

Religare Enterprises Limited

Q3FY12 Investor/Analyst Conference Call

Wednesday, February 15, 2012 at 3:30 pm IST.

Kishore Belai: Good afternoon everyone and thank you for joining us on our Third Quarter FY12 results conference call. I am Kishore Belai, Head of Investor Relations at Religare. We are joined on this call today by Mr. Shachindra Nath, our Group CEO, Mr. Anil Saxena, our Group CFO, and members of our senior management. Before we start the proceedings, I'd like to mention that certain statements that may be made on this call may be forward-looking statements and we do not undertake to publicly update them. A statement in this regard has been included in the invitation for this call. On this call, Mr. Nath will first update you on the progress made in executing the Company's strategy and review the operational and financial performance of the company. Thereafter, we will open the lines for Q&A. I now turn the call over to Mr. Nath.

Shachindra Nath: Thank you, Kishore. Good afternoon everybody and thank you for joining us on this call. Our results presentation has been uploaded on our website and emailed to you all. I hope you have studied the numbers already. I will start by talking a bit about the environment that has formed the backdrop for last quarter's performance, following which I will discuss some steps we have taken to ensure long-term profitability of our businesses. I will thereafter walk you through our quarterly performance and then we will open the lines for Q&A.

Uncertainty continues to plague the global financial system – we have been seeing recurrent swings between optimism and pessimism since the Global Financial Crisis, and especially during the current financial year. Markets globally have rallied since the start of calendar 2012. However, this has largely been driven by liquidity, and therefore one cannot rule out another pullback in the near future. Such uncertainty works against the interests of most financial services businesses as both investors and businesses sit on the fence. The current environment is pointing to the continuation of this uncertainty in the near term. Having said that, the secular shift in economic gravity from the developed world to emerging markets continues, notwithstanding the hiccups we are experiencing now.

Let us now take a quick look at what has happened in the Indian market during the third quarter. Volumes in the equity market declined quarter-on-quarter as well as year-on-year with cash equity volume declining the most. Options now account for 70% of the overall volumes, but the share seems to be stabilizing at this level. The Reserve Bank of India has last increased policy rates in October and thereafter there has been a pause, signaling a peaking of interest rates; however, the yield curve remains flat and liquidity in the system has been tight. The average daily amount lent by RBI to banks under Repo rose by 114% from ₹ 543 billion in September 2011 to ₹ 1.16 trillion in December 2011. While there was a 50 basis points cut in CRR announced during the January review, the Repo amount outstanding as of yesterday was ₹ 1.7 trillion, reflecting continuation of tight liquidity

conditions. Mutual Fund AUM has declined every quarter of this financial year and industry AUM has declined 12% in the last six months. New business premium collection for the Life Insurance industry has been lower in every single month this financial year. M&A and ECM volumes during the quarter totaled \$12 billion, 20% lower than the previous quarter as well as the same quarter last year. Net investment by FIIs in India during the first nine months of the financial year was negative as against positive of ₹ 1.1 trillion in the first nine months of FY11.

As you would all have seen first-hand, the last three years have been a difficult time for capital markets businesses globally. We have seen bursts of optimism but the undercurrent generally has been subdued and deal flows have been limited. While we are confident that this is a passing phase, we have taken some strategic actions to ensure that our businesses are ready to weather any storms they may face from time to time.

On the last call, I had updated you about the decision to focus the Capital Markets business on the high-growth markets of Asia and India with a view to accelerating the path to profitability. While this has reduced execution risk and addressed the operating aspects of the business, we needed to establish a stable source of capital for funding RCML's requirements without pressurising the REL balance sheet. We have therefore entered into a long-term funding arrangement for RCML with RHC Holding Pvt. Ltd., a Promoter Group entity. Under this arrangement, RCML will issue Redeemable Non-Cumulative Preference Shares to RHC for funding its entire operating gap. No equity will be issued to RHC and REL will not dilute its economic interest in RCML in favour of RHC.

This arrangement insulates REL and its shareholders from the execution risk in RCML and takes the pressure off the REL balance sheet. At the same time, REL and its shareholders are completely protected since REL continues to hold its equity and the eventual value that is created will accrue to REL and therefore to its shareholders.

Let me summarise the key terms of the arrangement. RHC has agreed to fund RCML's entire operating gap effective 1st October 2011. Fund infusion into RCML will be in the form of Redeemable Non-Cumulative Preference Shares that will be redeemable after 7 and before 20 years from issue. The Preference Shares will be redeemed out of RCML's profits or out of any future capital raised by RCML. No equity will be issued to RHC; REL will continue to hold its equity interest in RCML. There will be no operational change and RCML continues to be a key pillar of REL's strategy. The arrangement is subject to some reasonable safeguards for RHC, principally that RCML will be required to repay RHC in full before distributing any profits or returning any capital to Religare Enterprises; RHC will have representation on the RCML Board and its affirmative vote will be required for certain matters; the terms of existing Preference Shares in RCML held by REL have been changed such that they can be redeemed only after the Preference Shares issued to RHC are redeemed; the face value of existing Equity Shares in RCML, which are held entirely by REL, will be increased from ₹ 10 to ₹ 15. This increase in face value will prevent distribution of dividend to REL as RCML's Articles of Association prohibit distribution of dividend on partially paid up shares. The uncalled capital of ₹ 5 per share will be designated "Reserve Capital" under section 99 of the Companies Act, to be called only in the event of winding up.

