“Reliance Capital Earnings Conference Call”

May 30, 2011

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Moderator: Ladies and gentlemen good day and welcome to the Reliance Capital FY'11 earnings conference call hosted by Edelweiss Securities Limited. 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 at the end of today's presentation. If you should need assistance during this conference call please signal an operator by entering "*" and followed by "0" on your touchtone phone. Please note that this conference is being recorded. At this time I would now like to hand the conference over to Mr. Kunal Shah of Edelweiss Securities Limited. Thank you, and over to you Sir.

Kunal Shah: Thank you, Vivian. Good evening all of you. This is Kunal Shah from Edelweiss Securities. We have with us Mr. Sam Ghosh, CEO of Reliance Capital along with other senior management team members to discuss their fiscal 2011 earnings. Over to you Sir.

Sam Ghosh: Good evening to all of you. Just like to introduce the team here. We have representative from all the companies; I think you have spoken to most of them. They are Sundeep Sikka from Asset Management, Malay Ghosh from Life Insurance, Vijay Pawar from General Insurance, Vikrant Gugnani from Reliance Securities as well as Reliance Money, Amit Bapna, our CFO and Sandip Parikh from Commercial Finance and Home Finance.

So with that few words, 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 total income from operations for the year ended March 31, 2011 was Rs. 55 billion, a year on year decrease of 10%. This was on account of decline in general insurance premium, no income from trading G-Secs and lower capital gains booked during the year. This was in line with the strategy of writing only profitable business in general insurance and moving away from capital gains as the focus is on the performance and profitability of the core businesses of Reliance Capital.

The net profit before one time provisioning increased by 9% to Rs. 4.7 billion. This one time provisioning of Rs. 1.8 billion was made on account of change in provisioning norms for commercial motor third party pool loss in the general insurance, as intimated by the regulator. As you all are aware, this has been an industry wide phenomenon. These losses aggregating to around Rs. 70 billion for the entire industry, have been shared by all industry players in proportion to their total market share. This change has affected the profitability of all general insurance players, bringing down profits of leading general insurers by as high as 200%.

As a result of this provisioning, the net profit after one time provisioning declined by 33% to Rs. 2.9 billion.

I am extremely happy to inform you that this year, almost the entire profits of Reliance Capital have been contributed by our core businesses of asset management, commercial finance and retail broking and distribution, as against 56% in FY10. The profits from our core businesses have increased by 43% year on year to Rs. 6 billion. The focus continues to be on profitable growth across our core businesses: Life Insurance, Commercial Finance, Asset Management and Broking and Distribution

I am also very pleased to highlight, that all the measures that were taken across these businesses to improve operating performance and profitability have been successful in commercial finance; the profits have significantly increased by nearly 100% to Rs. 2.7 billion. In this business, we have always focused on asset quality. Today 97% of the book is secured as against 87% a year ago. By the end of the next quarter, the entire loan book will be secured. The Gross NPLs have declined by 51% to Rs. 1.6 billion. And the provisioning decreased by 53% to Rs. 1.3 billion.

In broking and distribution, I am very happy to inform you that the profit for the year has grown by over 130% to Rs. 345 million. This gives me tremendous confidence that all the steps taken by this business in the past year, have been in the right direction.

In asset management, we have continued to focus on retail across all asset classes. Reliance Mutual Fund launched a gold fund – the first of its kind in India, where investors could invest as low as Rs. 500 without the need of a demat account. Nearly 200,000 investors participated in this NFO and the fund has a commitment of around Rs. 30 billion over 10 years through SIPs.

The number of SIPs and STPs have grown by over 70% and RMF’s market share of AUM collected from beyond the 100th city is more than 40%.The business achieved a profit of nearly Rs. 3 billion – a year on year increase of 10%.

In life insurance, the focus continues to be tapping the underpenetrated insurance market in India and traditional insurance products. This year, nearly 50% of the premium was from traditional product platform as against 8% in the previous year and premium from Tier II and III locations contributed to over 70% of the new business premium in the past year. The loss for the year declined by 54% to Rs 1.3 billion. In fact Reliance Life was profitable in the second half of the past year achieving profits of Rs. 341 million. Reliance Life will be profitable in the current financial year, FY12

Capital infusion decreased by 48% to Rs. 1.2 billion. In fact, the business did not need any capital in the second half of FY11. I am happy to mention that this business will no longer need capital this financial year. We have given detailed financial and operating parameters for each of our major businesses in our presentation and review report.

I will go through some of the main highlights in each business:

Reliance Capital Asset Management manages Rs. 1.5 trillion of assets across its mutual fund, portfolio management services and offshore funds. Reliance Mutual Fund continues to be India's No.1 Mutual Fund with a market share of over 14%. The average assets under management of Reliance Mutual Fund were at Rs. 1,016 billion for the quarter ended March 31, 2011. The number of investor folios stood steady at 7.3 million, amongst the highest in the mutual fund industry with a market share of over 15%. The business generated income of Rs. 7.3 billion – a year on year increase of 8% and a profit before tax of Rs. 2.9 billion – year on year increase of 10%.

