Reliance Capital

Q2 FY10 Earnings Conference Call Transcript, October 30, 2009

Moderator:
Good evening ladies and gentlemen. I am Manjula, the moderator for this conference.

Welcome to Reliance Capital Conference Call hosted by IDFC-SSKI Securities. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for participants connected to International Bridge. After that, the question and answer session will be conducted for participants in India. Now, I would like to hand over to Ms. Neha Agarwal from IDFC-SSKI. Thank you and over to you ma'am.

Ms. Neha Agarwal:

Good evening everyone. Welcome to the Reliance Capital Earnings Call hosted by IDFC-SSKI.

We have with us Mr. Sam Ghosh, CEO, Reliance Capital; Mr. Vikrant Gugnani, CEO, Reliance Capital International Business; Mr. Malay Ghosh, CEO, Reliance Life Insurance; Mr. Sundeep Sikka, CEO, Reliance Capital Asset Management; Mr. K. V. Srinivasan, CEO, Reliance Consumer Finance; Mr. Kapil Bali, CEO, Reliance Money; Mr. Somasekaran, CEO, Reliance General Insurance; Mr. Amit Bapna, CFO, Reliance Capital; Mr. Praveen Challa, Senior Vice President, Investor Relations; Ms. Savli Mangle, Chief Manager, Investor Relations. At this point, I would request Mr. Sam Ghosh to introduce…to run us through the key highlights of the results and then address specific questions. Over to you sir.

Mr. 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 across all businesses at Reliance Capital is to create & sustain a robust, scalable & profitable business model.

In line with this, various measures like restructuring, cost rationalization etc have been employed to move towards leaner cost structures and improve profitability.

The endeavor is to create a healthy earnings mix by increasing the contribution of the core businesses and improving their profitability.

In our established businesses, the financial uncertainty of last year coincided with an inflection point where the plan was to shift away from merely gaining market share to achieving greater consolidation and profitability.

Looking ahead, we will continue to focus on profitable growth, driving our businesses to be best of class in terms of financial performance and shareholder returns.

At Reliance Capital, we continue to explore and evaluate new options and opportunities to unlock value for shareholders. We are currently evaluating various options at Reliance Life Insurance to unlock value – subject to necessary approvals.

Moving on to the financial results:

The total income from operations for the quarter ended September 30, 2009 was Rs. 14.5 billion as against Rs. 13.0 billion for the corresponding previous period – an increase of 11%

The net profit for the quarter was at Rs. 1.6 billion as against Rs. 2.3 billion for the previous quarter.

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

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

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

As on September 30, 2009, the total assets of Reliance Capital were at Rs. 256 billion, as against Rs. 221 billion as on September 30, 2008 – an increase of 15%

The net worth as on September 30, 2009 was at Rs. 77 billion as against Rs. 71 billion as of September 30, 2008 – a year on year increase of 9%

Reliance Capital ranks among the top 3 Indian private sector financial services groups in terms of networth. We have no exposure to money market or foreign exchange derivatives.

Reliance Capital has a conservative net debt equity ratio of 1.5 as on September 30, 2009.

The company enjoys the highest top- end ratings of 'A1+' and 'F1+' by ICRA and FITCH, respectively for its short term borrowing program and 'CARE AAA' for our long term borrowing program.

We have over 18 million customers across all our businesses – through our unparalleled distribution network with over 8,000 outlets across India.

Let me now move onto each of our businesses – starting with our asset management business:

Reliance Mutual Fund continues to be India's No.1 Mutual Fund with a market share of 16%

The average assets under management of Reliance Mutual Fund increased by 37% to Rs. 1.18 trillion in September 2009 from Rs. 865 billion in September 2008.

The thrust on increasing the equity component of the AUM continues. From March to September, the market share in equity of Reliance Mutual Fund grew from 17.4% to 18.2%. For the same period, the equity folios increased by 2.8% while the industry de- grew (minus RMF) by 0.01%

The equity AUM of our mutual fund grew by 85% from March to September, as against the industry growth (minus RMF) of 74%.

Reliance Mutual Fund accounted for 20% of the fresh equity inflows into the mutual fund industry.

The number of investors increased by 4% to 7.3 million as at the end of September 30, 2009 as against 7.1 million investors at the end of September 30, 2008, with nearly 1 million Systematic Investment Plan accounts.

For the quarter ended September 30, 2009, the asset management business generated income of Rs. 1.7 billion as against Rs. 1.2 billion in the corresponding previous period– an increase of 33%.

The increase in income was due to 37% year on year increase in average assets under management, with debt inflows turning significantly positive as against outflows in the previous corresponding period. The thrust on equity continues, with inflows continuing to remain positive.

For the quarter, the asset management business declared a net profit of Rs. 389 million as against Rs. 335 million for the corresponding previous period – an increase of 16%.

In our offshore funds based in Singapore, the assets under management increased to USD 193 million as on September 30, 2009, as against USD 167 million – an increase of 16%.

Now I turn to our life insurance business.

Reliance Life Insurance continues to be among the top 4 private sector life insurance players with a private sector market share of 9.4%.

The total premium for the quarter Rs. 13 billion as against Rs. 12 billion for the corresponding previous period – an increase of 9%.

The renewal premium grew 105% for the quarter to Rs 5 billion from Rs. 2 billion for the corresponding previous period.

The new business premium for the quarter ended September 30, 2009 was Rs 7.4 billion as against Rs 9.2 billion in the corresponding previous period.

Since the focus is on regular premium policies – the single premium component of the new business premium has been reduced significantly to 9% from 14% year on year for the quarter.

The APE for the quarter was Rs. 7 billion as against Rs 8 billion for the corresponding previous period.

