"Reliance Capital Q1 FY11 Conference Call"

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Moderator

Ladies and gentlemen good evening and welcome to the Reliance Capital Q1 FY11 Results Conference Call hosted by IDFC Securities Limited. As a reminder for the duration of the conference all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing * and then 0 on your touch-tone phone. Please note that this conference is being recorded. At this time I would now like to hand the conference over to Mrs. Chinmaya Garg of IDFC Securities. Thank you and over to you ma'am.

Chinmaya Garg

Thank you. Good evening everyone. On behalf of IDFC Securities, I welcome you all to Reliance Capital Q1FY11 Earnings Call. We have with us the management and Mr. Sam Ghosh – The CEO. So, I will now just hand over the proceedings to Mr. Gosh if you could introduce your team and give us a briefing on the results before we take questions. Over to you Mr. Ghosh.

Sam Ghosh

Good evening 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 has been to create a robust, scalable & profitable business model, across all its businesses. We will continue to ensure that the core operating businesses increase their contribution towards the earnings mix of Reliance Capital.

Moving on to the financial results:
The total income from operations for the quarter ended June 30, 2010 was Rs. 13 billion as against Rs. 15 billion for the corresponding previous period – a decrease of 14%. This was mainly owing to lower capital gains and reduced topline from general insurance. The core businesses of asset management and consumer finance continued to increase their contribution towards Reliance Capital's revenues.

The total costs for the quarter decreased by 9% year on year to Rs. 4 billion, due to the cost rationalization measures carried out across various businesses at Reliance Capital, moving towards leaner cost structures.

The net profit was at Rs. 770 million as against Rs. 1.5 billion for the previous quarter – a decrease of 49%. This was mainly on account of the loss of Rs. 386 million from general insurance.

In fact, if we keep the loss from general insurance aside, the profit before tax from the core operating businesses improved by 46% year on year. Despite the loss from general insurance, I am very happy to share with you that the contribution of the operating businesses towards profitability, at the profit before tax level has increased from 41% to 60% of the profits.

The major contributors were the businesses of asset management and consumer finance. The asset management business achieved a profit before tax of Rs. 577 million – year on year increase of 23% while the consumer finance profit before tax grew 305% to Rs. 363 million.

The total assets of Reliance Capital, as on June 30, 2010 stood at Rs. 272 billion – year on year increase of 9%. And the networth increased by 4% to Rs. 78 billion. Reliance Capital ranks among the top 4 Indian private sector financial services groups in terms of net worth. We have not raised any fixed deposits from the public.

Reliance Capital had a conservative net debt equity ratio of 1.8 as on June 30, 2010. The company enjoys the highest top-end ratings of 'A1+' and 'F1+' by ICRA and FITCH, respectively for its short term borrowing program and 'CARE AAA' for our long term borrowing program.

We have over 21 million customers across all our businesses – through our unparalleled distribution network with over 6,800 outlets across India.

Let me now move onto each of our businesses – starting with our asset management business:
Reliance Capital Asset Management manages nearly Rs. 1.4 trillion of assets across its mutual fund, portfolio management services and offshore funds based in Singapore.

Moving on to our mutual fund: Reliance Mutual Fund continues to be India's No.1 Mutual Fund with a market share of 15%. The average assets under management of Reliance Mutual Fund stood at Rs. 1.01 trillion in June 2010. The number of investor folios remained steady at 7.4 million as at the end of June 30, 2010.

Of the 7.4 million folios, over 1.2 million are Systematic Investment Plan accounts, registering a year on year growth of 31%. During the quarter, the mutual fund added an average of 60,000 SIPs every month and over 2,600 new retail investors in the ETF category – which is the highest so far.

For the quarter ended June 30, 2010, the asset management business generated income of Rs. 1.6 billion as against Rs. 1.4 billion in the corresponding previous period – an increase of 21%. Despite the year on year decrease in AAUM, the total income increased due to higher fee realizations owing to the focus on retail investors and the increase in the equity AUM. For the year, the asset management business declared a profit before tax of Rs. 577 million – a year on year increase of 23%. I am happy to share with you that in spite of challenging regulatory environment in mutual fund industry, the profitability to average AUM has been maintained at 17 bps. At the end of June 30, 2010, the business had distribution network to 245 locations in India.

In our offshore funds based in Singapore, the assets under management stood at US$ 203 million as on June 30, 2010, as against USD 163 million for the corresponding period in previous year – a year on year increase of 24%.

Now I turn to our life insurance business. Reliance Life Insurance continues to be among the top four private sector life insurance players in terms of new business premium, with a private sector market share of 8.9%. In terms of weighted received premium, Reliance Life Insurance ranks among top three private sector life insurance players. The total premium for the quarter stood at Rs. 12 billion as against Rs. 9 billion for the corresponding previous period – an increase of 33%. The renewal premium for the quarter was at Rs 6 billion from Rs. 4 billion for the corresponding previous period – an increase of 50%. The new business premium for the quarter ended June 30, 2010 grew at 20%. The new business premium was at Rs 6.1

billion as against Rs 5.1 billion for the corresponding previous period The Weighted Received Premium for the quarter was Rs. 5.7 billion – a year on year increase of 18%.