I am happy to share with you the focus on long term retail debt and leaner cost of operations has increased the profitability. The PBT to average AUM improved to 30 basis points – a year on year increase of 20%.

Reliance Life Insurance is amongst the top 4 private sector life insurers, in terms of individual new business premium with a private sector market share of 8.7%. The business sold the highest number of individual premium policies for the year in the private sector and crossed the five million for policies in force. The total premium remained steady at Rs. 66 billion. And the renewal premium increased by 32% to Rs. 35 billion. We managed nearly Rs. 180 billion of assets – year on year growth of over 30%.

The new business achieved profit for the year was at Rs. 3.6 billion, which translates into a margin of 16.7%. In the presentation, we have disclosed details on the operating assumptions made in the calculation of NBAP. Going forward we shall disclose NBAP on a yearly basis and are considering disclosures of Embedded Value in the current financial year.

In March, we announced the 26% stake sale to Nippon Life – Japan's largest private sector life insurer and 6th largest in the world. This transaction values Reliance Life Insurance at nearly Rs. 115 billion and Nippon Life will invest around Rs. 31 billion in Reliance Life. This is the largest FDI in Indian financial services sector and by far the largest in the insurance space. We are awaiting regulatory approvals and have filed our applications with the concerned regulators. This transaction will be successfully completed in the current financial year.

Reliance Commercial Finance is amongst the leading lenders in the non banking finance space. The profit before tax increased by nearly 100% to Rs. 2.7 billion. The net interest income was at Rs. 5.1 billion - year on year increase of 11%. The average net interest margins were at 5.3% and the average cost of borrowing was at 8.8%. The assets under management grew 25% to Rs. 138 billion. The disbursements increased by 52% year on year to Rs. 88 billion. During the year, the business securitized loans of Rs. 11 billion – a year on year decrease of 58%.

To demonstrate our focus on the secured asset lending, we have split up the Commercial finance business into two segments of businesses – secured loan book and unsecured loan book, starting with the secured loan book. The financials for each of these divisions have been given in the presentation.

The net interest income grew by 36% year on year to Rs. 4.5 billion. It achieved a profit before tax of Rs. 3.2 billion – an increase of 5%. There was no securitization profit booked in the year. If we exclude the securitization profit booked in the previous year, the profit from business operations significantly increased by 65% year on year.

The outstanding unsecured loan book at the end of March 2011 was Rs. 4 billion – a 67% year on year decline. The loss was brought down to Rs. 553 million – a year on year decline of 68%. The provisioning declined by 60% year on year to Rs. 941 million.

Reliance Securities is amongst of the leading retail equity broking houses in India. The focus at Reliance Securities is on its key business verticals of equity broking, wealth management and investment banking. In the broking vertical, Reliance Securities had over 660,000 broking accounts. Its daily average equities turnover stood at Rs. 14 billion. In wealth management, the assets under management as on March 31, 2011 increased by over 85% year on year to Rs. 1.7 billion. In investment banking, during the year, we handled four issues mobilizing an amount of over 6 billion, while IPO funding of Rs. 35 billion. Reliance Commodities, the commodities arm of Reliance Capital, has over 34,000 accounts and a daily average turnover of Rs. 3 billion. The business achieved revenues of Rs. 1.6 billion and a profit before tax of Rs. 221 million.

Our distribution business, branded as Reliance Money, is amongst the leading distributors of financial products and services in India. It has a pan India presence with a distribution network of nearly 6,200 outlets. Reliance Money has tied up with India Post to sell gold coins through the post office network across the country. Reliance Money sold nearly 1.5 tonne of gold in the year – an increase of over 230%. Reliance Money is the largest private sector partner for Western Union Money Transfer in India and handled over 2 million money transfer transactions during the year – a 20% year on year increase. The market share in FY11 increased to 12% as against 10.7% for the corresponding previous period

The business achieved revenues of Rs. 585 million for the year – a year on year increase of 35% and a profit before tax of Rs. 124 million against a loss of Rs. 126 million in the corresponding previous period.

I am happy to inform you that the significant shift in profitability is due to the focus on higher margin products and leaner cost of operations. This has translated to a healthy profit margin of 21% in FY11.

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 9.4%. The Gross Written Premium for the year was at Rs. 17 billion – a year on year decrease of 16%. We continue to be focused on writing profitable business and improving the underwriting practices at Reliance General Insurance.

The loss for the year was at Rs. 3 billion as against Rs. 905 million for the previous year. And the combined ratio with pool was at 136% as compared to 117% in March 2010. The increase in loss and combined ratio has largely been on account of changes in the provisioning norms relating to commercial motor third party pool losses. These third party pool losses have been shared by the industry players in proportion of their total industry market share. Reliance General Insurance has provided for these losses fully during Q4FY11. Over Rs. 1.8 billion of the loss is due to these changes in provisioning norms and is a one time effect on the P&L.