As on September 30, 2009, we managed Rs. 103 billion of funds – year on year growth of 116%.

I am happy to inform you that in this quarter, Reliance Life Insurance has sold the highest number of policies in the private sector life insurance industry. The number of policies sold in the quarter were over 490,000 – a year on year increase of 4%.

In the quarter, Reliance Life Insurance received IRDA approval to open 107 branches and opened 30 branches in September 2009.

As on September 30, 2009, RLIC has 1,174 branches and 185,703 agents

Our new business achieved profit for half year ended September 30, 2009 was Rs. 2.3 billion. This translates into a NBAP margin of 20.32%

In the presentation, we have disclosed details on the operating assumptions made in the calculation of the NBAP margin.

Our continued thrust on moving towards profitability – through improved product mix & pricing and various cost rationalization measures has resulted in better capital utilization.

The capital infused in this business in the quarter was only Rs. 650 million as against Rs. 3.6 billion for the corresponding previous period.

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

Moving on to our general insurance business:

Reliance General Insurance is one of the top three private sector General insurance companies in India - in terms of business premium.

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

The distribution network composed of 200 branches and over 5,100 intermediaries at the end of September 30, 2009.

For the quarter ended September 30, 2009, the Gross Written Premium increased year on year by 14% to Rs. 5 billion.

The net written premium for the quarter ended September 30, 2009 was Rs. 3.2 billion as against Rs. 2.9 billion – an increase of 9%

The profit before tax for the quarter ended September 30, 2009 was Rs. 1 million as against Rs. 58 million for the corresponding previous period

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

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

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

The combined ratio (without pool) has improved to 108% for the quarter from 111% in FY09. The combined ratio is the sum of claims, commissions and management expenses.

Turning to our consumer finance business:

The objective at Reliance Consumer Finance is not only credit growth per se but the quality of credit sourced.

In line with this, the focus is to increase secured asset lending and de-emphasise unsecured loans.

The secured loans have increased to 80-85% of our loan book for the quarter ended September 30, 2009, as against 74% for the corresponding previous period.

I am happy to inform you that we have seen excellent trends in home finance and asset finance businesses. Both these businesses have shown growth in revenues and profits.

As already reported in the past, we have discontinued fresh disbursements in unsecured loans for the past 18 months effective from April 2008.

As on September 30, 2009, the loan book stood at Rs. 83 billion – virtually unchanged from the loan book as on March 31, 2009. This loan book is well spread across over 110,000 customers from top 18 Indian metros.

The disbursements for the quarter ended September 30, 2009 decreased by 29% to Rs. 14 billion as against Rs. 19 billion for corresponding previous period. For the half year, the disbursements were Rs. 21 billion as against Rs. 34 billion for the corresponding previous period – a decline of 39%.

The total income for the quarter increased by 8% to Rs. 3.4 billion as against Rs. 3.2 billion for the corresponding previous period

The profit before tax for the quarter was Rs. 228 million as against Rs. 398 million for the corresponding previous period.

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

The home finance division generated revenues of Rs. 883 million for the quarter ended September 30, 2009, as against Rs. 647 million for the corresponding previous period – an increase of 37%.

It achieved a profit before tax of Rs. 316 million for the quarter ended September 30, 2009, as against Rs. 124 million for the corresponding previous period – an increase of 155%.

The cost to income ratio declined significantly year on year for the quarter from 49% to 24%.

The average cost of funds for the home finance division declined for the quarter to 9.3% from 10.2% in FY09.

The asset finance division generated revenues of Rs. 1,804 million for the quarter ended September 30, 2009, as against Rs. 1,376 million for the corresponding previous period – an increase of 31%.

For the quarter, it achieved a profit before tax of Rs. 407 million (US 8 million) as against Rs. 140 million for the corresponding previous period – an increase of 190%.

The cost to income ratio declined significantly year on year for the quarter from 60% to 50%.

The average cost of funds for the asset finance division declined for half year to 9.4% from 9.7% in FY09.

The unsecured loans division generated revenues of Rs. 760 million for the quarter ended September 30, 2009, as against Rs. 1,143 million for the corresponding previous period and a loss of Rs. 496 million as against profit before tax of Rs. 134 million for the corresponding previous period.

The average cost of funds for the unsecured loans division declined for the quarter to 9.9% from 11.5% in FY09.

And finally our broking and distribution business – Reliance Money.

Reliance Money is a leading brokerage and distributor of financial products and services in India, with 3.5 million customers. It has a pan India presence with a distribution network of over 6,200 outlets.

Reliance Money maintained the total income for the quarter ended September 30, 2009 at Rs. 609 million as against Rs. 682 million for the quarter ended June 30, 2009.

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

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

While our focus continues to remain on broking and distribution, we are also in process of launching our wealth management and investment banking businesses under the aegis of Reliance Money. This will further enhance the value proposition of Reliance Money.

The profit before tax for the quarter was Rs. 43 million as against Rs. 105 million for the quarter ended June 30, 2009.

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

Reliance Exchange Next, is a new initiative of Reliance Capital in the exchange space. This company will set up modern exchanges, in various segments. It commenced operations by launching Reliance Spot Exchange in the month of October 2009. The first contract on the e-auction platform was for metals. Reliance Spot Exchange also plans to add e-auction in agri products.

Reliance Asset Reconstruction which is in the business of acquiring, managing and resolving distressed assets, currently has an asset base of Rs. 227 million

Reliance Equities International, the institutional broking business of Reliance Capital, has 72 companies under research. REIPL currently has 54 FII parent accounts with 540 sub accounts and 21 DIIs (domestic institutions) with 289 sub accounts

Reliance Equities Advisors, the private equity arm of Reliance Capital, commenced domestic fund raising for their first private equity fund, targeting HNIs and domestic funds. They are likely to finish their first round of fund raising by Q3 FY10

Thank you very much. We can now take questions.

