has sold the highest number of policies in the private sector life insurance industry. The number of policies sold in the quarter was over 688,000 – a year on year increase of 17%.

In previous quarter, Reliance Life Insurance had received the approval from IRDA to open 107 branches.

As on December 31, 2009, RLIC had 192,347 agents as against 141,603 as on December 31, 2008 – an increase of 36%

Our new business achieved profit for nine months ended December 31, 2009 was Rs. 3.8 billion. This translates into a NBAP margin of 20.13%

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 quarter we did not require to infuse any capital into the business, as against Rs. 3.3 billion for the corresponding previous period. In fact for the nine months ended December 31, 2009 the total capital infusion dropped by 94% to Rs. 650 million as against 10 billion for the corresponding previous period.

The capital invested in this business, till date, is Rs. 28 billion.

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 6.2% of the general insurance market in India and 15.3% market share of the private sector general insurers.

The distribution network composed of 200 branches and over 5,100 intermediaries at the end of December 31, 2009.

For the quarter ended December 31, 2009, the Gross Written Premium increased year on year by 2% to Rs. 5.2 billion.

The net written premium for the quarter ended December 31, 2009 was Rs. 4.1 billion as against Rs. 3.2 billion – an increase of 30%

The loss for the quarter ended December 31, 2009 was Rs. 70 million as against Rs. 121 million for the corresponding previous period

The focus for the general insurance business is to improve the combined ratio.

To achieve this, several steps have been undertaken to contain the claims ratio and the management expenses. Various areas have been identified where the claims experience had been adverse and accordingly appropriate measures were taken to re-price the risk.

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

The combined ratio (with pool) has improved to 112% for the quarter from 114% for the corresponding previous period. The combined ratio is the sum of claims, commissions and management expenses.

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-emphasise unsecured loans.

In fact we have discontinued fresh disbursements in unsecured loans for the past 18 months effective from April 2008.

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 growth in revenues and profits.

As on December 31, 2009, the loan book stood at Rs. 78 billion – as against Rs. 89 billion as on December 31, 2008. This loan book is well spread across over 115,000 customers from top 18 Indian metros.

The disbursements for the quarter ended December 31, 2009 were Rs. 14 billion as against Rs. 2 billion for corresponding previous period – a year on year increase of over 500%.

The total income for the quarter year on year remained flat at Rs. 3.3 billion.

The profit before tax for the quarter was Rs. 381 million as against Rs. 146 million for the corresponding previous period – an increase of over 160%.

Reliance Consumer Finance securitized loans of Rs. 11 billion for the quarter ended December 31, 2009. In the nine months ended December 31, 2009, the Company has securitized loans of Rs 21 billion.

The provisioning as on December 31, 2009 was Rs. 2.4 billion translating to 3% of the total outstanding loan book. The coverage ratio is 53%

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.

The home finance division generated revenues of Rs. 947 million for the quarter ended December 31, 2009, as against Rs. 703 million for the corresponding previous period – an increase of 35%.

It achieved a profit before tax of Rs. 456 million for the quarter ended December 31, 2009, as against Rs. 99 million for the corresponding previous period – an increase of over 300%.

The cost to income ratio declined significantly year on year for the quarter from 49% to 16%.

The average cost of funds for the home finance division declined for the quarter to 9.4% from 10.2% in FY09.

The asset finance division generated revenues of Rs. 1,654 million for the quarter ended December 31, 2009, as against Rs. 1,467 million for the corresponding previous period – an increase of 13%.

For the quarter, it achieved a profit before tax of Rs. 452 million as against Rs. 91 million for the corresponding previous period – an increase of over 300%.

The cost to income ratio declined significantly year on year for the quarter from 62% to 48%.

The average cost of funds for the asset finance division declined for quarter to 9.4% from 11.2% in FY09.

The unsecured loans division generated revenues of Rs. 662 million for the quarter ended December 31, 2009, as against Rs. 1,043 million for the corresponding previous period and a loss of Rs. 527 million as against Rs. 44 million for the corresponding previous period.