During the year, Rs 1.4 billion was infused into the business – a year on year decrease of 32%. The total capital invested till date is Rs. 11 billion.

In conclusion, I would like to say that I am personally very happy with the continued strong operating performance of our major businesses. This gives me tremendous confidence and I am certain that, barring extraordinary circumstances, Reliance Capital's strategy of focusing on profitable growth will result in ROE in the range of 16 to 20% from its businesses.

Thank you very much. We can now take questions.

Moderator: Thank you Sir. Ladies and gentlemen, we will now begin the question and answer session. Anyone who wishes to ask a question may kindly press "*" followed by "1" on your touchtone phone. Participants are requested to use handsets while asking a question. Participants who have questions kindly press "*" followed by "1" now. The first question is from the line Suresh Ganpati from Macquarie. Please go ahead.

Suresh Ganpati: Hi Sam. This is a question on life insurance. See this quarter year you have reported not quarter rather for a full year perspective you have reported a new business margin of 16.7

and now if I work backwards and calculate for the fourth quarter your margin should be 13.6% to have a full margin of 16.7%, so that is a whopping 500 basis point decline QoQ, because nine month margins are at 18% is this true? I mean is this calculation is fine? I know you are saying that you have not look at a quarterly basis, but still this fall is pretty sharp this quarter.

Malay Ghosh: You will remember that I have been giving a guidance of about 16% in the case of the whole year and in the previous analyst calls we have talked about that. The reason for this NBAP decline has been mainly because of participating policies in traditional sales happening more between December and March that is very high level. You will remember that the universal life plans were withdrawn in late October and we had to bring in the new life insurance polices on traditional platform. Normally in a participating policy and you have a NBAP calculated at 10% of the surplus, so that was reason that reason that you know December to March we had a lower NBAP as a percentage but higher cash flows. In the quarters of this current financial year we expect this to remain at this level and then grow further because we will be looking at increasing the participating products in traditional polices from second quarter onwards, non-par products.

Suresh Ganpati: Non-par product.

Malay Ghosh: We trying to push on non-par product and this have been increased much.

Suresh Ganpati: So the participating policy margins how much it would be on a standalone basis 10%, 12% what could be the margins of participating policy?

Malay Ghosh: I will not discuss the margins for participating policies as such on this call. You are welcome to know at some places where we can discuss this for let me tell you that the NBAP our target is move towards 17 - 18% in 2012.

Suresh Ganpati: So can you just let me know your product portfolio as to now on an outstanding basis how will you split up how much is coming from ULIP, how much participating and nonparticipating traditional actual whatever it is all these kind of various product that you have can you just segment it into various components and their proportion basically?

Malay Ghosh: As I told you the broad division is about 50% in ULIP, in fact 48% in non-ULIP and 50% in ULIP.

Suresh Ganpati: This is outstanding right? Not incremental outstanding are talking about.

Malay Ghosh: No I am talking about only the last year.

Suresh Ganpati: Can you give me the outstanding figures also if you don't mind?

Malay Ghosh: I do not have readily with me.

Suresh Ganpati: Okay so last year it was 52% ULIP and 48% non-ULIP.

Malay Ghosh: 92% ULIP and 8% non-ULIP year before last.

Suresh Ganpati: Of the traditional policies so what is percent he is roughly par and non-par?

Malay Ghosh: Traditional policies in the last four months, the participating policies has been in about very good part actually 63% of the total business, 37% of total business was participating.

Suresh Ganpati: I think the last four months to five months is critical period so that when the real effect of changes took place. So that is the point why the margins have declined and what are going to trying?

Malay Ghosh: It has declined by 1% point in one quarter and we expect to stabilize at this point in the first quarter and go up thereafter.

Suresh Ganpati: So 63% is non-par policy basically you are talking about in last four months?

Malay Ghosh: Out of which 50% is ULIP of the total overall portfolio 37% is participating policy.

Suresh Ganpati: Okay overall portfolio 37 is participating in the last four months and nonparticipating would be?

Malay Ghosh: Nonparticipating will be 11% in traditional.

Suresh Ganpati: Okay and remaining 52% would be basically ULIP basically. Okay find this is for an FY'11 your talking about right?

Malay Ghosh: Yes in last four months, portfolio mix in the last four months.

Suresh Ganpati: Portfolio mix in the last four months. Okay I think that answered my question. Thank you.

Moderator: Thank you. The next question is from the line of Nischint Chawathe from Kotak. Please go ahead.

Nischint Chawathe: Hi just want to get the status as to get the sense as to what is the status of the Nippon Life Deal?

Sam Ghosh: It is with the regulator as well as with finance ministry.