Moderator:
Thank you very much sir. We will now begin the Q&A interactive session. At this moment, I would like to hand over the proceedings to international moderator to conduct the Q&A for participants connected to the International Bridge. After

this, we will have a question and answer session for participants at India Bridge. Thank you and over to you Lucy.

International Moderator:
Thank you Manjula. We will now begin the Q&A session for participants connected to the international bridge. Please press 01 to ask a question. Mr. Rohan Juneja from FrontPoint Partners. Please go ahead.

Mr. Rohan Juneja:
Hi. Can you just give us some details on the credit quality in you consumer Finance business please.

Mr. Sam Ghosh:
KV…

Mr. K. V. Srinivasan:
See, the credit quality in terms of the gross non-performing loans has been maintained at a steady level compared to the last quarter. I had indicated in the last quarter call that, you know, we expect to see the NPLs peaking at this current level and that is exactly what is corroborated by the 30th September situation.

The bulk of this nonperforming loans have arisen on account of the unsecured business, which, as Sam had indicated, we are in the process of winding down in the natural course. So, about 80% of the gross NPLs have arisen from the unsecured business. The credit quality on the secured business is pretty good, the gross NPLs being less than 1.9%. Asset coverage, rather the provisioning coverage is about 43%.

Mr. Rohan Juneja:
Okay, thank you.

International Moderator:
Participants who wish to ask questions, please press 01 now. At this moment, there are no further questions from participants at the international bridge. I would like to hand over the proceedings back to Manjula.

Moderator:
Thank you very much Lucy. We will now begin the Q&A interactive session. Participants who wish to ask questions, please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, kindly press *1 now. First in line, we have Mr. Manish Chowdhary from Citigroup Research. Please go ahead.

Mr. Manish Chowdhary:
Hi. Just a couple of questions from my side. Firstly, in terms of your life insurance business, can you give us the quarterly loss this quarter and how much it has been cumulative till date?

Mr. Malay Ghosh:
The accounting loss…this is Malay Ghosh here. The accounting loss for this quarter is 59.2 crores and for the half year is 111.71 crores. This is far below the, you know, the budgeted loss for this current period.

Mr. Manish Chowdhary:
Right sir. And secondly, in terms of your balance sheet side, can you give us some sense of how much is your total debt at this point of time and what is the duration of the debt that you have?

Mr. Amit Bapna:
Our total debt would be around 14,000 crores, but if you…the net debt, if you minus the cash and the mutual fund investments, it would be around 11,500.

Mr. Manish Chowdhary:
And what would be the duration of and the average cost of the debt?

Mr. Amit Bapna:
Average cost would be around 9.5%, somewhere between 9 and 9.5% and Average maturity would be around 24 months.

Mr. Manish Chowdhary:
Okay. And in terms of your home finance, the asset finance businesses…

Mr. Amit Bapna:
Yeah.

Mr. Manish Chowdhary:
…I mean what is the kind of capital that you have infused and what is the kind of capital you are looking to infuse in these businesses?

Mr. Amit Bapna:
Fort the two subsidiaries which we have set up, so far we have infused 100 crores each.

Mr. Manish Chowdhary:

Okay.

Mr. Amit Bapna:
And as and when we grow book in those two subsidiaries, we will be infusing capital.
Mr. Manish Chowdhary:
Okay.

Mr. Amit Bapna:
Hopefully this year maybe another 200 crores.

Mr. Manish Chowdhary:
Okay. And basically I mean the average cost of funds that you have calculated on these two businesses is using this 100 crores of capital?

Mr. Amit Bapna:
No, this is only the cost of debt.

Mr. Manish Chowdhary:
This is cost of debt only.

Mr. Amit Bapna:
Yeah.

Mr. Manish Chowdhary:
Okay. And the unsecured loan book stays in the parent book for now?

Mr. Sam Ghosh:
Yeah, for now.

Mr. KV Srinivasan:
See, even in the asset finance book, bulks of the assets are still on the parent book. So, when we are talking about the three divisions, this is basically on a consolidated basis.

Mr. KV Srinivasan:
So, we are not making legal vehicle distinction out there.

Mr. Manish Chowdhary:
Okay. So, could you I mean give us the legal…legally how much is passed in the home finance, asset finance, and how much is independent?

Mr. KV Srinivasan:

Okay. End of 30th September, it was around, you know, 170 crores in the home Finance book.

Mr. Manish Chowdhary:
Okay.

Mr. Sam Ghosh:
See, basically we are gradually going to move all the new businesses into the two new companies. Existing books will continue to run up in the parent company, but as and when we find that the times are opportune, we will obviously, as and when we have raised money in the subsidiaries, then we will move rest of the books across also.

Mr. Manish Chowdhary:
Okay. That's all from me for now, thanks.

Moderator:
Thank you very much sir. Next in line, we have Vineeta Jain from Eastwind Capital. Please go ahead.

Ms. Vineeta Jain:
Good evening gentlemen. Hello…

Mr. Sam Ghosh:
Good evening.

Ms. Vineeta Jain:
Good evening sir. First of all sir, I have a couple of questions. First is regarding Reliance Money. Sir, your revenues have gone down from 682 to 609 million. Sir, I mean obviously you must have seen some kind of daily turnover slowdown. What is your daily turnover right now, average daily turnover?

Mr. Kapil Bali:
Yeah, this is Kapil Bali.