The personal loan book declined in this quarter year on year from 13% to 9%.
The average cost of funds for the unsecured loans division declined for the quarter to 10.1% from 12% in FY09.

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.

Reliance Money maintained the total income for the quarter ended December 31, 2009 at Rs. 537 million as against Rs. 609 million for the quarter ended September 30, 2009.

The profit before tax for the quarter was Rs. 0.7 million as against Rs. 43 million for the quarter ended September 30, 2009.

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

The thrust in this business, is on profitability through changes in pricing & leaner cost structures & moving towards a more robust & sustainable business model.

The focus going forward will be on key business verticals of broking, distribution – both third party and in-house, wealth management and investment banking.

In the broking vertical, Reliance Money increased its broking accounts by 2% quarter on quarter to 940,000. It has continued to maintain steady daily average equities turnover at Rs. 16 billion and commodities exchange broking turnover at nearly Rs. 3 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.

Reliance Capital Services, wholly owned subsidiary of Reliance Capital) is the in-house distribution arm of Reliance Money, leveraging on the cross sell opportunity.

The customer base here has grown over 500% to 118,000 customers. The business has created strong presence through 75 locations across 48 cities in India.

Reliance Capital Services is 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 investment needs.

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 both business verticals.

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 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 first round of fund raising was completed in the quarter and received excellent commitments from HNIs, domestic banks & financial institutions.

Thank you very much. We can now take questions.

Operator:

Certainly sir. At this time, participants who wish to ask any questions, kindly press *1 on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press the hash or the pound key.

Our first question comes from Mr. Manish Shukla from IIFL. You may go ahead please.

Mr. Manish Shukla:

This is on the asset management. If you see the revenue line item for the quarter, it shows a sharp jump. The typical revenue run rate has been between 150 crores where it is about 200 crores this quarter. Is there any one off or what is the jump there?

Mr. Sundeep Sikka:

Broadly asset competition has been changing. We had a very high percentage of our debt assets were in FMP, and we are trying to move these into liquid-ended fund, and the fee realization in liquid-ended fund is far better than SMP, that is basically because of that.

Mr. Manish Shukla:

So, I mean, can we assume this kind of fund rate going forward, of course it is a function of yields I understand that, but the changing asset composition is it for now or this is what you intend to do ongoing?

Mr. Sundeep Sikka:

No, it will be an ongoing thing, we will not be able comment about future, but we will be trying to move more from FMPs into liquid-ended.

Mr. Amit Bapna:

Also, the equity appreciation was much higher this quarter versus Q3 last year.

Mr. Manish Shukla:

No, I am just saying sequential, quarter on quarter there is not much of a change right and yet the revenue has gone up by almost 50 crores.

Mr. Sundeep Sikka:

Yes, it has majority to do with the FMP.

Mr. Manish Shukla:

Okay, right. Secondly, on your life insurance over the last one year, you added about 50,000 agents and 100 odd branches, now where do you see this stabilizing, and secondly how do you see this cost impacting your margins given that the life insurance growth outlook in general has become a bit muted.

Mr. Malay Ghosh:

Hi, this is Malay Ghosh here, as you must be aware that we are basically an agency company and agency growth will continue at a rate of about one agent per sales manager per month that is what we look forward to for all times. However, terminations also do happen based on productivity. About the cost, we have stabilized almost you know our growth rate in the number of branches will slow down. We are at 1250 branches as of now and so the next growth going forward will be in terms of third party relationships and in terms of tying up with the cooperative or regional rural bank space.

Mr. Manish Shukla:

Okay. So, what are the kind of margins that you expect with the new IRDA cap charges in place on a sustainable basis what are the NBAP margins which you think will be able to meet?

Mr. Malay Ghosh:

It is 20.13% as of today and going forward we think it will be around 18 to 18.5%.

Mr. Manish Shukla:

Okay, right. Thank you. That is it from my side.

Operator:

Thank you sir. Next in line we have a question from Mr. Vijay Sarthi from BNP Paribas. You may go ahead please.