Nischint Chawathe: I think two days back there was RBI circular around NBFC that says that NBFC cannot hold more than 50% in insurance how does that affect us?

Sam Ghosh: Actually if you look at the RBI guidelines they always had 50% limit and then they will some special exclusion to some of the systematic important in NBFCs which got up to 74%. That is what HDFC and all other just got approval but always 50% has always been there. I think what RBI is trying to do reinforce that going forward retrospectively they cannot do too much.

Nischint Chawathe: Okay so what you saying is that this is only for but I think this is prospective or this is retrospective?

Sam Ghosh: Prospective because retrospectively cannot change it until I suppose you can ask companies who sell down but at this point they have not disclosed and I think RBI has given anyway written approvals.

Nischint Chawathe: Again on insurance business itself I think persistency ratio seems to have come down sharply between third and fourth quarter any specific reason?

Sam Ghosh: I will answer it this way if you look at the renewal premium growth it has been healthy 34% vis-à-vis almost 0% growth for the industry. The idea was to allow more time and getting premiums from lapsed policies of previous times and going forward from the first quarter itself we will be able to see significant improvement in the receivables that are mentioned in the public disclosures.

Nischint Chawathe: I am sorry I just did not get the last sentence improvement in?

Sam Ghosh: Improvement in the conversion ratio and persistency you will see marked improvement going forward quarter-to-quarter this year because it will then capture 2009-10, and 2010-2011 business, renewal premium growth has been quite healthy and from that only I am telling you from that calculation.

Nischint Chawathe: Would you kind of say that new regulation and the possibly the new polices being more attractive to customers I mean this is something that is driving people to pay the renewal premium for possibly distributors and that kind of making customers to buy new products saying that new products are cheaper or anything of that sort?

Sam Ghosh: I am saying that though that may be a reason going forward and get help from this regulations, but more it has to do with some kind of stabilization that has happened in the market place after the fall for which our entire focus of this retention channel was to get previous polices which discontinued during unsettled times and that is the reason our I would say the revival and renewals have actually been over nine months and not on six months as required by the regulations; the ratios that are in public domain. All I am saying is that phase is over. We have seen the movement of these figures upwards in the last three to four months and I can say that significant jump you will be able to see going forward from this quarter itself.

Nischint Chawathe: Is there is any regrouping in numbers of Reliance Securities and Reliance Money?

Sam Ghosh: Yes there was actually I think something that splits the Reliance Securities and the Reliance Money exceeds from this quarter onwards.

Savli Mangle We actually split these in two business P&L, Reliance Securities which includes the equity broking, commodity broking, investment banking and wealth management operation and the Reliance Money, which is the third party distribution gold coin and third party distribution to life and general insurance. We have been doing that for the past two quarters.

Nischint Chawathe: I understand that you know the Reliance Securities numbers are possibly not comparable for?

Savli Mangle: If you look at the total figure, the total profit for both these come to 34 Crores, as against 14 Crores that PBT level of FY'10.

Sam Ghosh: So just add the two P&Ls and compare.

Nischint Chawathe: Anything specific changes in Reliance Money per se, because that I think the PBT has come down?

Vikrant Gugnani: In Reliance Money, I heard you say that the business has come down, business is actually more than grown many times, the focus continues to stay on high margin retail products using gold coin, money transfer business, medical insurance, mutual fund, etc., at a retail level, money transfer business is doing exceedingly well, so from 10% market share to a 12% market share, and gold coin business is more than tripled from 400 kg in FY'10 to about 1.5 tonnes in FY'11. These are high margin products and we have actually more than doubled our customer base from the distribution side, about 170000 customers in FY'10 to about 4 lakhs customers in FY'11. So it is building up and assets are building up and long-term annuity income will start kicking over the next couple of years.

Moderator: Thank you. The next question is from the line of Kajal Gandhi from ICICI Direct. Please go ahead**.**

Kajal Gandhi: Basically wanted to know more about the general insurance side, because this has been a dampener to earnings for so many quarters now, so what is the outlook on this and what are we planning on that?

Vijay Pawar: General insurance business in fact has this particular current year, we had to make huge provision against the third party liabilities, which is coming out of the pool and that has actually hit our business as it is, we have taken lot of precautions of writing profitable business this year, but down the line this current year, we are planning to start getting profits out of this business when we are focuses on profitable business and these provisions which have been done in the last year are now over, so we feel that the first quarter, we should turnaround and start getting profit and looking that current year FY'12, we are targeting a breakeven.

Kajal Gandhi: So what kind of profitability you are looking at in this?

Vijay Pawar: We are targeting a breakeven for the current year. I think it is only largely dependent on how the motor thirty party pool behaves, if there is additional provision required, but obviously this is just an estimate.

Kajal Gandhi: Also just let us know how are the NPAs on the loan book and what are your targets on the loan book growth?