Ms. Vineeta Jain:
Yeah Kapil.

Mr. Kapil Bali:
The average daily turnover is around Rs 1500 crores a day.

Ms. Vineeta Jain:
1500 crores a day, okay.

Ms. Vineeta Jain:
Okay. Sir, what was your daily turnover around, I mean Q1?

Mr. Kapil Bali:
Q1, around the same number, this was the daily turnover.

Ms. Vineeta Jain:
Okay. Sir, from Q4 to Q1 also, you had seen some, I mean good fall I think for the daily turnover?

Mr. Kapil Bali:
Yeah, basically the markets had started picking after the May or June specifically. So, post that, we have seen this turnover. On the turnover, the quality of turnover is where the F&O portions and the options is the highest turnover, the delivery portion is less. That is the turnover quality.

Ms. Vineeta Jain:
Sir, can you let me know what was the average daily turnover around in Q4?

Mr. Kapil Bali:
Q4 was something around…

Ms. Savli Mangle:
It was about the same 1500 -1600 crores.

Ms. Vineeta Jain:
Okay fine. Sir, another question, are you planning to enter into HNI segment also, institutional customers, means what are your regarding…

Mr. Sam Ghosh:
Are you talking about institutional broking or are you talking about in terms of wealth management?

Ms. Vineeta Jain:
No sir, I am talking about institutional broking.

Ms. Savli Mangle:
In the institutional broking, we started this business last year. Currently, we have about 72 companies under research and this is a separate company, it is a 100% subsidiary of Reliance Capital.

Ms. Vineeta Jain:
Okay fine.

Mr. Sam Ghosh:
It is not Reliance Money. There is a separate entity called Reliance Equities International…

Ms. Vineeta Jain:
Okay.

Mr. Sam Ghosh:
…which does institutional broking business.

Ms. Vineeta Jain:
Okay sir. And in consumer finance segment into, I mean basically the home finance segment, sir what kind of expansion are you planning, I mean what is your percentage market share or what kind of revenues you expect will increase in the next, I mean in this financial year, in the second half of this financial year?

Mr. K. V. Srinivasan:
Effectively the market share, I mean obviously the size of the market is very large, so at this stage I don't think, you know, to quote a market share percentage would be really appropriate.

Ms. Vineeta Jain:
Exactly.

Mr. K. V. Srinivasan:
We are still at a setup stage, but honestly the idea is not to grow very aggressively on the geographical side, but to dig deeper into those markets where we are currently present.
We are operating out of around 16-17 locations at this point which effectively covers almost 80% of the market share in terms of the, you know, the customer segment that we are really targeting. So, at this stage I don't believe there is a strong reason for us to expand aggressively on the geographical space.

Ms. Vineeta Jain:
Sir, any kind of level of NPAs that you people see in home finance segment?

Mr. K. V. Srinivasan:
See, it is, you know, a business which kind of matures over a slightly longer period of time and in general the industry NPA figures or the loss figures are not in excess of, you know, 0.25% so on so forth. So, it is…

Ms. Vineeta Jain:
Okay. Thank you very much sir for taking my call.

Mr. K. V. Srinivasan:
Thanks.

Moderator:
Thank you very much ma'am. Next in line, we have Mr. Rajagopal from Centrum Broking. Please go ahead.

Mr. Rajagopal Ramanathan:
Hi. Some housekeeping questions and something on the value unlocking part. You have mentioned that this time around by the end of the year you hope to unlock value and shareholders of Reliance Capital are likely to benefit on account of the value unlocking in the life insurance business. Do I presume then that you are going to be consolidating the life business into Reliance Capital?

Mr. Sam Ghosh:
See, though we don't consolidate the life company, but in terms of the value of the life company, it is already being captured in the value of Reliance Capital.

Mr. Rajagopal Ramanathan:
Correct, I don't deny that, but then how does the profits accrue to the Reliance Capital shareholder then?

Mr. Amit Bapna:
Currently we have 16% direct shareholding.

Mr. Rajagopal Ramanathan:
Correct.

Mr. Amit Bapna:
So, part of that 16% is something which we will look at divesting.

Mr. Rajagopal Ramanathan:
So, it is the direct shareholding which you expect to divest.

Mr. Amit Bapna:
Yes. And there will be fresh issuance on shares as well.

Mr. Rajagopal Ramanathan:
Okay. And is there any similar plans with the nonlife business as well?

Mr. Sam Ghosh:
No, not at this stage…not at this stage.

Mr. Rajagopal Ramanathan:
Not at this stage right, okay. Now some housekeeping questions per se. Generally you break up your broking top line into two or three heads, this time around you have not done that. Could you give me those heads please.

Ms. Savli Mangle:
Hi Rajagopal. This is Savli. What I will do is I will give you these numbers offline.

Mr. Rajagopal Ramanathan:
Okay, good as far as that is concerned. Now, coming to the consumer finance business, now since…I actually appreciate the fact that you have given the disclosures on the three companies separately, but then if you were to look at the entire consumer finance business as one piece, what would be the ROA and the ROE at this point in time and what is it that you expect this business to deliver going forward?

Mr. K. V. Srinivasan:
At this stage, if you look at the consolidated ROE…

Mr. Rajagopal Ramanathan:
Yeah.

Mr. K. V. Srinivasan:
…it would be not more than about 6% to 7% on an annualized basis.

Mr. Rajagopal Ramanathan:
Okay.

Mr. K. V. Srinivasan:
However, as, you know, we have been indicating over the past few quarters, the unsecured business which is where the bulk of the NPAs and the losses as you can see from the breakup that we have given have come about from…

Mr. Rajagopal Ramanathan:
Yeah.