Since the focus is on regular premium policies – the single premium component of the new business premium has been reduced significantly to 7%. As on June 30, 2010, we managed Rs. 144 billion of assets – year on year growth of 74%

I am happy to inform you that for the 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 year was over 490,000 – year on year growth of 21%. In life insurance, we have changed our product mix strategy – moving towards traditional products in the tier 3 & 4 customer segment. In the first quarter, nearly 50% of the new business premium was contributed by traditional universal life products. As on June 30, 2010, Reliance Life Insurance had 199,711 agents – a year on year increase 24%

Despite regulatory challenges in the industry, our new business achieved profit for quarter ended June 30, 2010 improved Rs. 980 million as against Rs. 974 million for the corresponding previous period. In the presentation, we have disclosed details on the operating assumptions made in the calculation of the NBAP margin. In the quarter, we infused fresh capital of Rs. 700 million and the capital invested in this business, till date, is Rs. 30 billion.

Turning to our consumer finance business. The objective at Reliance Consumer Finance is not only credit growth per se but the quality of credit sourced. In line with this, the focus is to increase secured asset lending and de-emphasize unsecured loans. We have moved away from unsecured loans and stopped net disbursals since April 2008. The personal loan book was brought down to 5% as on June 30, 2010 as against 11% as on June 30, 2009. In fact today, more than 90% of our loan book is secured as against 77% a year ago.

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 demonstrated growth in revenues and profits. As on June 30, 2010, the loan book stood at Rs. 92 billion – as against Rs. 85 billion as on June 30, 2009 – year on year growth of 7%. This loan book is well spread across over 117,000 customers from top 16 Indian metros.

The disbursements for the quarter were Rs. 13 billion as against Rs. 7 billion for corresponding previous period – a year on year increase of 87%. Reliance Consumer Finance has emerged to be amongst the leading lenders in the non banking finance space. Reliance Consumer Finance securitized loans of Rs. 4.7 billion for the quarter ended June 30, 2010.

The total income for the quarter was Rs. 3 billion as against Rs. 2.9 billion – an increase of 3% The profit before tax increased by 305% to Rs. 363 million from Rs. 89 million of the corresponding previous period. The net interest margins improved to 5.8% as against 5.6% for the previous corresponding period. The average cost of borrowing decreased to 8.3% for the quarter as against 9.2% for the corresponding previous period. The provisioning as on June 30, 2010 was Rs. 897 million translating to 1% of the total outstanding loan book. The coverage ratio is 33%

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

Home Finance. The outstanding home finance loan book as of June 30, 2010 was Rs. 26 billion. The home finance division generated revenues of Rs. 825 million for the quarter ended June 30, 2010, as against Rs. 736 million for the corresponding previous period – an increase of 12%. It achieved a profit before tax of Rs. 253 million for the quarter ended June 30, 2010, as against Rs. 242 million for the corresponding previous period - a year on year increase of 4%.

Asset Finance. The outstanding asset finance loan book as of June 30, 2010 was Rs. 56 billion. The asset finance division generated revenues of Rs. 1.7 billion for the quarter ended June 30, 2010, as against Rs. 1.4 billion for the corresponding previous period – an increase of 24%. For the quarter, it achieved a profit before tax of Rs. 378 million as against Rs. 248 million for the corresponding previous period – an increase of 53%.

Unsecured loans. The unsecured loans division generated revenues of Rs. 422 million for the quarter ended June 30, 2010, as against Rs. 771 million for the corresponding previous period. The loss was brought down to Rs. 268 million as against a loss of Rs. 401 million for the corresponding previous period – a year on year decline of 33%.

Moving onto our broking and distribution business – Reliance Money. Reliance Money is amongst of the leading retail broking houses and distributor of financial products and services in India. It has a pan India presence with a distribution network of over 5,000 outlets. The focus at Reliance Money is on its three key business verticals of broking, third party distribution, wealth management and investment banking

In the broking vertical, Reliance Money has 642,000 broking accounts. Its daily average equities turnover increased to Rs. 23 billion and commodities exchange broking turnover at nearly Rs. 2.3 billion. 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. Reliance Money garnered mutual fund AUMs of Rs. 44 billion – year on year increase of 314%. Reliance Money has tied up with India Post and World Gold Council to sell gold coins through the post office network across the country. Through its pan India presence, Reliance Money sold over 120 kilos of gold in the quarter ended June 30, 2010

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.

The AUM as on June 30, 2010 increased to Rs. 960 million from Rs. 850 million as on June 30, 2009 – a year on year increase of 13%. In investment banking, Reliance Money will address the capital requirements of enterprises through various instruments- IPOs, private placements, M&A etc. We are in advanced stages of finalizing the investment banking plan.

In the past year, Reliance Money restructured its operations by discontinuing unprofitable businesses. As a result, the total income declined 49% sequentially to Rs. 390 million as against Rs. 758 million for the quarter ended March 31, 2010. I am happy to inform you that the revenues from the core businesses of broking and third party distribution have grown quarter on quarter, reflecting the stability of the restructured business model of Reliance Money. The profit before tax for the quarter was Rs. 34 million as against Rs. 1 million for the quarter ended March 31, 2010 - demonstrating significant improvement in profit margins

And finally our general insurance business. Reliance General Insurance is among one of the leading private sector General insurance companies in India - in terms of business premium with a private sector market share of 10%. The distribution network composed of 200 branches and over 4,400 intermediaries at the end of June 30, 2010.