Mr. Vijay Sarthi:

Hi, Mr. Ghosh, our consolidated results, large spike in claims incurred. Now, can you explain the source for that please?

Mr. Sam Ghosh:

This would come from the general insurance business. Soma , do you want to explain why the increase is there?

Mr. Soma Shekaran:

See basically, claim, one is because of the third party pool claims are increasing year on year basis. Second thing what is happening is, though the premium is going up, the number of vehicles insured is also going up substantially and as on date if you see this general insurance rate though it is stabilized but to what extent it is helping the claimant and the claim ratio is a question mark. Actually, as far as we are concerned, compared to the quarter of the previous year it was almost flat.

Mr. Vijay Sarthi:

Okay, but your combined ratio has gone up sequentially to 111%

Mr. Soma Shekaran:

No, basically it is because of the claims, increase in claims.

Mr. Sam Ghosh:

I think obviously our focus is to try and reduce the combine ratio and gradually I think this will come down as the quality of the book improves.

Mr. Soma Shekaran:

That is why we are not now looking for mad growth, what we are doing is we are now trying to reduce the combined ratio by selective in under-writing the business.

Mr. Vijay Sarthi:

Okay, thank you.

Operator:

Thank you sir. Next in line we have a question from Mr. Srikanth from Nomura Singapore. You may go ahead please.

Mr. Srikanth:

Hi, could you please tell me what is the operating cost of premium ratio for the life insurance business for the nine months?

Mr. Malay Ghosh:

It is 28% compared to 44% for the corresponding period of last year. For the quarter, it has been 27%.

Mr. Srikanth:

And where do you see this going in by the end of this financial year and if possible by the end of next financial year?

Mr. Malay Ghosh:

24% to 25% is our plan for the current financial year bringing it down to below 15% next year.

Mr. Srikanth:

Okay. And can you also give me, I mean this is for the Reliance Capital business as a whole, a break up of the balance sheet on the assets site.

Mr. Sam Ghosh:

Amit, can you answer that.

Ms. Savli Mangle:

Hi Srikant, this is Savli. On a standalone basis, on the liability side, the networth is about 70 billion rupees, debt is 120 billion rupees. On the assets side, you have investment in businesses at 44 billion rupees, the consumer finance book at 69 billion rupees, the fixed assets at 3 billion rupees, listed equities at 16 billion rupees, and unlisted equities at 9 billion rupees, cash and cash equivalent at 18 billion rupees and a corporate loan book at 31 billion rupees.

Mr. Srikanth:

And corporate loan book would be, how much of this would be loan to related entities?

Mr. Amit Bapna:

I think they are not significant.

Mr. Srikanth:

Okay, that is it. Thanks a lot.

Operator:

Thank you sir. Next in line we have a question from Mr. Vikesh Gandhi from DSP Merrill Lynch. You may go ahead please.

Mr. Rajiv Varma:

Hi, this is Rajiv Varma. Just wanted to touch space, you know with the new regulations on the insurance side, on the capping of the commission, etc., are there any early signs of how that is starting to play out under the margins? And also I guess longer term what would be the strategy be, I mean, are you positioning for tough figure margins in the business or are you looking to change product mix with mainly talks of that?

Mr. Malay Ghosh:

We do not see too much of an effect of this you know the profitability per se, but the profitability as a percentage of premium may slightly go down as I just said but I look forward to higher volumes of business and that is more profits.

The product basket that we have launched, they are balanced and for every market segment, we were predominantly on new leap and we are presently positioning ourselves also on traditional product line in the low premium segment market.

The average premiums have been slightly increased in the newly commence and the distributors commissions which were reduced have not been you know much compared to the efforts to be made for making a fill. Going forward I think that this happening in the last quarter which is the most prominent quarter in a life insurance industry, we think that the effect will be wearing off within this quarter itself and going forward we would be adjusting quite well with all the things, as an industry I am talking about.

Mr. Rajiv Varma:

Can I just have a followup of, do you foresee this having actually negative implication for growth both for the industry as a whole I guess, or do you still you know foresee both remaining in the mid to you know double digits 15% to 20%.