Sandip Parikh: NPA for the year was around about 1.3%, which has falling from almost 3.5% last year and the targets given the market condition, we should be in the range of around 1.1% to 1.3% of the total book for the next financial year and as far as the loan growth book is concerned as we have already been mentioning it would be purely secured book, which would be growing, pure focus on SME would be the target growth for us.

Kajal Gandhi: What is the kind of growth percentage 20%, 30%?

Sandip Parikh: See basically we would be looking at little higher growth than the credit offtake in the industry may be round about 25%-30% growth.

Kajal Gandhi: What are the costs of funds right now in the market place because everything will be on fresh borrowings?

Amit Bapna: The current cost of funds, new loans would be around at 10-10.5 but that for overall lending, so the NIMs do not get impacted. Average cost of fund is still sub 10.

Moderator: Thank you. The next question is from the line of Veekesh Gandhi from DSP Merrill Lynch. Please go ahead.

Veekesh Gandhi: Hi sir, just a quick question on your NBAP margins, I know somebody did ask earlier, but I think there has been a steep fall so where do we see the margins stabilizing going ahead on your life insurance?

Malay Ghosh: In a very short term of one quarter or two quarters, it will not go below 16%, but we expect to have an NBAP margin of about 18% going forward.

Veekesh Gandhi: How do you see growth panning out for yourself as well as you know for the industry for the new business?

Malay Ghosh: For the industry in the weighted receipt premium basis, the growth will be between 10% and 15% that is general consensus of the industry as we recently had and we would like to have if there is a better than industry growth rate going forward because presently we are comparing ourselves with pre-September, pre-IRDA regulations period. After September, it will be an apple-to-apple comparison and the growths are expected to be higher at that point of time.

Veekesh Gandhi: Second half will be better than the first half?

Malay Ghosh: I think the industry itself will show better growth in the second quarter.

Veekesh Gandhi: Just one small other thing, Sam you did mention about getting regulatory approvals and all that, but you know I think you left it broad over the course of next this fiscal year, so is it going to be like you know way out there and in terms of Nippon guys or it is going to be?

Sam Ghosh: Obviously our aim is that the approvals come soon as quickly as possible, but we have left it open because January 31 is the last day anyway by which we have done 10 years versus automatic root. So obviously our aim is that in the next two months to three months we close this, worst case is January 31.

Veekesh Gandhi: Great. Thank you Sir.

Moderator: Thank you. The next question is from the line of Manish Ostwal from KR Choksey Shares & Securities. Please go ahead.

Manish Ostwal: Hello sir**.** My question is related to the consolidated entity actually if I look at FY'10 number versus FY'11, most of the business due to regulatory changes are under pressure or some off in the earning statement, if you take the medium term outlook, how the ROE as a consolidated level will improve, what are the drivers for improvement?

Sam Ghosh: Actually if you look at most of the businesses that they also performed last year, other than general insurance, so it is on that basis that if you look at our business the ROE is well over 13-14%. Going forward this will be much higher. If you look at Reliance Commercial Finance and Home Finance, both of them this year will be at above 15%-16%, but going forward this should be well over 18%-20%. Same way with broking and distribution this year they did about 18% ROE, and moving forward they will be well about 18%-20% again and life should at least come in with 10% or so ROE for this coming year but going forward to that much higher IRR and general income at least will come to break even. If you look at it progress of all the company, which have significantly high ROEs well above by 16-20% level. Life will take one more year and general insurance also bit more.

Manish Ostwal: Second Sir what is your outlook on especially consumer finance business because right now the rising interest rate to the cost of fund for the wholesale entities have gone up and then the pricing power at your end to pass on to your customers. So where do you see deterioration in the pricing power and secondary your NIMS going forward?

Amit Bapna: See basically our mix of the book we are basically into businesses, which is 70%-75% of the book, which is floating book. It is more on we have just basically pass on this, so that per se we will not be having any constraints on either writing the book or in fact passing on the cost of fund. So irrespective of how the cost of funds moves we would not be too much impact by that at all and our margins would be protected to the level, which we will able to maintain over the three or four quarters.

Manish Ostwal: What is your steady state NIM outlook?

Amit Bapna: We have been doing around about 5% and we would be maintaining in and around that range in the next couple of quarters also.

Manish Ostwal: Second Sir, in commercial finance business, what is our currently capital adequately?

Sam Ghosh: 15%.

Manish Ostwal: So, we are required to have 15%, right Sir?

Sam Ghosh: Yes.

Manish Ostwal: So any capital infusion from standalone?

Amit Bapna: This business debt is on Reliance Capital balance sheet as well largely.

Manish Ostwal: I believe you demerged the business to some another entity?

Amit Bapna: Yes, we did a business segment, but we have merged it back into Reliance Capital. So in the results in the notes also we have given the entire calculation and we merged back the entity.

Manish Ostwal: Thank you very much and all the best for your next quarter.