The focus at RGI is writing profitable business and not just growth. The Company incurred losses this quarter on account of high claims from its health portfolio. RGI has re-priced its health products and also significantly reduced its exposure to the unprofitable Group Mediclaim products. Gross Written Premium for the quarter ended June 30, 2010 was Rs 4.3 billion compared to Rs 5.6 billion for the corresponding previous period – a year on year decrease of 23%. Loss for the quarter ended June 30, 2010 was Rs. 386 million as against a profit of Rs. 10 million for the corresponding previous period. The combined ratio (with pool) was 124% as against 112% for the quarter ended June 30, 2009 During the quarter, Rs. 950 million was infused into the business. The total capital invested till date is Rs. 11 billion.

Thank you very much. We can now take questions.

Moderator

Thank you very much sir. We will now begin with the question and answer session. First question is from Suresh Ganapathy from Macquarie, please go ahead.

Suresh Ganapathy

Just quickly on the new business margin, it is has been trending down from a peak of 21% it has gone down to 17.7% so just two questions on this, have you changed your assumptions and does it incorporate all the revised regulatory changes and then also the consequent cut in OpEx which you are planning to do? Just some more clarity on why it has been going down and also the outlook?

Malay Ghosh

Suresh I will take this question, Malay here. If you remember in our last guidance also I talked about the NBAP margin to go down by 1% to 1.5% but the NBAP as a volume to continue to be stable or even higher that is what we had talked about. After changes in the month of December, where the cap on charges had come in, from month of December itself, we also work on our business model. We have worked on our product mix as you have seen that as on today, at the end of first quarter for the current year ’10, ’11 our ULIP, non-ULIP portfolios are 50:50, which used to be at 90:10 or even at the end of the last year it was about 90:10, in fact 9028 it has come to 50:50 as of today.

Suresh Ganapathy

That is only in the first quarter incremental volumes you are talking about, right not the outstanding portfolio?

Malay Ghosh

That is right. Even for the outstanding portfolio between January to March, there has been significant change, 20% was non-ULIP and 80% was ULIP. Now, as you know the regulatory environment is changing and we have to respond to that and we had been trying to do that by looking at all aspects in fact in product mix, in business model, in cost rationalization, in our efficiency improvement and throughout all these, we also have an expectation because that is what we saw in January, February, March to happen that sharp changes actually also bring in good business volumes. In the overall business, volumes do increase as for higher customer appreciation and also distributor appreciation. So, what we look at is that the present NBAP margin at 17.7% will stabilize at 16% and the actual NBAP will actually increase because of the higher volume expectation.

Suresh Ganapathy

Okay fine, so the bottom line is that the 16% is pretty much the bottom you have seen and perhaps we may not see further downward revision of these NBAP margins, is that true?

Malay Ghosh

I will explain to you how it is. Today our portfolio 100%, 50% is ULIP, where the NBAP's margin is protected. In the balance 50%, we have already worked on 25% of our ULIP in a distribution allowance, which is very close to what will be available in the current regulatory things. In fact we had taken that step at that time in the month of January and that is why we had predicted about 1.5% to 2% downward listing in the percentage and we do not foresee anything going below that in the coming future.

Suresh Ganapathy

Okay fine thanks. And just finally on the NPLs, on the consumer finance book, is it possible to share the consolidated gross and the net NPL figures as of first quarter 2011 and also first quarter 2010, or fourth quarter 2010 will also do?

KV Srinivasan

See the gross NPLs first quarter of last year same time was about Rs. 480 crores it has now come down to about Rs.273 crores.

Suresh Ganapathy

Okay and fourth quarter how much it was?

KV Srinivasan

Fourth quarter was Rs.326 Crores, so it has come down by about 50 crores.

Suresh Ganapathy

Okay and what about the net NPL figures?

KV Srinivasan

Net NPL figure is Rs 183 Crores

Suresh Ganapathy

As of 1st quarter 2011?

KV Srinivasan

Yes that is right. Last year same time it was Rs.286 Crores and Q4 FY10 was Rs.220 Crores, therefore Rs.286 Crores down to Rs.220 Crores, down to Rs.183 Crores

Suresh Ganapathy

Yeah just one more clarity, why is it that your coverage ratio you are deciding to keep it at low levels, is there not a plan to increase it to some reasonable say 65%, 70% levels because currently it is only at 33%?

KV Srinivasan

Yes, it is not actually going down in that sense but if you look at the way the RBI definition of accounting for the so called technical write-offs is there, the coverage ratio is actually very close to the 70% desired for banks and it turn 68.52. So, we have almost reached that 30th September target level right now.

Suresh Ganapathy

Okay sir I got the point, thank you so much yeah.

Moderator

Thank you. Next question is from Kunal Shah from Edelweiss, please go ahead.

Kunal Shah

Yeah good evening everyone. In the consumer financing if you overall look at the disbursement then it is lower than the Q2 FY10 levels when the confidence in the macro was also not that high and still we are seeing much lower run rate in case of consumer finance disbursement. So, what would be the outlook and is there any particular segment apart from personal loans on account of which we are seeing slight decline is disbursement growth rate?