Mr. Malay Ghosh:

I think the growth of the industry will depend more on the market situation than on this particular intervention by the regulators. In fact, the distributors generally are feeling good about this change. The clients are getting more aware of the life insurance as a long term investment. Going forward I think this will have only positive effect and not much negative effect, even for this quarter, the industry growth will be double digits.

Mr. Rajiv Varma:

Right, okay. Thank you.

Operator:

Thank you sir. Next in line we have a question from Mr. Rajgopal Ramanathan from Centrum Broking. You may go ahead please.

Mr. Rajgopal Ramanathan:

Hi, just a few data points initially. Your gross and net NPA ratio as in your consumer finance business?

Mr. KV Srinivasan:

The gross NPA ratio has come down of, it is now at about 5.8% and the coverage ratio is about 53%.

Mr. Rajgopal Ramanathan:

And the absolute numbers?

Mr. KV Srinivasan:

Absolute numbers has gone down from Rs 522 crores for the last quarter that is quarter ending September to Rs 518 crores, the absolute number has dipped.

Mr. Rajgopal Ramanathan:

Okay. And also regarding the loan book, the size of the loan book in the various consumer businesses, could you give us a bifurcation of the three.

Mr. KV Srinivasan:

Roughly about 17% is in the unsecured book, 42% to 43 % is in the mortgages, the rest of it is in the asset finance business.

Mr. Rajgopal Ramanathan:

Okay. Incidentally, I was going through your disclosures on the consumer finance business. What I observe is for both the home finance business as well as the asset finance business, your other income contribution has moved up multifold. Some, let us say if you take the home finance business, it has gone up from around Rs17 million to Rs 258 million. What explains this move and are these fees and what sort of charges are these?

Mr. KV Srinivasan:

See this is a composite of three things. One is the processing fees and other you know sales related fees that we do. Number two is cross sale of insurance commission arising from there. Number three is that we have also seen a certain amount of foreclosures because of the interest rate adjustment, so the foreclosure penalty which is taken as a fee as well and the other part is also the amount of securitization income that has been booked.

Mr. Rajgopal Ramanathan:

And how much is the securitization income that has been booked?

Mr. KV Srinivasan:

See, securitization is close to about Rs 2000 crores of book on which we have not booked income on about 1300 crores. So, the balance of 700 crores is where we have done some amount of income booking. You would see that the total income booked during this quarter would be somewhere around 16 to 17 crores.

Mr. Rajgopal Ramanathan:

Rs 16 to 17 crores would be on account of securitization. Okay, just to sort of understand this home finance product a little better, what would be your loan yields and let us say if you were to load some of these fees as steady state fees, what would be the yields that you would be operating at?

Mr. KV Srinivasan:

If you add the fees, then you would you know without the securitization income, because that is a event based booking that you do, on a business as usual basis, we should be turning around with a yield of around 11 to 11.5% , including the fees. And essentially then the net interest margin of the spread of this business should be upwards of 3% in that case.

Mr. Sam Ghosh:

That is right. In fact if you look at the mortgages part of it, there are two types, one is the home loan where the net interest margin would be close to about 4% or 4-1/4% and on the loans against property the margins are little higher, close to about 6%.

Mr. Rajgopal Ramanathan:

But just a sort of, again this is a discussion which is slightly broader from a broader perspective. You have a player like in HDFC or let us say even the players which have a positioning in higher yielding products. The long-term spread vibrates down to 2.5% or may be at best to around 3%. Are you therefore writing risks on a book which could possibly come back to haunt you?

Mr. KV Srinivasan:

No. the basic thing it is consisting of two things, one is the product mix itself where we are at about 50:50 between home loans and loans against property, whereas somebody like an HDFC would be predominantly on the home loan.

This tends to be in any case a lower interest margin business. So that is one thing, but if you put together the mortgage business of HDFC Bank and HDFC limited, you will find that the net interest margins improve significantly because HDFC Bank only does loans against property which is exactly the kind of you know composite model that we have so therefore you always when you compare us with an LIC or HDFC our margins would tend to be larger.

