Reliance Capital Limited
Q2 FY14 Earnings Conference Call
12th November 2013

SPEAKERS: Management of Reliance Capital

Moderator: Ladies and gentlemen good day and welcome to the Reliance Capital Q2 FY 2014 Earnings Conference Call hosted by Macquarie Capital Securities. As a reminder for the duration of this conference all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Parag Jariwala from Macquarie Capital Securities. Thank you and over to you Parag.

Parag Jariwala: Good evening everyone and welcome to Reliance Capital Second quarter Conference Call. We have with us, Mr. Sam Ghosh, CEO of Reliance Capital and heads of various business verticals. At this point, I will hand over the call to Mr. Ghosh, who will brief us about the results and then we can start with Q&A.

Sam Ghosh: Good evening to all of you and welcome to our Q2 FY 2014 Earnings Conference Call. We have the CEOs from our businesses with us, K.V. Srinivasan from Reliance Commercial Finance, Sandeep Sikka from our asset management business, Rakesh Jain from our General Insurance Company, Vikrant Gugnani from the Broking and Distribution business is on call as well and we have Shanai and Vaibhav from the Life Insurance vertical, and with us also is Amit Bapna, our CFO. First, let me present a brief summary of our consolidated Q2 results and an update on each of our businesses and after that we will take questions.

The total income from operations for the quarter was Rs. 19 billion, while the consolidated net profit for the quarter stood at Rs. 2 billion. The income and profit cannot be compared to Q2 FY13 due to one-time capital gain from the stake sale in Reliance Capital Asset Management in that quarter. The net worth of Reliance Capital increased by 6% to Rs. 124 billion at the end of Q2 FY14.

Despite challenging macro environment, we have improved the operating performance of our core businesses and will expect to continue to achieve profitable growth in each of them.

In life insurance, new business premium rose by 58% to Rs. 5 billion in this quarter while profit increased by 338% to Rs. 1.4 billion, driven by improved productivity by the agency force and higher group business. In general insurance, gross written premium increased by 19% to Rs. 6 billion, higher than the industry growth of 13%. We achieved a profit of Rs. 162 million as against a loss of Rs. 1.1 billion in Q2 FY13 driven by reduction in the combined ratio and higher investment income. In commercial finance, profit before tax rose by 27% to Rs. 1 billion, driven by higher margins. Also, we have improved our net interest margins to 5.3% in this quarter vis-à-vis 5.0% in Q1 FY14. In asset management, our Mutual Fund average assets under management were at Rs. 932 billion. We continue to maintain a market share of 12%. Profit before tax grew by 16% to Rs. 667 million driven by higher MF AUMs.

We have given detailed financials and operating parameters for each of our major businesses in our presentation and review report. I will now go through the main highlights in each business.

Reliance Life Insurance continues to be among the leading private sector life insurance players in terms of new business premium, with a private sector market share of 7%. The total premium for the quarter rose by 7% to Rs. 11 billion, driven by an increase of 58% in new business premium to Rs. 5 billion. 86% of the new individual business premium has been contributed by traditional products. For the period ended September 30, 2013, Reliance Life maintained its position amongst the top five private sector insurers, in terms of weighted received premium. We have increased our average ticket size by 39% to over Rs. 19,500 in the quarter. We expect to increase our ticket size, as well as maintain our position amongst the top private sector insurers. Reliance Life Insurance sold nearly 150,000 individual policies in the quarter ended September 30, 2013, and was one of the highest in the private sector. Nearly 5 million Individual life policies are in force as on September 30, 2013. The profit before tax for the quarter increased by 338% to Rs. 1.4 billion. The declared results of Reliance Capital include consolidation of 48% stake in Reliance Life Insurance. Total funds under management were over Rs. 175 billion as on September 30, 2013. Reliance Life Insurance has a distribution network of over 1,000 offices across India.

Reliance General Insurance is amongst the leading private sector General insurance companies in India - in terms of business premium with a private sector market share of over 8%. The Gross Written Premium for the quarter was Rs. 6

billion - an increase of 19%. The business made a quarterly profit of Rs. 162 million as against a loss of Rs. 1 billion in the corresponding previous period. And the combined ratio stood at 120% for the quarter as compared to 140% in Q2 FY13. The decline resulted from improved efficiencies in claims management. Our focus in this business is to improve the combined ratio further and to optimize the product portfolio towards a profitable mix.