KV Srinivasan

See, I think Q2 to Q1 comparison may not be absolutely appropriate simply because there is a certain level of seasonality of Q2 because of people buying up machineries and other assets for depreciation purposes, disbursement actually tends to peak in September, so it may not be directly comparable. Having said that the business has actually now focused upon three or four areas, that we are going to be pushing towards and that is something which we have been doing continuously in the past few quarters if you would noticed or pushing towards three specific areas, one is the SME secured business, the other one is the mortgages, the third one is the construction equipment and commercial vehicle sector. Now, personal loans obviously the unsecured book has been gone down so that is obviously causes certain reduction in the so called disbursals or whatever. But also the auto book we are keeping by and large flat because of the margins being a little low at this stage, so when the pricing sense comes back into the market place and we see a profitable growth opportunity there we will pump the numbers there, otherwise these are the three areas of SME, mortgages and the commercial vehicles in construction equipment that we are focusing on.

Kunal Shah

Okay. And how much would be the write-off during the quarter?

KV Srinivasan

Write-off during the quarter was about 65 crores, but it does not have any P&L impact in the sense because these are fully provided for which you take it as a write-off.

Kunal Shah

Okay, sir in terms of delinquencies do we see that, okay now this is more or less the way gross NPLs are at currently 2.5 odd percent, so do we see very improved outlook over here, okay may be like this is the level which would continue, means we are seeing further decline in terms of gross NPLs or we see the gross NPLs sustaining at this level?

KV Srinivasan

I would expect a further decline simply because of the unsecured book completely running out almost, completely running out at the end of this financial year because if you look at the gross NPL from which a secured book it is only about 1.7%. So, if the unsecured book is run down then I would expect the NPLs to come down to the levels of 1.7-1.8%

Kunal Shah

Okay. And one more thing on this general insurance, like we mentioned that we should try to break even by FY11 but still combined ratio is running at 114 odd percent so how is the trend and what is the strategy out there in order to generate break even or profitable in this year?

KV Somasekharan

I am Somasekharan. See we have been taking a lot of measures to contain these losses. In fact we started actually doing away with certain businesses which are giving us huge losses like some corporate business, corporate mediclaim business, as well as some dealership business, we use to get huge losses where the combined ratio use to be more than 100, 120, 150%. These steps in fact we started from January 2010. During the last three months, especially from April to June, you must have seen even we have also de-growth in the business, this is basically because of the measures which are taken for containing the loss making businesses. That is the reason we have incurred more loss during the first quarter. Now, the things are improving and we are expecting this quarter end we will have better results than our first quarter results.

Kunal Shah

Okay and sir one last question on this Reliance Money, as you mentioned in the same broking and distribution we have see quarter-on-quarter growth. So, in case of other income may be the remittances as well as the other businesses. Have you seen completely that business is not contributing anything to the top line and it has been completely discontinued and the entire restructuring in Reliance Money is more or less now over?

Vikrant Gugnani

This is Vikrant Gugnani. Firstly the money tranche of business is part of the distribution business. The other income is where we have done IPO financing, in this quarter we did not do any significant IPO financing and hence you would see the corresponding other expenses also dropped significantly compared to the other income. And also we have completely shut down money changing business, so those are the two pieces which – what would be included with the others and what is why you are seeing a drop over there but there is a corresponding drop on the expense side also.

Kunal Shah

Okay and those will be contributing to employee expenses also because if I see the employee cost that is also coming off maybe it was running…so almost like 50% of the employee cost has gone?

Vikrant Gugnani

Which is also part of the rationalization and restructuring activity as we shared with you last quarter, which is been done across all the businesses, -- significantly under control.

Kunal Shah

Okay sir thank you.

Moderator

Thank you. Next question is from Manish Shukla from Deutsche Bank, please go ahead.

Manish Shukla

Hi you said about 50% of your life insurance incremental sales is traditional universal life, of these how much is universal life alone?

Malay Ghosh

Universal life will be about 42% and 8% is the other traditional-products

Manish Shukla

So, what is the kind of margins that you make on traditional universal life, the NBAP margins?

Malay Ghosh

It is about 16 – 17%

Manish Shukla

It is in the range of 16-17%, okay so as of now at least there are no separate guidelines changing anything for universal life product per se right? The way we have it for ULIPs?

Malay Ghosh

There is none as of now but as you can see that other than the universal life, the portfolio is also improving.

Manish Shukla

Okay so the other 8% would be the conventional traditional products like endowment term plans etc?

Malay Ghosh

Yes.

Manish Shukla

Okay that was on life insurance. On general insurance, over the last two quarters the capital infusion is roughly Rs 300 crores and total capital infusion stands at Rs 11,00 crores. Now this is even as the business continues to shrink, I mean incrementally coming down, so what is the outlook thereby way of capital necessity because now capitalization for general insurance is now close to that for some of the life insurance companies?

KA Somasekharan

Typically this year the capital infusion was one is because of the loss we have made. As per IRDA regulations, we had to make solvency margin on the basis of gross level reported, the Air India loss during the current year, because of though our net loss is very-very nominal because of this particular provision we are required to infuse additional capital. That is the reason we have infused capital during this quarter.