Number two is that our customer segment is more on the self-employed business segment which typically gives you a higher rate of interest at a lower LTV margin because of the peculiar characteristics in which the customer segment behaves.

Mr. Rajgopal Ramanathan:

What will be the average ticket size of this?

Mr. KV Srinivasan:

It is close to about 50 lakhs.

Mr. Rajgopal Ramanathan:

So, I would guess that bulk of the lending is happening in the major cities in India rather than the intellect.

Mr. KV Srinivasan:

Which is true. In any case, we are today present only in about 18 odd locations which you know represents the largest towns and cities in the country.

Mr. Rajgopal Ramanathan:

Just another question on the brokerage business. With due respects to what the restructuring that you have been attempting, if you look at the top line itself, the top line has fallen off dramatically and it seems to suggest, of course you have not given a breakup this time of the broking income and the distribution income, if I were to just yearly make a comparison with December 2008, I would believe that distribution income has fallen off dramatically. What has cost been?

Mr. Vikrant Gugnani:

This is Vikrant Gugnani, as you are aware we are restructuring the entire verticals into only four verticals which is broking, distribution, wealth management, and investment banking. Within distribution we are also segregating and now we have got two separate lines of business, one is in-house and one is third party.

So, there is a line of business which is now focusing only on cross selling as well as promoting our group products and there is one vertical which is marketing third party product. Some amount of impact has happened in December itself where life insurance sales were pretty good, but going forward you will see that defect on quarter one. Broking income top line has remained more or less flat. There is system development where the focus is starting to move towards delivery based business though we continue to encourage the trader segment and we will continue to build on that part of the business. Also the slight drop in distribution was also because of the change in the mutual fund regulations regarding front end roads, so yes there was a dip in the mutual fund distribution.

Mr. Rajgopal Ramanathan:

I think because also the fix fee to the variable fees reduced. Do you want to explain from there.

Mr. Vikrant Gugnani:

Well, we have, from the last quarter made available variable feed model also for customers. So, not just the fixed fee model, to attract more and more delivery and customers as against only the player segment, but as I said we will continue to focus on the player assignment at the same time try to build another customer base on the delivery based segment.

Mr. Rajgopal Ramanathan:

What is your bottom line for Reliance Money for the nine months period?

Mr. Vikrant Gugnani:

Nine months period is Rs 148.7 million, yes 149 million.

Mr. Rajgopal Ramanathan:

149 million for the nine month period. So, how much was it for the September quarter?

Mr. Vikrant Gugnani:

For the September quarter was Rs 0.7 million before tax. Is that what . . .

Mr. Rajgopal Ramanathan:

No profit after tax.

Mr. Vikrant Gugnani:

Profit before tax is Rs. 43 million.

Mr. Rajgopal Ramanathan:

PBT that was the number that was given last time around.

Mr. Vikrant Gugnani:

That was PBT.

Mr. Rajgopal Ramanathan:

So, PAT would be how much?

Mr. Vikrant Gugnani:

Yes, approximately with 30% tax that would be more than Rs 30 million.

Mr. Rajgopal Ramanathan:

Okay, Rs 30 million.

Mr. Rajgopal Ramanathan:

And Ms. Savli if you could give us the split between broking distribution and other income?

Ms. Savli Mangle:

Yes, certainly. I will give you this split off line.

Mr. Rajgopal Ramanathan:

Okay. That would be it from me.

Operator:

Thank you sir. Next in line we have a question from Mr. Kunal Shah from Edelweiss. You may go ahead please.

Mr. Kunal Shah:

Yes, good morning sir. Just in this consumer financing business, we have said that in absolute term gross increase this seems to have come down from Rs 522 crores to Rs 518 crores, but still the provisioning and everything is slight and can we know actually the gross NPA formation the trend in gross NPA formation and how much would be the right off during the quarter?

Mr. KV Srinivasan:

Okay. See, this gross NPA formation if you look at it has come mostly from the unsecured book, almost 72% to 75% of the 70% plus of the gross NPA is on account of the unsecured book. So, the drop has been marginal though very significant in its reversal itself. Because in the last quarter we were almost flat compared to the previous quarter, now it has actually shown a reversal and gone through a down trend so I hope the trend will continue that way.