Moderator: Thank you. The next question is from the line of Shashin Upadhyay from Alchemy. Please go ahead.

Shashin Upadhyay: Hi Sir. Just a quick take on what is the targeted combine ratio for life for next year?

Sam Ghosh: Combined ratio for general insurance or life?

Shashin Upadhyay: General?

Vijay Pawar: For first quarter?

Shashin Upadhyay: For whole year.

Vijay Pawar: For whole year we are looking at the combined ratio of 105%.

Shashin Upadhyay: 105% and the effective 40 Crores would include, gains from investment also?

Vijay Pawar: Yes, you are right.

Shashin Upadhyay: Okay and just wanted to have a sense of premium growth like let us assume in first half what is the vis-à-vis or like-to-like comparison that I could know understand from this insurance segment?

Sam Ghosh: This is growth rate?

Shashin Upadhyay: Yes, business growth rate for your budgeted growth?

Sam Ghosh: Our budgeted growth rate is about 15% and then we are targeting about may be from the current figures to about 1900 Crores.

Shashin Upadhyay: Okay and what could be the incremental spread in all consumer finance business?

Sandip Parikh: This would be similar, we are maintaining NIMs of 5-5.5%, so even if the cost of funds go up, we will not be compromising on the NIMs.

Shashin Upadhyay: And just wanted to have sense on the sensitivity if you would have done on your loan portfolio. What price in interest rate you would be comfortable from here on?

Amit Bapna: Like Sandip said 65-70% of our book is floating rate loan, which is repriceable. So whenever there is an increase in rates or our cost of funds go up significantly we repriced on the asset side as well. On the liability side we have similar percentages were 70% of our liability is floating so effectively there is no interest rate sensitivity to that extent. We do long term papers, which are three or four and five years NCD issuance's on the fixed rate basis, which actually goes towards our asset classes which have fixed rates, which is at 30% of the book.

Shashin Upadhyay: So effectively maturities are matched completely?

Amit Bapna: Yes for the interest rate all liquidity risk perspective there is hardly any mismatch.

Shashin Upadhyay: And in terms of asset quality?

Sandip Parikh: We have already mentioned asset quality point of view our gross NPAs around 1.1%-1.2% only. So in the current environment given the target segment we will be able to underwrite and create a good quality book, we have been able to maintain that for almost now for the last so many quarters. In fact we have seen one life cycle coming to an end, we have started this business in 2007 and in the secured business, we have actually shown a very, very good performances. The area where we actually had stress was the unsecured business; now the unsecured business is a very, very small book left, right now total unsecured business left in our books is hardly 1.5% of the total book.

Shashin Upadhyay: So the loan to value will be how much outstanding?

Sandip Parikh: LTV would be different from product to product like a typical mortgage product we would have 45-50% LTV in the secure.

Shashin Upadhyay: For an average, you just could indicate that.

Sandip Parikh: On an average basis, the LTV would not be more than 65%.

Shashin Upadhyay: Okay, right. Thank you.

Moderator: Thank you. The next question is from the line of Santosh Singh from Espirito Santo Securities. Please go ahead.

Santosh Singh: Hello Sir. Couple of questions, starting with general insurance you said that this was a one-time hit coming from the motor third party pool. If we understand that this is a very long tale books may be around six to eight years tale book. So is not that possible because the premium in this particular year, this is get earned over the period of six to eight years and hence the claims will arrive on this particular book over a period of six to eight years so we will see a sort of drag over that period. Is not that right or is it wrong?

Vijay Pawar: No actually the provisions have been made for the claim, which are booked in two ways one is that, which have been reported and provisions for the claims also not reported claims. So the loss ratio is based on this, but then once our topline increases the business increased it will take care of the losses, which will be reported in the future. I think one thing is that rates have been increased to about 68% if I am clear. So that rate increase obviously will compensate partly towards the issue that would be there.

Santosh Singh: But in the near term say one year because the rate increase will actually have an impact on the bottomline or only after a year's time given the long-term nature of the book?

Vijay Pawar: The rate has been effected from April 25 and the whole year will be available to us and that increase be 58% and is also linked with index, so in future, the increase will take place, so I do not think that we will have any major hit on the third party claims.

Sam Ghosh: I think the way it will work is that see being long tale in next two to three years again the same ratio will go up. The industry itself will be forced to push up rate. This is the way it will go forward. This is one-off hit this year, it may happen again in two to three years time, again the industry will take action. This is part of general insurance motor third party, by any third party.

Santosh Singh: Secondly on the life insurance side you said that the margins will expand to 16% in Q1 and Q2, given the sort of portfolio we have in Q4, how do you expect the margin to expand in Q1 or Q2, are you planning some sort of portfolio change towards ULIP or something?