Manish Shukla

So then what is your estimate for the rest of the year?

KA Somasekharan

Not more than Rs 100 crores.

Manish Shukla

Okay. You said that the large part of the losses on general insurances is on account of health, but if I see the mix by way of premium contribution from March to June, health has in fact gone up from 12% to 15%.

KV Somasekharan

That is why what we are doing is we are now going for these individual health policies whereas we are discouraging the group health policies. These individual health policies IRDA has also approved higher rating now, so this will definitely bring down our claim ratio. So we have repriced our health products and this will help us to push more and more individual policies and ultimately the claim ratio under that segment will come down.

Manish Shukla

Okay. One last question on the consolidated income statement, the other operating income for the quarter is Rs 220 odd crores, can you tell me what has contributed to that?

Amit Bapna

No, that is the management fee. If you look at point #4 which talks about other income with no much rise there, only the other operating income is the management fees.

Manish Shukla

No, no management fees on….

Amit Bapna

Asset management.

Manish Shukla

No, so why has it shot up in this particular quarter?

Amit Bapna

If you compare it to the 31st March figure I think it is more or less similar, obviously last year that figure was booked somewhere else.

Amit Bapna

No, it is just a regrouping issue for previous year. If you look at the total income level it is at Rs 1200 Crores versus Rs 1400 Crores, not the other income.

Manish Shukla

Okay, right, yeah. Thank you.

Moderator

Thank you. Next question is from Vikesh Gandhi from DSP Merrill Lynch, please go ahead.

Vikesh Gandhi

Hi, this question is on life insurance. Just wanted to understand what kind of margins are we looking at going forward, given whatever regulatory changes that are happening. Margins have been coming of from 20% to 19% to lower than 18% now. So where do we see them settling, going forward?

Malay Ghosh

I think it will settle around 16% because we have been working on the product mix and tweaking business models from January onwards. About the NBAP percentage in our earlier quarter and also in another quarter before had indicated that it would be reduced by 1% to 2% and it has happened but the total NBAP as a volume has actually grown, which means that with the higher volumes that is expected with the kind of changes that we are thinking better customer appreciation and better taking and also our efforts in as I told you end-to-end work on the value chain I think the NBAP percentage will be also around 16 - 17%.

Vikesh Gandhi

And this is after you factoring in whatever changes that are likely to happen in the month of April?

Malay Ghosh

Yes, because whatever change is happening is happening only on 25% of the total portfolio of the company.

Sam Ghosh

I think just to add to what Malay said that internally we have tried to keep an estimate that would not go below 16.5% or so. Though we aim for 17.5% or so but we make sure that go not below that.

Vikesh Gandhi

Okay and sir any sense I know you have obviously not disclosed EV and all but any sense in terms of cost overruns or something, how is it planning out?

Malay Ghosh

Our cost overruns will be over as per our present business plan by 2012-13, though the balance sheet profit we will achieve next year 2011-12 and we will be very close to that by the end of this year

Sam Ghosh

Just to add we are aiming breakeven by 2011-12 because earlier we were thinking of this financial year 2010-11, with regulatory changes we are postponing by one year.

Vikesh Gandhi

And sir just final thing in terms of growth, what kind of growth are we looking at for yourself as well as for the industry in the private space? What is your sense in terms of new business premium growth for the year factoring all the changes?

Malay Ghosh

Actually it will be difficult to talk for the industry. For us we can see a growth in premium around 25% of the year. We measure in WRP.

Vikesh Gandhi

Right. Okay fine great. Thank you.

Moderator

Thank you. Next question is from Mahrukh Adajania from Nomura Securities, please go ahead.

Mahrukh Adajania

Sorry to harp on the same thing again, but just the life insurance there are few other calls or in one-to-one meetings, the indication we get is that if we do a static analysis of the new norms, the impact on NBAP margins could be as high as between 40% to 60% and then of course there are offsets with which you can lower the impact to see maybe 20%-25% decline but what I gather from your call it appears that most of the decline is already priced in and if these levels of margins are already pricing in the maximum decline of the new norms then actually this is a very good level at settle at. That is not the initial feeling that people got when the new IRDA norms had come out, people thought margins would settle in very low double digits or maybe even single digits at least for some time after the new norms are out and it would take a while to change the product mix, etc.

Malay Ghosh

But as you can see that in Reliance we had in the month of December itself we have talked about our going towards traditional plan. We had brought about our universal life and also improved the training and other things in traditional that time itself and as things stand today the percentage of products that as of today has higher allowance than the allowance that will be provided in the new norm is less than 25% and so we do not see and in fact if you look at from the peak of 20% to the bottom of 16-16.5-17% is about 20%, that is what is happening.

Mahrukh Adajania

And would there be further slashing of agent commissions and stuff like that, further consolidation of operation?

Malay Ghosh

No, it will be further we are continuously looking at our business model at distributor and other expenses. We are looking at our backend expenses, we are looking at efficiency improvement, all these things we are looking at and that has been done throughout the year last year and is continuing. If you have seen how our OPEX has gone down, you have seen how our capital utilization has come down and you will be able to see that this is a continuous process that we are in even without these regulations. I can only tell you that these regulations have not got us totally unprepared and so we will be able to take the benefit of it. This resultant good feeling in the customer's mind, we will be able to take benefit of it.