Mr. K. V. Srinivasan:
…if that kind of…it will wind down in a natural course within the next 12 to 15 months.

Mr. Rajagopal Ramanathan:
Okay.

Mr. K. V. Srinivasan:
The ROE, ROA or ROE of the other two businesses put together is in excess of 21%.

Mr. Rajagopal Ramanathan:
That is the asset financing business and the home financing business?

Mr. K. V. Srinivasan:
That is right.

Mr. Rajagopal Ramanathan:
Both of them are around 21% is what you are saying right?

Mr. K. V. Srinivasan:
Yeah.

Mr. Rajagopal Ramanathan:
Okay. Just few more data points if you can just help me with it, one is…one moment…you had disclosed some numbers on the daily volumes as far as the broking business is concerned, I missed them, the average daily volumes and the yields.

Mr. Kapil Bali:
This is as of now it is 1500 crores a day.

Mr. Rajagopal Ramanathan:
15 billion, okay.

Mr. Kapil Bali:
Yeah.

Mr. Rajagopal Ramanathan:
And the yields?

Mr. Kapil Bali:
Yields are roundabout 3 basis points.

Mr. Rajagopal Ramanathan:
3 basis points is it? This is the gross yield right?

Mr. Kapil Bali:
Yeah.

Mr. Rajagopal Ramanathan:
Okay. And last but not least, you have disclosed some PBT as far as certain businesses are concerned, could you also give us the PAT numbers.

Mr. Rajagopal Ramanathan:
The consumer finance business, I think you have given, I have just consolidated all the three. You have indicated that the total PBT is around 228 million. What would be the PAT number there?

Mr. Sam Ghosh:
No, let's just go through it step by step.

Mr. Rajagopal Ramanathan:
Yeah, fine, okay.

Mr. Praveen Challa:
The consumer finance, you know, the bulk of the income as well as the book is currently residing at the parent level.

Mr. Rajagopal Ramanathan:
Okay.

Mr. Praveen Challa:
So, that is why it is kind of difficult to earmark a particular tax allocation for the consumer business profit

Mr. Rajagopal Ramanathan:
Okay. Fine.

Mr. Rajagopal Ramanathan:
Okay, so that's…

Mr. Praveen Challa:
For the other businesses if you look at Reliance Money or for Mutual Fund.

Mr. Rajagopal Ramanathan:
Yeah.

Mr. Praveen Challa:
It will be at normal tax rate.

Mr. Rajagopal Ramanathan:
Okay. The other thing is have you indicated disbursement numbers for the various businesses, the consumer finance businesses?

Mr. K. V. Srinivasan:
Yes, we have. We had disbursed about 14 billion in the last quarter.

Mr. Rajagopal Ramanathan:
One moment, can I just take…14 billion, this is one which one?

Mr. K. V. Srinivasan:
This is all called…the two put together, that is asset finance and this one put together.

Mr. Rajagopal Ramanathan:
And if you can break that up…

Mr. K. V. Srinivasan:
Unsecured anyway has been on the rundown for the last 18 months.

Mr. Rajagopal Ramanathan:
Yeah, correct, okay. So, if you can break that down into home finance and the other one.

Mr. K. V. Srinivasan:
It is about 9 and 5.

Mr. Rajagopal Ramanathan:
9 in the home finance business?

Mr. K. V. Srinivasan:
Roughly…9 in asset finance and about 5-5.5 in the home finance.

Mr. Rajagopal Ramanathan:
Okay, okay, okay, okay. That should be it from me at the moment. If I have something, I will come back later.

Mr. K. V. Srinivasan:
Thank you.

Moderator:
Thank you very much sir. Next in line, we have Ms. Neha from ING Vysya. Please go ahead. Ms. Neha, your lines are open, please go ahead.

Ms. Neha:
Hello…hi. This is for Reliance Capital. What is the size of the investment portfolio and how much capital gains were booked for this quarter and also if you can tell us what was unrealized gains on the listed equities portfolio?

Mr. Amit Bapna:
Our quoted investment book would be around 1500 crores.

Ms. Neha:
Okay.

Mr. Amit Bapna:
What was your second question?

Ms. Neha:
How much capital gains were booked for this quarter?

Mr. Amit Bapna:
Around 100 crores.

Ms. Neha:
100 crores. And what would be the unrealized gains on listed equity portfolio?

Ms. Savli Mangle:
The unrealized gains on the listed would be about 400 to 450 crores.

Ms. Neha:
Thanks a lot, that's it from my side.

Moderator:
Thank you very much ma'am. Participants who wish to ask questions may kindly press * followed by 1 on your telephone keypad. Next in line, we have Mr. Veekesh Gandhi from DSP Merrill Lynch. Please go ahead.

Mr. Rajeev Varma:
Hello…

Mr. Sam Ghosh:
Hello.

Mr. Rajeev Varma:
Yeah, hi, this is Rajeev. Just wanted to have a feel for, you know, going forward on the insurance side, you know, we have seen obviously a sharp reduction in losses, so I was trying to understand, one is, is this coming because of really either change in strategy, are you going to be going slow in your distribution going forward and kind of where are you seeing the growth outlook given both the industry scenario and also some of these recent controls put in by the regulator, you know, the expense capping, etc.?

Mr. Malay Ghosh:
Okay, the first question is about the reduction in losses as also the requirement of capital, etc., that has happened because of all these steps which that we had taken which have been indicated by Sam in his presentation also. It is about working on effective utilization of cash, you know, favorable product mix, going more towards profitable products where we get higher charges to spend from that, etc., etc., and we will be focused on that, that growth and profitability will go simultaneously together.