Reliance Commercial Finance is amongst the leading lenders in the non banking finance space. Our focus continues to be on secured asset lending to niche segments of Home loans and Loans against property, Business loans, Vehicle loans and Infrastructure financing. The disbursements for the quarter were at Rs. 20 billion. The assets under management grew by 3% to Rs. 161 billion. The outstanding loan book was at Rs. 132 billion. We securitised loans of over Rs. 10 billion during the quarter. Due to challenging market conditions, the aim was to improve NIMs and control NPAs, rather than expanding the book size. At the end of the quarter, 100% of the book continued to be secure. The total income for the quarter was at Rs. 5.4 billion, while profit before tax increased by 27% to Rs. 905 million, driven by higher margins. Average yield in Q2 rose to 15.1%, an increase of nearly 90 basis points over the corresponding quarter last year. The net interest margin for the quarter was 5.3%, as against 4.1% in Q2 FY13. The cost to income ratio for the quarter remained flat at 16.6% for the quarter. The gross NPLs were at Rs. 4 billion. This translates to 2.3% of the assets under management. The coverage ratio, including write-offs, at end of September 2013 stood at 58%. Excluding write-offs, the ratio was at 21%

Reliance Capital Asset Management manages Rs. 1.8 trillion of assets across its mutual fund, pension funds, managed accounts and offshore funds. Reliance Capital Asset Management is the largest Asset Manager in India. Reliance Mutual Fund is amongst the top two mutual funds in India with a market share of 12%. The average assets under management of Reliance Mutual Fund were Rs. 932 billion as at Sept 30, 2013 - an increase of 8%. We increased the share of retail debt to 43% of the overall debt AUMs as on September 30, 2013, as compared to 28% in September 2012. The number of SIP and STP accounts, at 1.2 million, are the highest in the industry. For the quarter ended September 30, 2013, the asset management business generated income of Rs. 2 billion - an increase of 17%, driven by higher MF assets under management. The business achieved a profit before tax of Rs. 667 million - an increase of 16% over the corresponding quarter last year. Reliance Mutual Fund continues to be amongst the most profitable mutual funds in India.

Reliance Securities is amongst the leading retail equity broking houses in India. The focus at Reliance Securities is on its key business verticals of equity and commodity broking and wealth management. In the broking vertical, the equity broking accounts increased by 3% to over 720,000 and the average daily equities turnover stood at over Rs. 22 billion. The number of commodities broking accounts increased by 10% to over 41,000 and the daily average commodities turnover of Rs. 3 billion. In wealth management, the assets under management stood at Rs. 14 billion - an increase of 75%. For the quarter, total income decreased by 22% to Rs. 504 million, while profit declined to Rs. 3 million due to fall in volumes, mainly in the commodities segment that was impacted by market-related issues. Reliance Money is amongst the leading distributors of financial products and services in India with a distribution network of over 6,700 outlets. Reliance Money is one of the largest private sector partners for Western Union Money Transfer in India and handled 800,000 money transfer transactions during the quarter - an increase of 25%. For the quarter, revenues rose by 25% to Rs. 352 million. The business made a marginal loss of Rs. 8 million in the quarter due to exit from gold coin distribution and related activities.

In conclusion, I would like to say that, all core businesses are on track in terms of operating performance and have delivered profitable results on a consistent basis.

Thank you very much. We can now take questions.

Moderator: Thank you very much sir. We will now begin the question and answer session. The first question is from the line of Santosh Singh from Espirito Santo, please go ahead.

Santosh: Hi sir, this is Santosh, couple of questions, one is if I look at the new business premium growth, what is the proportion index linked product?

Company Speaker: As of now, we do not have an index linked product in our portfolio.

Santosh: Okay, so nothing came from index linked?

Company Speaker: No, nothing came from index linked.

Santosh: What could be the proportion of par and non par?

Company Speaker: In fact our par proportion has gone up this year, in Q2 our non par was about 46% of the individual business portfolio and par was about 40%, ULIP was 14%.

Santosh: In non par, are we still doing the NAV guarantee product last quarter or it was all?

Company Speaker: We have not been doing NAV guaranteed product for a very long time, we did NAV guarantee for a very brief period.

Santosh: This non par would not include any NAV guarantee, nothing from index linked.

Company Speaker: No.

Santosh: What sort of margins are you making on the non par portfolio?

Company Speaker: We won't be able to disclose exact margins, but overall our margins have improved over last year.

Santosh: If I look at the AUM, it has decreased quarter-on-quarter basis, so is it because of the lower persistency?