Mahrukh Adajania

Got it sir. Sir, and what would be the capital infusion now from now in life insurance?

Sam Ghosh

Capital infusion norms?

Mahrukh Adajania

No, what will be the capital infusion, what is the planned capital infusion for life insurance over the next two years?

Malay Ghosh

Of this current year we have planned it at Rs 250 crores.

Sam Ghosh

Another Rs 200 crores or so will be required for the following year.

Mahrukh Adajania

Okay. Thank you so much.

Malay Ghosh

Thank you.

Moderator

Thank you. Next question is from Pankaj Agarwal from Execution Noble, please go ahead.

Pankaj Agarwal

What is the outlook for mutual fund industry given that there have been heavy redemptions in debt funds and there are no new inflows in equity fund, so how do you see the industry growing for the rest of the year?

Sundeep Sikka

I think the way we need to see the industry, we need to break it up in two parts, one is the institutional money and the redemption that we have seen has been more because of when we see the institutional pieces, more of function of the liquidity in the system. The redemption on the debt side that we have seen has been more after 3G auction and we are yet to see this starting to come back in the industry. However, if we were to talk on the redemption on the equity side, my sense is it is a normal phenomenon whenever the market rises, we have been analyzing data over the last few years. Whenever the markets rise investors come and redeem money, they book profits. The key change that has taken place now is post the regulatory changes is, as the industry is getting used to the new rules of the game and trying to reinvent and reengineer the business model, the inflows have slowed down a little. However, we today at Reliance Mutual Fund believe, I think we are geared up for these changes and we believe in times to come we are going to gain disproportionately compared to the industry in this environment.

Pankaj Agarwal

And this new mark-to-market norms on liquid funds, do you think it is going to affect the AUM going forward?

Sundeep Sikka

No, I do not think, again, what is going to happen is you will require discipline as far as the fund manager is concerned and we were totally geared up for this ever before this regulation changes came into picture from 1st of August but what is going to happen is it is not just about returns, it is not about AUM, it is also about proper risk management which is going to play a very important role in times to come and again, like I am saying, established mutual fund players will tend to benefit with all these things. Because there were mutual funds which were giving extra returns because the mark–to-market was not there.

Pankaj Agarwal

Okay, and any updates on stake sell in life insurance or general insurance business.

Sam Ghosh

See at this point we do not want to comment on this. When the time comes we will obviously let you know.

Pankaj Agarwal

Okay. Thanks. That is all from my side.

Moderator:

Thank you. Next question is from Nischint Chawathe from Kotak Securities, please go ahead.

Nischint Chawathe

Yeah, hi, what is the quantum of capital gains booked during the quarter?

Amit Bapna

Rs 10 crores.

Nischint Chawathe

Okay. And I read somewhere that the mutual fund business had some losses on investments, can you explain this and if you can give us some quantum on this?

Sundeep Sikka

No, I think the loss that we are talking was in our international operations. As you are aware we are setting up our international operations and it is in a nascent stage right now. So I think on standalone basis the company is doing very well and on the international side has the loss that you are saying is what we are trying to do is set up the operations. So this is just a roll-out stage that is why you see that loss.

Nischint Chawathe

So this is some kind of a seed investment made by the asset management company. Should I look at in that way?

Amit Bapna

No, no we have an asset management in Singapore. They have invested their own surplus funds in various investments, long term investments, as per Singapore accounting policy every quarter the MTM you need to provide for unlike India where if it is for long term you would not have to provide for the downside. In Singapore you have to provide for the downside so it is a small Rs 5-6 crore number. There will be a situation where you will have positive MTMs and you write that back as well.

Nischint Chawathe

Yeah, sure. Now, coming to the NBFC business, I see some kind of a volatility in the fees booked on the housing finance business, any specific, just trying to understand what is happening here.

KV Srinivasan

The volatility if you look at, if you compare last year same quarter and this year, it is just 50% increase which is a pretty normal one compared to the disbursal side, so there is not really any fluctuation in that sense but quarter-on-quarter could fluctuate because in the past quarters we did book some gains on account of securitization last year. In the quarter ended June 30th, 2010, we have not done any securitization transaction. So to the extent the so-called other income has gone down.

Nischint Chawathe

Okay. So basically the securitization income has booked upfront and I guess that is what caused the decrease

KV Srinivasan

This quarter we have not done any securitization at all so therefore you will see reduction between last quarter and this quarter.

Nischint Chawathe

Now, coming to life insurance, you somewhere said that the traditional business around half year, half the business has booked during the quarter, then if I look at your presentation you are also saying that value from parts of the traditional business is not considered while calculating the margins, and this is around 3.99% of the premium collected.

Sam Ghosh

No, that 3.99% is on the endowment policies, some of them which we have not done the work on.

Malay Ghosh

I think that is one point. In the calculation of NBAP we have taken the business for the current year, there is universal life thing, but the other part which was 3.99% was not taken.

Nischint Chawathe

Okay. So universal life which is what you said is I think 42%-43% of the overall business is anyways considered in this particular calculation?

Malay Ghosh

Yes.

Nischint Chawathe

And just one more thing, just trying to understand the sharp swing in the average premium per policy on a quarter-on-quarter basis?