The gross NPA on account of secured book is around close to 2% which is very much in line if you compare that with let us say the other larger banks of around 2.5% to 3%. It is very much in line with the expectation. This provisioning would keep growing you know in terms of the coverage ratio.

Also, what we are trying to do is to match the RBI requirement of course it does not really apply to us in terms of since we are not a bank but an NBFC, what the RBI has required the banks to maintain is about 70% coverage by September end. So, we are also keeping our provisioning policies inline with that so that as the time goes by we are pretty much in line with what the banks provide for. So, there is a growth in the provisioning, but the provisioning will effectively drop out when the flow into gross NPA goes down. This is what you have seen. So, this is a mild, there is a certain amount of lead and lag you know, so firstly the gross NPA will drop, then the provisioning will drop.

Mr. Kunal Shah:

Okay. And how much will be the write off?

Mr. KV Srinivsan:

We would have written off close to about 80 crores.

Mr. Kunal Shah:

In this quarter?

Mr. KV Srinivsan:

No, total.

Mr. Kunal Shah:

Okay, for nine months.

Mr. KV Srinivsan:

That is right.

Mr. Kunal Shah:

Okay, and for this quarter?

Mr. KV Srinivsan:

For this quarter, it will be I think close to about 4 crores something like that. Yes, the provisioning, I will tell you, the provisioning was for 68 crores, yes that is right.

Mr. Kunal Shah:

Okay. And just the strategy out there in financing with respect to disbursements, now that we are continuing with the trend of round about 450 crores per month, okay what is it like, we are trying to . . . now are we planning to get more aggressive and with segments we are looking, definitely on the secured side, but what is the kind of run rate in disbursements we are looking and what will be the shortage on securitization in last two quarters.

We have seen may be like Rs 10 and 11 million of securitization. So, do we plan to continue with this kind of percentage of the overall disbursement that is round about 50%.

Mr. KV Srinivsan:

See, Rs 500 crores is what you have seen in the past two quarters but you know you must read that in perspective of the slow start that we had in Q4 of last year as well as Q1 of his year. So, the idea is obviously to move along with the expected market growth in credit.

Now, we have seen that the market credit growth in the nine months has been fairly muted. Now that there is a certain amount of economy revival and so on and so forth, so we are expecting next year you know as per the RBI statements 18% to 19% of credit growth.

So I just, our disbursement more or less in line with that you know may be a little larger than that in a very significant way. Clearly, focus growth as you have defined is more on the productive assets creation, which is basically mortgages, commercial vehicles and construction equipment, infrastructure equipment, as well as in SME funding basically for expansion or you know modernization and so on and so forth.

Mr. Kunal Shah:

Okay. And how about securitization?

Mr. KV Srinivsan:

Securitization is more I would say seasonal or I do not know opportunistic based thing. It all depends upon the interstate scenario. It may not make much sense to do securitization and rising interest rate scenario.

Now just for the past eight nine months you had a fairly benign interest rate situation, we just took advantage of that to manage the capital efficiency well and number two to correct the asset liability situation. So, now that is having been achieved, I think and plus the interstate scenario now seems to be more or less bottomed out. So, it will all depend upon that condition being prevalent. So, in a rising interest rate scenario, I do not see it will be wise to do securitization.

Mr. Kunal Shah:

Okay. And this kind of marketing expenditure which we had seen in AMC as we have already noted means there is a note by way of that saying because of the change in regulation with reference to fluency loads. And do we see this kind of run rate going forward also of round about Rs 36 to 47 crores?

Mr. Sundeep Sikka:

I think much of this still stabilized. I mean we had industry going through turbulence and just a matter of time and this has also little to do with you know marketing, it is not only the distributor, also above the line you know I mean what we will be doing in regard to advertising quite a lot. So, this will not be a permanent feature but my sense says it could stabilize but at a lower number.