Company Speaker: A large part of our older book is ULIP, so they have crossed the three year mark, so surrenders are possible, people can surrender and surrender is also linked to the market performance in the month that markets are doing well.

Moderator: Thank you. Next question is from the Kajal Gandhi from ICICI Direct, please go ahead.

Kajal Gandhi: Good evening sir, can you throw some light on your commercial finance book in the sense the book has not grown on an outstanding basis and also we have not seen any increase in interest cost particularly in the quarter when everything was on the higher side, so if you can throw some light there?

Company Speaker: The strategy of keeping the book flat is something that we have been following over the past few quarters if you would have noticed and that is because last year sometime we took a call saying the economy is not going to do too well and therefore it will not be a conducive environment from our perspective to grow the book aggressively and that is exactly the strategy that we have been following in the quarter as well, so until the macroeconomic situation improves and the capex demand does not build up, I don’t think we will grow the book very aggressively. Now, as far as the increase in cost of funds is concerned, that is primarily because, from an ALM perspective, we have been extremely conservative and we have all along depended upon long term funds, so we hardly have any dependency on the short term market as far as funding is concerned, so therefore when the rates went up in July, we had almost no impact, so therefore you will find that while in good times we have sacrificed a little bit of NIM in the interest of conservatism, today it is paying off.

Kajal Gandhi: What kind of margins in terms of asset quality what you are looking at?

Company Speaker: Asset quality as far as GNPA is concerned, on a 90-day basis and I am going to emphasize the 90-day factor here, is at 2.3% which is more or less flat compared to the last quarter, so we would like to maintain it at this level, frankly speaking given the stress in the economy I think 2.3% is a figure that we would like to end the next quarter as well. Now as far as NIM is concerned over the past one year you would notice that the NIM has actually increased by almost about 1% upward from about 4.2% to about 5.3%, that is because of the strategy of reducing the ticket size and increasing the granularity of the portfolio and focusing upon areas which are higher yielding as in smaller vehicles in terms of trucks, affordable housing so on and so forth, so that is the trend that we would like to pursue in the next few quarters.

Kajal Gandhi: Sir on the life insurance part how do you see that now in consolidation in future and what is the reason particularly for this quarter’s strong numbers?

Company Speaker: This quarter’s strong numbers essentially track our individual WRP and we have always said that we are an agency focused company, so this quarter’s strong numbers are exactly on the back of a strong performance driven by robust growth and productivity and a good growth in ticket size and activation and recruitment of advisors, these are our four levers that are really driving our growth.

Kajal Gandhi: So it is more on the cost side that you have been able to curtail and because on the premium side and other things AUM side I don't see it

Company Speaker: Actually ours is not really a cost based approach like I said we have actually focused on building agencies, so the number of agents that we have recruited, our average ticket size, our SM productivity and growth in the agency business, individual WRP, that is what is driving our performance, it is not really a cost based approach.

Kajal Gandhi: In terms of consolidating life?

Company Speaker: Currently, we are consolidating 48% of Life in to our consolidated financials; balance 26% continues to be held with Viscount Management Services. We did say that at some point of time going forward we will do that but there is some tax benefit which we will lose out, so we will look at consolidation at a future date, not now, currently it is only 48%.

Kajal Gandhi: Okay, you were also discussing on the general insurance stake sale, is anything happening there?

Sam Ghosh: If you look at the market conditions currently, it does not make sense for anyone to look at doing a stake sale, so what we have decided is that in next financial year post elections etc., once the market stabilizes then we will obviously consider looking at this.

Moderator: Next question is from the line of Manish Shukla from Deutsche Bank, please go ahead.

Manish Shukla: Good evening everyone, first on life insurance, can you tell me the number of agents as of September.

Company Speaker: Actually, we look at active agent counts. We do not look at total license base. Total license base is over a lakh, active on a monthly basis would be lesser but we look at how many have been active in that period, that number is close to about 50,000.

Manish Shukla: In the metric that you are tracking active agents what would that number be in June this year and September last year?

Company Speaker: We are more or less at the same level I would say in June this year and this year September we are more or less at the same level. Last year was worse. Last year we had lower. Average advisor productivity and SM productivity both have improved by over 50%.

Manish Shukla: Moving on to general insurance during the quarter, quarter-on-quarter there is actually a slippage in the combined ratio, it has moved from 113 to 120, so what is the outlook there and what has cause this deterioration quarter-on-quarter?

Company Speaker: If you recall two years back the motor pool was disbanded and this quarter we really upped one of the one time provisions to really take care of the business which was returned two years back, if you see on a normal running basis we are significantly profitable, that the motor pool will take another few quarters to wind down completely.