Malay Ghosh

No, this is also because of the contribution of traditional policy where we have targeted the Tier-3 and Tier-4 cities and Tier-3 and Tier-4 income segments. So the average premium for traditional policies has been less, while average premium for the ULIP has been more. Even going forward that will be our strategy also with new regulations also comes to this that the ULIPs will start at a higher premium and traditional policies will be provided to the lower premium segments.

Nischint Chawathe

Okay, when I see the trend has always been like Rs 11,000 to 12,000-13,000 kind of rupees for policy for last couple of quarters, except for fourth quarter it was kind of highly moved up to around 19,000 odd and not it has come down to around Rs 11,500 odd which is where I was kind of just basically….

Sam Ghosh

So I think on that one, in the fourth quarter, tend to do a bit of single premium also.

Malay Ghosh

And also the income tax customers do come in and sometimes you will have higher premium markings coming in.

Nischint Chawathe

Okay, fine. Thank you very much.

Moderator:

Thank you. Next question is from Alpesh Mehta from Motilal Oswal Securities Limited, please go ahead.

Alpesh Mehta

Hi, just wanted to know on a sequential basis, our income on the asset management business has come down by around 15%, so just wanted to know the reason for the same and secondly if you can share the PAT numbers for the asset management business.

Sundeep Sikka

Sure. I think on a sequential basis if you see, what has happened is during the quarter we lost about Rs 20,000 crores of money because of 3G auction and that is the reason. Like I mentioned earlier, we need to see this part of the business more to do with the liquidity in the system, till the money comes back into the system, this money will come back to us. Coming back to the profitability numbers, profit before tax for Q1 this year is Rs 57 crores and compare this to Q1 FY10 was Rs 47 crores.

Alpesh Mehta

And can I get the PAT number as well?

Amit Bapna

The PAT number is Rs 38 crores, versus Rs 37 crores last year.

Alpesh Mehta

And if you can share the number for the consumer finance business on the PAT front.

KV Srinivasan

See in case of consumer finance we do not do a PAT in direct sense because part of the PBT is subject to MAT, the other part of the profit is subject to the normal taxation, so it becomes a little difficult for us to do that on a quarter-on-quarter basis.

Alpesh Mehta

And would you be having the 4Q PAT number for asset management business?

Amit Bapna

4Q PAT numbers are Rs 60 crores.

Alpesh Mehta

And the reason that you cited for the decline into the total income on the asset management business of 15% on a sequential basis, that is to do with the debt management piece, right?

Sundeep Sikka

Debt management, on equity side actually the revenues have gone up. It was Rs 46 crores in Q1 FY10, it is Rs 92 crores now.

Alpesh Mehta

And what was that number 4Q?

Sundeep Sikka

Q4 was Rs 90 Crores.

Alpesh Mehta

Okay. So your AUMs on the equity businesses are largely flattish on a sequential basis, whereas the debt market AUM has come down by around 12%. And if I am not wrong the fees on the debt AUMs are lower than the equity AUM.

Sundeep Sikka

That you are right.

Alpesh Mehta

So against a 12% decline on the debt side, the decline on the total income is around 15% on a sequential basis. What explains the reason for the same.

Sundeep Sikka

Broadly I will just share with you I will put it the other way round. PAT is the percentage of average AUM has gone up from 15 basis points to 17 basis points. That is because debt percentage has come down because like I mentioned Rs 20,000 crores has gone out, it is only primarily because of that. If that money was to come back, again we might see this PAT as a percentage might come down.

Alpesh Mehta

Okay, and what would be your outlook on this business. Last year we ended by what, with Rs 1.1 trillion assets under management and so what would be your outlook about this business and what kind of growth that you envisage?

Sundeep Sikka

I would not like to give a very, a long term guidance point of view, but we are very bullish, we believe we are in the best position to gain disproportionately from the changes that are taking place and taking into account the established network that we have, the branch network that we have, the people that we have, see we have come to a stage today where we are managing a trillion rupees or if this will double from here. And we do not need to increase the expenditure from here. The capacity is there to manage whether we manage it to 1 lakh crores or 2 lakh crores it does not matter. If you see asset management business there are three important parameters, brand, reach, and track record. And we believe today we have all the three and we will gain disproportionately because of all of this.

Alpesh Mehta

Okay. Thanks a lot and best of luck.

Moderator:

Thank you. Next question is from Chandan Gehlot from Deutsche Asset Management, please go ahead.

Chandan Gehlot

I just wanted one clarification on the asset management side. I can see the capital employed for the quarter ended financial year 2011 is for some Rs 20 crores. And last year it was Rs 53.84 crores so what it explains sir?

Sundeep Sikka

This is the capital that we are investing in the international subsidiaries. So as we keep increasing our operations in different countries and we keep funding these subsidiaries, it is only because of that the capital has increased.

Chandan Gehlot

No, but on the year-on-year basis it has fallen. Now it is at Rs 20 crores and last quarter it was Rs 54 crores.

Amit Bapna

What happens is the AMC has a large network but the amount which is invested in AMC investment we club it with financial investment category and what is left in the asset management is what is actually utilized by the business. So any surplus which is approximately Rs 1,000 crores of net worth in the asset management is taken in the financial investment category.