Mr. Rajeev Varma:

Right, okay.

Mr. Malay Ghosh:
The second part is that the first six months we though that the growth will be subdued even for the industry, but it looks like it has started moving on the other side. October also looks favorable, so these six months hopefully we will be able to achieve our targeted growth of 25%.

Mr. Sam Ghosh:
See, last year first six months I think were anyways good, after the market slowed down.

Mr. Rajeev Varma:
Yeah.

Mr. Sam Ghosh:
So, this year I think the fact that we are very close to whatever figures we did last year means that we can obviously grow at the rate we mentioned.

Mr. Rajeev Varma:
And I guess just one last related question, I mean your strategy in terms of, you know, you have been expanding distribution, etc., more rapidly in the past, I mean with growth now at 20-25, are you looking to, I mean just consolidate or you are still looking to expand?

Mr. Malay Ghosh:
We already are in about 1200 places.

Mr. Rajeev Varma:
Sure.

Mr. Malay Ghosh:
This year we are opening 107 offices for which we have approval. About 30 of them we have already done and the remaining 70 we will be doing in this quarter.

Mr. Rajeev Varma:
Okay, right.

Mr. Malay Ghosh:
And with this, as you have seen, our agents are moving up, quite a lot of people are under training and in different stages of getting license also. So, distribution, you know, ramp-up is now happening through mostly agents recruitment as also going through distributors offices.

Mr. Rajeev Varma:
Right, okay. Thanks a lot.

Mr. Malay Ghosh:
Thank you.

Moderator:
Than you very much sir. Next in line, we have Mr. Nischint from Kotak Securities. Please go ahead.

Mr. Nischint Chawathe:
Yeah, hi. First, I just wanted one clarification, I mean I can see three slides on the, you know, consumer finance business, one is for home, the other is for asset, and the third is for unsecured loan book.

I think as you mentioned to one of the earlier participant, this is basically more, you know, an SBU kind of classification and not necessarily the way it has been accounted for the subs.

So, I just wanted a clarification, you know, when you are talking about the average cost of fund, I mean how do you really calculate the cost of funds for the SBU or is it something that the cost of fund pertains actually to the sub?

Mr. K. V. Srinivasan:
The cost of funds is in any case, you know, when we talk about, let's say to take an example the home finance business, okay, now a part of that business is lying in the subsidiary, a part of that in the parent company.

So, when we say cost of funds, we take the cost of funds attributable to the book which is lying in the parent separately and then the subsidiary separately and then we add it up. That is why there is a marginal difference in the cost of funds as disclosed in the consumer finance division and the home finance division.

In a legal vehicle level, these borrowings are towards a specific purpose, like if I borrow money in the home finance business, it has to be given for the home finance business.

Mr. Nischint Chawathe:
Yeah, but I think the point is that home finance sub is anyway very small at this stage and the only incremental business is what is getting booked over there.

Mr. K. V. Srinivasan:
Yes, that's right.

Mr. Nischint Chawathe:
So, a large chunk of business is anyway in the parent company, I mean how do you really do that is what I was coming to.

Mr. K. V. Srinivasan:
The differential cost of funds is only in a few, you know, it is in a decimal point.

Mr. Nischint Chawathe:
Okay, so that is just a small account…

Mr. K. V. Srinivasan:
Yeah, It is virtually the same, you know, it is just a matter of a few decimal points here and there.

Mr. Nischint Chawathe:
And incrementally I guess as book ramps up, we will be able to see the differences?

Mr. K. V. Srinivasan:
That is right, hopefully yes, yeah.

Mr. Nischint Chawathe:
Yeah, okay. You know you mentioned about, you know, the strategic changes in...sorry, changes in strategy for Reliance money. So, you know, if you could really talk about that, some business restructuring and obviously the number of branches are coming off quite sharply and you are focusing on, you know, more profitability, you know.

What kind of a strategy are you adopting and, you know, how is it different from the earlier strategy, so, you know, I mean maybe if you could talk a little bit about that.

Mr. Kapil Bali:
See, as you mentioned, one is the cost rationalization. This is basically infrastructure which has been rationalized. Second was the sub-broker channels and BT channels, we have brought it down also for intermediaries you are taking our service but they are not providing us adequate revenue and all, so cleanup happens there also. This is on the cost side.

On the revenue side, we have built in, apart from the flat fee structure, we have brought in the transactional broking structure also, so there is an option available to the client now to go for the transaction which for some clients was a detrimental to flat structure because they did now know whether they will trade or not, so whether if they pay, it may go waste.

On the revenue side again, we have brought in other products also like the after market orders, etc., which were missing from the product basket which is basically even after the market you can place the order. We have also brought in the call and trade model which is a revenue model now, which basically was again missing from the product basket, which is now almost a 100-man team which is on a call and trade model which is directly addressing the customers, so this revenue again is a direct revenue and so the gross yield is ours. There is no sharing.

There are other small, small things also which we are doing, but these are basic key, big ones which should write down the cost and should increase the revenue per crore of turnover.

Mr. Nischint Chawathe:
Focusing on margin funding, etc., I mean, you know kind of…

Mr. Kapil Bali:
Yes, yes. In fact, we have also…one product which was missing from the basket was against collateral, so if somebody has shares in his DP account, we now give margin on that which earlier was not there, so now we have just started that.

This is presently on the margin side which we will also extend to the delivery side very soon. So, that should be a key driver again because we have a lot of clients who have lot of shares in their DP account and we wanted to capitalize on that and is a key service which should go to the clients very soon.

Mr. Nischint Chawathe:
So, that is something that is just kind of in the pipeline. Any kind of a pure LAS kind of a product?