Malay Ghosh: The changes happened in the product mix because of regulator last year first by ULIP's circular and then by universal life policy circular. What we could do in the last half of the year was kept our unit linked portfolio on track and managed the fall in universal life policy through the existing, but slightly old traditional policy platform. Now we could have one or two non-par products approved by IRDA last year, but they take normally three months time to fully be taken by the field force. We have also filed a few traditional policies on nonparticipating platform, which we were expecting to get IRDA approval shortly. What I am looking at is that 50% portfolio coming from traditional and within that 50% about half or slightly more coming from participating will take care of both the cash flow as also the new business NBFC margin for the company. We will continue to have about 50-50 place in ULIP and non-ULIP and thus I hope that it would be NBFC margin will stabilize somewhere, right now it is 16.75 slightly less than 17. It will go up by 1.5 points. It is stable at about 18.25.

Santosh Singh: I agree with you that in the longer term may be after three quarters it may settle at 17%-18%, but if you are talking about Q1 and if you have 37% par, it is not going to settle at 16% for Q1 unless and until the par goes down to 25% or less than that?

Malay Ghosh: No actually that is what I said. In the first quarter, it might slightly go down to about 16%. Already existing non-par products are picking up. Both with percentage of share in the total portfolio, and in fact it has gone up from 6%, 8%, 10%, now 12% already, its average premium is also higher, the policy holders and the field have accepted that as a very suitable, need fulfillment product in that segment where we sell it and plus we see that even without an IRDA product, the margins will be maintained at around the same level or slightly go up, but the moment we get our other nonparticipating products approved then it will be a complete traditional mix and totally the effects ULIP withdrawal will be taken care of by that manner.

Santosh Singh: Finally on the asset management the profitability has gone down a bit quarter-on-quarter, is it because of employee cost in the last quarter or is it something else?

Sundeep Sikka: No the profitability has not gone down because of the employee cost, we have come up with an NFO, gold NFO in the last quarter, so there was a lot of marketing and the branding exercise, which we have done and if you recollect, this was the first NFO in the industry and wherein we have already commitments of more than 3000 Crores, so the revenue of that will come in the years to come; however, the expense has been booked in the last quarter.

Santosh Singh: If I can ask what sort of expense we have incurred?

Sundeep Sikka: You are talking specific to the NFO?

Santosh Singh: Specific to the NFO.

Sundeep Sikka: I think what is important is that not only the NFO, but otherwise also you would be seeing, we are trying to do a lot of branding exercise on the retail debt side, and for us the focus has been SIPs and retail debt products and these two things are clearly seeing what happened is that expenditure happens upfront as the revenue comes over the years and that is the reason you have seen over the year especially when you see the last year, the industry was down about 7%-8% and so are we but however the topline you will see the growth has been more about 10% to 12%, so we are trying to do is we try to invest for future and so it will not be, you cannot attribute everything only to the NFO, but overall we will be investing on the retail side and you will see the result of that in the coming quarters.

Santosh Singh: What is your proportion of retail debt as of now?

Sundeep Sikka: At this point of time, if you were to see when you started this retail debt focus two years back overall debt portfolio even less than half percent, today where we stand is we are almost touching 20% now.

Santosh Singh: 20% of total debt?

Sundeep Sikka: 20% of total debt and what does that mean is effectively even though as the topline level you will not see overall if you were to see is the at topline we will be replacing liquid, which is for 20-25 basis point product with retail debt wherein the profitability is above 80-90 basis point and that is the reason you are seeing even though the industry will come down, industry is down, our AUM is down, but the topline is increasing.

Santosh Singh: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Jaynee Shah from Avendus Capital. Please go ahead.

Jaynee Shah: Thanks for taking my questions. Just want to get the sense on the growth that you envisaged in the CV financing space for yourself and for the industry?

Sam Ghosh: In what space?

Jaynee Shah: CV financing.

Sandip Parikh: Growth rate we are now expecting around 25%-30% growth rates there on the current year numbers. Amongst the focus area for us it is going to be commercial CVs vertical, SME and mortgages business, in all the three areas we are looking at 20%-25%-30% growth rate somewhere to that in that region.

Jaynee Shah: Sure, that helps, and you do not see, I think raised a concern of one disbursement?

Sandip Parikh: Basically if you see we have been telling basically segmental, SME sector SME sector is a sector, which can absorb higher rate of the lending, borrowing cost because they have the ability to further pass it on their customers and majority of my customers are SME customers, so lending to at a little higher rate comparatively quite easy, compare to salary class or any other class for that matter.

Jaynee Shah: Thank you.

Moderator: Thank you. The next question is from the line of Ritesh Nambiar from UTI Mutual Fund. Please go ahead.

Ritesh Nambiar: Thanks for taking my question. Actually I just wanted to know you have done lot of PE investment with a period just wanted to know the number on it actually to the whole year?

Amit Bapna: The total PE investment is around 2500 Crores, but there is nothing significant we could have done over the last quarter or may be couple of quarters.

Ritesh Nambiar: When can we expect such revenues on account of selling of all these investments?