Chandan Gehlot

And sir also, will it be possible for you to share what is the broad number in terms of AUM, institution and the retail money?

Sundeep Sikka

Yeah, at this point in time 90% of our investors are below Rs. 1 lakh, so primarily if I was to say, entire equity is retail, 99.99% retail. What we are trying to do is increase our focus on retailing on the debt side also. And we have been very successful in doing that in the last 12 months. So if I was to say, equity is pure retail. Constitutional, the way the composition of the industry is about 70% of the money is institutional money, also broadly in line with that.

Chandan Gehlot

Okay, yeah. Thank you.

Moderator

Thank you. Next question is from Santosh Singh from Execution Noble, please go ahead.

Santosh Singh

There are two questions on life insurance and one on general insurance. On life insurance I know we have not discussed this thing that is what the embedded value. But what sort of cost tolerance are we talking about because the NBAP margins are sort of notional figures unless and until they get unwind there is some sort of cash flow. So what sort of cash overruns are we talking about? And you said that you will be able to breakeven on this cost overruns by 2012-13, so how do you expect to do that?

Malay Ghosh

I will tell you this way that if you look at our performance for the last 15 months now, during which time it has been possible for us to rationalize our costs on all fronts with the number of policies and with the volume of business growing, the economies of scale has also helped us. The productivity increase in the distribution has also helped us. In one year the operation expense ratio came down from 39% to 24.5% at the end of four financial years in Reliance. And in the current financial year, we are confident that we will be able to be around 20% by the end of this financial year.

Santosh Singh

Yeah, but if the cost overruns is to the tune of NBAP margins as it generate, so what I am getting at is sort of the business underwritten in last three years will not generate any cash in future. And it is that sort of impression I will get is that, if the cost overruns to the extent of NBAP margins. So is that the case with Reliance, it is lower than that.

Malay Ghosh

I think we have to sit separately offline to discuss the things including the assumptions of embedded value that we do not disclose but we calculate that can be done.

Santosh Singh

That is fine and on the general insurance side, we have around Rs 450 crores of total premium and I think your NWP is somewhere around Rs 250 crores given that you have Rs 188 crores of reinsurance seeded, if I look at your sort of composition, 15% of your book is general insurance. So we are talking about somewhere around Rs 60 crores of health insurance book. You are seeing most of the losses which was Rs 38 crores was from health insurance side and you had around Rs 2,000 crores of assets under management which if I say are generating returns at the rate of 2%, then what I am seeing is sort of Rs 78 crores of losses on the underwriting side of the business. So on the sort of NWP of Rs 255 crores, Rs 78 crores of underwriting losses and how would you be able to breakeven in say one year.

KA Somasekharan

If you see the performance of the company, see month on month we are improving, as I was telling you the business, the calls we had taken to stop underwriting the loss making business has started giving good results to us now. This will definitely run out once you will see what happened up to June is a story. Now from this month on especially from July onwards things started improving and the group, see health insurance you were talking is fine, but what happened is what we have done away with is loss making group businesses. At the same time we are now going for good group businesses also. So health business will go, another thing as I was telling that individual Mediclaim policies which is repriced now, that is also going to give us very good margins. Basically we were making more loss on health insurance. This will not happen in future.

Santosh Singh

Because this year if I look at the figures I would say that most of the businesses combined margins are more than 100%, combined ratios are more than 100% for most of the businesses, because if the health were the case, I think health insurance would be generated more than 200% combined ratio but that is not the case and most of the businesses have got more than 100% combined ratios.

KA Somasekharan

In fact that individual health insurance, the loss ratio itself was more than 200%.

Sam Ghosh

See because it has come out three and half year ago, I think with the product premium which was less than Rs. 1,000 , which obviously is impacting us now

Santosh Singh

Okay. That is fine.

Moderator

Thank you sir. Next question is from Vijay Sarathi from BNP Paribas, please go ahead.

Vijay Sarathi:

Yeah, did you see the Opex for total premium ratio for life insurance in the current quarter was about 20%, I just want to confirm the number.

Malay Ghosh

The percentage?

Vijay Sarathi

Yeah.

Malay Ghosh

The percentage is about 37% for the first quarter.

Vijay Sarathi

So it went up from about 18% last quarter to 37% this quarter?

Malay Ghosh

No, this is the first quarter for the current year and in the first quarter the business as a percentage of the total year happens to be only 12% or so, and the fixed costs remain same throughout the year. As you see this will come down quarter-to-quarter and at the end of the year it will be around 20-21%.

Amit Bapna

Yeah, for the year it would be around 20%. Because the first quarter your premiums are only 10% of your total year's business and it starts swelling up in Q3 and Q4, so you will see on an annualized basis we are on 20%.

Vijay Sarathi

Okay, thank you very much.

Moderator

Thank you. Ladies and gentlemen, that was the last question. I would now like to hand over the floor back to Mrs. Garg for closing comments.

Chinmaya Garg

Sure, I would like to thank all the participants and the management of Reliance Capital for discussing the results. Thanks a lot to everyone.

Moderator

Thank you Mrs. Garg. Thank you gentlemen of the management. On behalf of IDFC Securities Ltd. that concludes this conference call. Thank you for joining us and you may now disconnect your lines.