Mr. Kapil Bali:
We have in LAS in our consumer finance business…we are tying up with the broking side also.

Mr. Nischint Chawathe:
Okay now, finally on the insurance part, you know, I was just wondering you have not given the top four or five products I guess, you know, which you kind of normally put out in your report.

Ms. Savli Mangle:
Hi, this is Savli. It is there in the review reports, the top five products.

Mr. Nischint Chawathe:
Okay, okay, so possibly I missed it. No, I mean I was just wondering, you know, when the IRDA guidelines come, you know, set in and you have cap on charges, so what really happens to products like Super Invest Assure because I would assume it is more difficult to structure products like these than, you know, some of the other products, so…and these are the, you know, possibly one of the key products that you have been selling, then how does the strategy really change

and, you know, how does the...I mean how do you really drive business after that?

Mr. Malay Ghosh:
Okay. We have worked on all the products including RSIP. As you must have noticed, there have been talks on this also that the minimum premium level in united linked policies will be raised from the present level of 5000.

The minimum premium level between 5000 to about 10,000 or 12,000, in that space we would like to bring in an universal live product with almost the same features, with same transparency, and same kind of structure in that level.

At the higher premium level, the product continues, yes, the distribution cost goes a little lower, but I hope the scalability will increase and with volume, the distributors will make good difference as also the profit of the company will be, you know, and the volume level will remain where it is.

Mr. Nischint Chawathe:
So, (a) you would look at more of a low end product or a, you know, a product that would appeal to the masses and (b) you would also be, you know, obviously continuing with the current…with the current franchise and high ticket business that you have been doing, that is the way I guess you are trying to explain.

Mr. Malay Ghosh:
Not exactly that, we will be in tier 3-4 cities as we actually planned and in those places the average premiums are in the range of 12,000-13,000, meaning that the sizeable portion will be less than 10,000. I was talking of that part where we will go with the traditional product.

Mr. Nischint Chawathe:
Oh, okay.

Mr. Malay Ghosh:
And above 10,000 and those things where we will still be in the unit link area where even if the distribution commission goes down a little, I hope that with these changes the salability will increase and with that the distributors will be able to cope up.

Mr. Nischint Chawathe:
Okay, okay, okay, fine. Thank you, thanks a lot.

Mr. Malay Ghosh:
Thanks, thanks.

Moderator:
Thank you very much sir. I repeat again, participants who wish to ask questions may kindly press * followed by 1 on your telephone keypad. Next in line, we have Mr. Kunal Shah from Edelweiss. Please go ahead.

Mr. Kunal Shah:
Hi, good evening sir.

Mr. Sam Ghosh:
Good evening.

Mr. Kunal Shah:
Sir, just with respect to the strategy at the Reliance Capital, the entire industry had sailed through this crisis, maybe like we had slowed down in consumer financing, but I think disbursement has slightly picked up quarter on quarter, Reliance Money also restructuring is over, but overall still like we see finance and investments and asset management this time has been a significant contributor.

So, how do we see the other segments panning up, what would be the strategies out there in terms of like contribution to the overall bottom line and how growth strategies would have changed at the group level with respect to Reliance Capital, maybe any kind of positioning in any of the business or maybe anything would have changed in the last six months?

Mr. Sam Ghosh:
I think as I mentioned in the beginning that our focus obviously now is on profitability of each of our companies and how much profits we can generate. So, earlier on, if you notice in the last few years obviously most of our profits came from the investment book and selling the investments and getting capital gains and that was nearly over…last year it was about 80% or so.

This year we expect that should in the range of 70% or so and 30% should come from the businesses and going forward obviously our focus would be our business does contribute about 70% to 75% of profits in the next two-three years. So, therefore all our businesses have to make money.

That is why what we have said is that it will start with asset management company, obviously it is expecting to make more profit than last year. If we look at our consumer finance which is home financing, asset financing, they are making profits and we expect them to make substantially more profits.

Same way, general insurance is in breakeven stage. Reliance Money obviously we have made the restructuring now. We expect them to contribute more and more towards profit and life insurance should break even in the next year, so that should be the goal so that the following year they can at least look at profitability.

Mr. Kunal Shah:
Surprisingly just in this consumer financing business, if I just look, maybe there was a sharp up-tick in auto loan disbursements for most of these guys in the month of August and September, but if we really see our portfolio, this is a more kind of a secured portfolio, but still we had actually seen a decline in the overall auto loan quarter on quarter, so what has really led to, means we are not very aggressive in auto loans or there is enough competition from PSU banks, what does this suggest actually?

Mr. K. V. Srinivasan:
Okay. See, the one consideration that we always have in the consumer finance business, of course, other than the credit quality is the profitability of the business.

Now, as you might have seen in the past, you know, quarter and beyond, with the advent of the PSUs and the rates kind of going into single digit, the car loan business has actually not been as remunerative as it was in the last year. So, therefore, what we have done is that we have reduced the disbursement amounts and we are only doing so much of business as would give us enough amount of return on equity for that particular part.

So, it is a very conscious strategy because we believe that the current low interest regime should disappear because ultimately everybody would feel the need to make money and therefore come back to the same strategy that we are or we have been consistently following for the past 18 months.

So, until then we are absolutely prepared to wait it out and, you know, we will never compromise upon profitability or the credit quality; that is a stated goal.

Mr. Kunal Shah:
And sir, similar thing would be there even for mortgages because over there also we have seen significant competition from most of these guys and even other guys who are like slightly slow, they have gone active now, so maybe there also like, maybe like we are also doing like, but still like there is also the competition, so similar steps we can expect even in mortgages?