Amit Bapna: We are in that process to gradually try and sell our PE investment, but there is no fixed timeline to it. Whenever, we get our value we will exit.

Ritesh Nambiar: On the quoted investment, you are stable around 1500 Crores.

Amit Bapna: Yes, roughly 1800 Crores.

Ritesh Nambiar: Generally, the booking of all such investments it would take its own course, what you are saying?

Amit Bapna: We are not in a hurry to sell them, as when we get value against it and some of them yes we do have value. We will be exiting over the next couple of quarters.

Sam Ghosh: I think the one point in the past we needed cash for most of our business, today the cash requirement is not required. For the companies like general insurance, life insurance and housing finance requires significant amounts of cash. As and when cash is required we will divest one or two of them because cash too be may the commercial finance, which is anyway in capital or the housing finance, which may need.

Ritesh Nambiar: I was coming to that question; lot of networth is being stuck in these two investments or even production?

Sam Ghosh: Incremental capital requirements by our businesses are very, very low.

Ritesh Nambiar: Life insurance 31 billion odd would only be actually reinvested in life insurance business or other business also?

Sam Ghosh: The primary investment is only about 300 Crores into the life insurance companies. The balance is going into Reliance Capital.

Ritesh Nambiar: The main company, which would aid all other subsidiaries.

Amit Bapna: What is the question again?

Ritesh Nambiar: Nippon deal?

Amit Bapna: The Nippon deal, the deal size is roughly 3000 Crores, of which 300 is going to primary, and 2700 Crores will be coming back to Reliance Capital.

Ritesh Nambiar: That would aid other businesses?

Sam Ghosh: I think, the aim there is obviously most of our business is only capital other than commercial finance and housing finance, when they need capital as and when they go they need capital.

Ritesh Nambiar: Any other ventures, because you have covered most of the space, but any in fact prop dealing or any anything?

Sam Ghosh: Our thinking now is that we do not want to get into doing much prop business other than liquidating whatever we have. That means we would look at the banking side as and when the banking guidelines come up.

Ritesh Nambiar: On the institutional broking site, post the Quant acquisition, so how is the business going on that side?

Sam Ghosh: I think this year they are showing break-even. I think that all we have not talked much about it; as soon as they start showing reasonable profit we will start discussing that in our quarterly reviews.

Ritesh Nambiar: You are trying to position that business more on a broking side or investment banking and broking both how is it?

Sam Ghosh: Actually, normally such a business would move towards investment banking, and would obviously starts off with broking and investment broking would be the first next focus..

Ritesh Nambiar: Thanks a lot.

Moderator: Thank you. We have follow on question from the line of Manish Ostwal from KR Choksey Shares & Securities. Please go ahead.

Manish Ostwal: Few data points required. One is what is the total proportion of fixed and floating in a commercial finance business?

Sandip Parikh: 70% of the book is floating, in fact if you see 70% of the book is floating while another 16%-17% of the book will come back to us in a years' time, so technically if you want to see the fixed book would be hardly 13%-14% wherein I might have interest, 13%-14% of the total book.

Manish Ostwal: So, 13% asset duration is one year only?

Sandip Parikh: Our 70% of book is floating of the balance 30%, 15%-16% will come back to me in a years' time the balance 13%-14% would be greater than one year's assets book.

Manish Ostwal: Second, could you give some sense about quarterly trend in advance in cost of funds?

Sandip Parikh: We have been maintaining that 5% margin over last so many quarters and we will be maintaining the same.

Manish Ostwal: What is your cost of funds in Q3 and cost of funds in Q4?

Sandip Parikh: The cost of fund was around 9 in Q3 and currently it around 960-970 level.

Manish Ostwal: Could you have breakup of your total investment various business like life insurance, commercial and Reliance general insurance and allocated capital to commercial business?

Amit Bapna: For the life insurance we put in 3100 Crores, for general insurance we put 1100 Crores, for the capital contribution towards consumer and home finance business is 1800 Crores and broking and distribution would be around 400 Crores and 10 Crores for asset management.

Manish Oswal: Is it included Quant acquisition also?

Amit Bapna: Quant is 200 Crores.

Manish Oswal: Thank you Sir.

Moderator: Thank you. We have follow on question from the line of Nischint Chawathe from Kotak. Please go ahead.

Nischint Chawathe: Just a clarification any capital gains to book within the quarter?

Amit Bapna: No capital gains.

Nischint Chawathe: Thanks.

Moderator: Thank you Sir. As we have no further questions. I would like to hand the conference over to Mr. Kunal Shah for closing comments.

Kunal Shah: Thank you Sir for your time and all the best for the future quarters. Thank you all of you.

Sam Ghosh: Thank you very much and all the best.

Moderator: Thank you. Ladies and gentlemen on behalf of Edelweiss Securities Limited that concludes this conference. You may now disconnect your lines. Thank you.