Mr. Kunal Shah:

Okay. I think AMC is something which is continuously like providing some stability to the profits growth and I think that will continue. So, what is the kind of profit or may be like the profit growth we are looking at in this business over the next two years, may be like expenses will bulge out and may be we will maintain this kind of profitability or it will grow in line with the growth in the events?

Mr. Sundeep Sikka:

We will not be able to give you any future forecast, but we can only believe you know these expenses which we are seeing on the distribution side, which will stabilize over one or two quarters.

Mr. Kunal Shah:

Okay. And thirdly with respect to your interest in finance income and the standalone entities, that has also gone up from Rs 125 crores to round about Rs 158 crores. In significant terms that would be may be like our interest from corporate loan book which is more or less remaining steady at round about Rs 3000 odd crores. What would I mean is there any extraordinary or exceptional item in this?

Mr. Amit Bapna:

There is a turning happening at the interest corporate loan book as well. So, there are a couple of new loans we have gone into which are probably higher yielding than the previous ones. So, that is one of the major reasons there. It is better you realize better yields is a thing.

Mr. Kunal Shah:

Okay. And may be lastly with respect to, we have not been booking investment profits considering like stakes in life insurance, it is just like two months now for the end of this financial year, so anything out means what would be the strategy, how we are looking at, like just two months are also pretty much add things on track to have the stake sale in this fiscal?

Mr. Sam Ghosh:

I think what we have mentioned in this conference call earlier is that we are looking at divestment from one of our businesses, whether it be life insurance or any of the other ones. So, something will take place before the end of this quarter.

Mr. Kunal Shah:

Okay, sir. Thank you.

Operator:

Thank you sir. I would repeat once again, participants who wish to ask any questions, kindly press *1 on your telephone keypad and wait for your name to be announced. Sir, we have few follow on questions, would you like to take up?

Mr. Sam Ghosh:

Sure.

Operator:

Certainly sir. Next in line we have a follow on question from Mr. Srikanth from Nomura Singapore. You may go ahead please.

Mr. Srikanth:

Hi, just wanted to know the number of employees in the life insurance business?

Mr. Sam Ghosh:

Around 16,000.

Mr. Srikanth:

And what was it last year at the end of last financial year or at the end of December, whatever number you have?

Mr. Sam Ghosh:

We will take this question off line, Ms. Savli could you give the figure.

Ms. Savli Mangle:

Srikanth, will get in touch with you and give you the figure.

Mr. Srikanth:

Okay, thanks. That is it from me.

Operator:

Thank you sir. Next in line we have a follow on question from Mr. Manish Shukla from IIFL. You may go ahead please.

Mr. Manish Shukla:

Sir, on consumer finance, on the unsecured book, you have not been doing any disbursements for the last 18 months. So, what is the average maturity of the existing book and when do you expect it to run off?

Mr. KV Srinivasan:

Bulk of it will run off by end of 2011, end of financial year 2011, another 12 to 15 months.

Mr. Manish Shukla:

Another 12 to 15 months, because the bulk of NPA occurrence should be coming from that book. So, probably that is where second quarter next year you may see the breaking of NPA?

Mr. KV Srinivasan:

See, while the book itself will wind down by March 2011 mostly, the NPA occurrence should wind down a little earlier because what you would be leaving on the book is only the good book.

Mr. Manish Shukla:

Right, okay. And I needed to get upon the unrealized aims on your equity book please?

Mr. Amit Bapna:

It is around 400 to 500 crores.

Mr. Manish Shukla:

Okay, sir, fine. Thank you.

Operator:

Thank you sir. I would repeat once again, participants who wish to ask any questions, kindly press *1 on your telephone keypad and wait for your name to be announced. At this time, there are no further questions from the participants. I would like to hand the floor back to Mr. Mudit for final remarks. Over to you sir.

Mr. Mudit Painuly:

Yes, Mr. Sam, any final remarks.

Mr. Sam Ghosh:

Thank you. If there are any questions or any information you require after this, Ms. Savli is there, you can get in touch with Ms. Savli, and thank you very much for attending.

Operator:

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