Moderator: The next question is from the line of Nischint Chawate from Kotak Securities, please go ahead.

Nischint Chawate: Did you book any capital gains during the quarter?

Company Speaker: No.

Nischint Chawate: What would be the total equity investment book including subsidiaries.

Company Speaker: All put together would be around 11,000 Crores.

Nischint Chawate: Preference shares?

Company Speaker: All investments done in businesses as well as listed equities would be 11,000 crores, our preference shares and other unlisted would be around 3,000 Crores. It is similar to what it was in March; there has been no significant change.

Nischint Chawate: Just trying to understand what exactly is happening in Reliance Securities because we just kind of barely breaking even over there for the last two quarters?

Vikrant Gugnani: The equity business is doing okay. It is on break even given that we are only in to pure retail customers and retail customers are not really coming back in to the market. We have taken a hit because of the commodity slowdown on the commodity side which was significant where volumes over the last two quarters dropped by almost 70% firstly because of the CTT issue and secondly because of the NSEL issue and the currency broking because of RBI restrictions and margins being raised turnover has evaporated in the retail market but we think this will come back once the margins are taken back because the CAD issue is more or less under control as per the RBI. Commodity still is a little bit of a challenge but we have a fairly variable cost structure, you will see that impact to come down significantly, so you will see the upside on the broking side in the next quarter.

Nischint Chawate: Possibly you will kind of cut down your expenses over the next couple of quarters?

Vikrant Gugnani: It is variable but it comes with a three month lag, that has already happened, so is already taken care of. On the distribution side we shut down our gold business, so there was a one-time hit which we absorbed, offloading almost half a ton of stock which really we had to absorb all the cost.

Nischint Chawate: Can you give some colour on the performance of Quant?

Company Speaker: On Quant also, on the equity or the commodity side they break even this quarter because of the market slowdown and like Vikrant said also because of the commodity volumes shrinking considerably.

Nischint Chawate: The numbers that you reported don't include Quant is it or do they include Quant?

Company Speaker: They do.

Nischint Chawate: On the NBFC side if you could give us a break up of the NPA in terms of sector wise data?

Company Speaker: NPA sector wise you will find that mortgages would be in the region of around 1.6% or so, on the SME side it is somewhere in the region of around 3.8% and that is contributed by couple of chunky cases which we are hoping to solve in this quarter, so that would bring things a little to normalcy.

Parag Jariwala: Sir, just a few questions. One is on your lending business. Last one or two quarter you said that CE is in pain because of infra and economic slowdown, that book is completely over or we can still see some coming up in next few quarters?

Company Speaker: I don't expect more cases to flow in on a netted. There will be some amount of churn which will obviously keep happening but I think possibly we would have taken most of the knock already. I don't expect that to go around, in any case it is a very small book relative to the total size but therefore since we had the slowdown on disbursal funds account almost a year ago so to that extent we are fairly safe from an overall basis.

Parag Jariwala: What could be the decline in disbursement year-on-year basis?

Company Speaker: The book has been kept flat, that is number one and number two is that we have pushed the ticket sizes down significantly and also even from the infra side we have actually not gone in for any BOT kind of project and all that so it has been fairly short end cash flow base kind of lending that we have done, so those are not having, in fact we absolutely have no NPA on the infra side at all, so whatever little equipment loans which were there whatever hits that had to be taken there we have broadly taken them.

Parag Jariwala: Sir on general insurance earlier you said that FY 2014 write off could be limited to around 60 odd Crores, so how much of that would be left over some, are we distributing equally over a quarter.

Company Speaker: We are distributing equally over four quarters, so we have taken two and this will get completed by the end of the year.

Parag Jariwala: Sir our AUM overall in asset management business has declined by 5%, so can you share the similar decline for equity AUM?

Company Speaker: Actually it has not declined. The AUM has increased but however in the equity side because if you were to look at marked-to-market basis because this number is for September 30, 2013 I think yes there has been a mark-to-market, the AUM is little down and also across the industry we have seen high redemption but overall because of retail debt going up AUM has been increasing.

Moderator: As there are no further questions I would now like to hand the floor back to the management for closing comments. Over to you.

Sam Ghosh: Thanks very much and next quarter also I think will be a very good quarter for us because market conditions have been similar but performance from each of our business obviously has started improving. With those few words, thank you very much.

Moderator: Thank you. On behalf of Macquarie Capital Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.