Mr. K. V. Srinivasan:
Not really, not really. There are two-three significant differences between the auto loan business and the mortgage business.

Number one, the auto loan business operates on a fixed rate regime where you are effectively taking a call for the next four years on a fixed rate, whereas mortgage business across the board is fully repriceable at, you know, in line with the cost of fund. So, therefore you are not carrying any future interest rate risk. So, therefore it is inherently more profitable than a fixed rate business.

Secondly, the cost of operation of mortgage business would always be lower than much more retail, smaller ticket size business like an auto loan.

Number three, the extent of losses on account of nonperforming loans are significantly lower because the nature of the asset being financed is not a depreciating asset and the cost of acquisition is lower.

So, therefore overall if you put these four-five factors together, it is possible for one to do a profitable mortgage business even at a margin of 1.5% net interest margin over debt cost whereas if you try to do the same thing on an auto loan, you will definitely end up at losses. So, there is a significant difference in the strategy. I do not expect to see a slowdown in the mortgage business at all.

Mr. Kunal Shah:
And sir, this kind of disbursements maybe like quarter on quarter it has almost doubled, so would we see some further up-tick over next two-three quarters or maybe like next 12 to 18 months, what would be the run rate of disbursements in consumer finance as a whole?

Mr. K. V. Srinivasan:
Look, it is very difficult a 12 to 18-month kind of scenario, you know, given the past experience of the market.

However, you know, suffice to say that Q2 would be sort of a benchmark to either repeat or improve upon and since we have done something like about 14 billion rupees of fresh disbursements in Q2, I can expect that to at least be maintained or grown in the next two quarters.

Mr. Kunal Shah:
Okay. And sir, I just missed on the NPL number for this quarter, how much would be the gross NPL?

Mr. K. V. Srinivasan:
Gross NPLs this quarter were around Rs. 520 crore.

Mr. Kunal Shah:
Okay.

Mr. K. V. Srinivasan:
It is absolutely flat.

Mr. Kunal Shah:
Okay. And various other businesses which are the institutional equities, have they already broken even in this quarter, this new businesses which are there?

Mr. Amit Bapna:

The new businesses have not broken even as yet. There are marginal losses everywhere because they were set up towards the end of last financial year, but next year onwards they all should be contributing towards the bottom line.

Mr. Sam Ghosh:
So, by 31st March, our plan is that all of them, the new businesses must try and come to breakeven.

Mr. Kunal Shah:
Okay. And sir, just one thing on this investment banking, like we are seeing good pipeline of IPOs, so sir any plans on IPO financing with such a kind of distribution network which we have?

Mr. Kapil Bali:
We do IPO financing, but we take a view on case to case on each issue basis because as you know the IPO market today, it is a lot to do with sentiment also, so we take a view on these.

Mr. Vikrant Gugnani:
Investment banking obviously is going to be a key focus going forward for us. We are in the process of building the same to launch by the end of this quarter. This is going to be one of the key focus areas of Reliance Money going forward.

Mr. Kunal Shah:
Okay. And sir, those offshore AUMs maybe from 255, it has come down. There was some undrawn amount which was of 92 million, so it like this undrawn amount is not there now, as a result of which we are seeing a decline in this offshore AUM?

Ms. Savli Mangle:
The offshore AUM, the number which is currently reported does not include the undrawn amount. If you see, there is actually an increase, 16% year on year increase, this doesn't include the undrawn amount.

Mr. Kunal Shah:
Okay. And quarter on quarter?

Mr. Vikrant Gugnani:
We haven't drawn down during the quarter, so this is effectively just, you know, MTM and new inflow increase. We have got 22 million new inflow during the quarter.

Mr. Kunal Shah:
Okay. And sir, just last question on the overall employee strength, what would that be as of September as compared to that of June?

Ms. Savli Mangle:
Hi Kunal. This is Savli. We will take this question offline.

Mr. Kunal Shah:
Okay, yeah, no issues. Thank you.

Moderator:
Thank you very much sir. The last question comes from Mr. Prasoon Agarwal of Fidelity. Please go ahead.

Mr. Prasoon Agarwal
Hi, good evening sir. Most of the questions have been answered. I just wanted the breakup of balance sheet on the asset size.

Ms. Savli Mangle:
Hi Prasoon. This is Savli. Just to give you a broad breakup of the balance sheet, on a stand alone basis, the assets are around Rs. 208 billion of assets, of which investments in businesses, are about 44 billion.

Mr. Prasoon Agarwal:
44?

Ms. Savli Mangle:
Yes.

Mr. Prasoon Agarwal:
Okay.

Ms. Savli Mangle:
We have consumer finance loan book of about 80 billion rupees, listed equities about 19 billion rupees, and investment of unlisted equities which are private equity-like investments is about 7 billion rupees.

Mr. Prasoon Agarwal:
Okay.

Ms. Savli Mangle:
Cash and cash equivalent about 22 billion rupees.

Mr. Prasoon Agarwal:
Okay.

Ms. Savli Mangle:
And small corporate loan book about 31 billion rupees.

Mr. Prasoon Agarwal :

31?

Ms. Savli Mangle:
31.

Mr. Prasoon Agarwal:
Okay. Thanks a lot.

Moderator:
Thank you very much sir. At this moment, I would like to hand over the floor back to Ms. Neha Agarwal for final remarks. On behalf of IDFC-SSKI, I would like to thank Mr. Sam Ghosh and the entire top management team for making time for this call. Have a very good evening. Thank you so much.

Mr. Sam Ghosh:
Thank you.

Ms. Savli Mangle:
Thank you.

Moderator:
Thank you very much ma'am. Ladies and gentlemen, thank you for choosing WebEx's conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a great evening.