The terms of the Preference Shares that I have just outlined amount to a long-term restriction on the distribution of profits and return of capital from RCML to REL. Accounting Standard 21 requires that if such restrictions exist, the financials of the subsidiary should be excluded from the consolidated financials of the parent and accordingly, we have excluded RCML from REL's consolidated financial statements with effect from 1st October 2011.

With that background, I will now walk you through the highlights of our consolidated financials. The reported Q3 numbers are not comparable with the previous quarter as RCML financials are excluded from REL's consolidated financials. I will therefore refer to pro-forma numbers that facilitate like-to-like comparison. Consolidated revenue for Q3 fell 4% QOQ to ₹ 7,771 million. However, on a like-to-like basis – that is, backing out RCML revenues from the reported number for Q2 – revenue grew 6% QOQ. We reported a PBT-level profit of ₹ 534 million for Q3 as against a reported loss of ₹ 1,444 million in Q2FY12. On a like-to-like basis, PBT in Q2 would have been ₹ 290 million, thus representing growth of 84% QOQ. At the PAT level, we reported a profit of ₹ 342 million for the quarter as against a reported loss of ₹ 1,835 million in Q2FY12.

You are familiar with our three-pillar strategy. Let me now give you an update on how we have executed on each of these during the third quarter. Let me walk you through the performance of our Integrated Indian Financial Services Platform first. On the last call, I had informed you that Religare Finvest Limited, our lending subsidiary, had significantly strengthened its balance sheet with both equity – by way of private equity investment by Avigo Capital Partners – and debt – by way of a retail issue of non-convertible debentures. I am pleased to report that RFL's position is being further strengthened by the induction of another private equity firm, Jacob Ballas, as an investor. The size of this investment is ₹ 2 billion, and the transaction has been closed in January 2012.

In terms of its operations, RFL has further consolidated its position in the SME lending space during the quarter. Our Asset Finance book grew 13% quarter-on-quarter to ₹ 80.3 bn. as on 31st December 2011. We scaled the Capital Market Lending book back to ₹ 21.6 bn. from ₹ 24.6 bn. a quarter earlier in light of market conditions. Net Interest Margin was basically flat quarter on quarter at 5.02%. We expect that as interest rates ease, we will see an expansion in NIMs. As a matter of prudence, we have adopted a more stringent provisioning policy during the quarter whereby we recognise NPAs in 90 days as against the current RBI requirement of recognising NPAs in 180 days. Our gross NPA as at 31st December 2011 was 0.69% of book and Net NPA was 0.45%. While these have gone up on a reported basis, if we were to continue the old policy, the NPAs would basically remain flat. Overall our asset quality is well in control and 89% of the loan book is secured.

Turning to the Retail Broking business, on the last call, I had mentioned to you that after a strategic review, we had started restructuring the business, moving to an asset-light operating model that would give us greater flexibility and increase the resilience of the business. We are progressing well on this front and have brought down the total number of owned branches to 245 as on 31st December 2011, from 396 at the start of FY12, but our distribution footprint has not been compromised. In fact, the number of towns and cities in which we have a presence has actually increased from 577 to 593 during this period. However, during this quarter, the market-

wide average daily turnover in Cash Equities has fallen by ₹ 17 bn. and retail participation in the market has been declining, which has impacted our financial performance. We expect to improve our performance in this business during the fourth quarter. In fact, our January numbers indicate that on a run-rate basis we are already in the black

The India Asset Management business continues to focus on building quality AUM by developing innovative and high-yielding products. During the quarter, we launched the Religare Gold Fund of Funds which garnered subscriptions from over 10,000 investors. Post the quarter, our new overseas debt fund has raised over US \$20 million. ICRA has ranked Religare Monthly Income Plan as a '5-Star Fund' for the one-year period ended 31st December 2011, indicating performance among the top 4.6% in its category.

In the Wealth Management business, we continue to focus on improving operational efficiency. Our revenue productivity per relationship manager has increased by nearly 120% in the last twelve months.

In the Insurance business, we continue to build our franchise while ensuring that we use our capital efficiently. This is a business which is a fantastic value creator over a long period, and as I have explained before, our structure allows us to participate in the upside with full downside protection.

Moving now to our EM Capital Markets Platform. Last quarter I had talked about the how in this business we are redoubling the focus on Asia and India to reduce revenue risk and accelerate our path to profitability. The restructuring effort is progressing satisfactorily. In the Institutional Equities business, we were empanelled with 43 new clients during the quarter, taking the total number to 512 globally. Our Institutional Cash Equities market-share in India stood at 1.6% for the quarter and we have seen some further gains in January. We have seen reasonable traction in Investment Banking given the current environment. We closed some deals during the quarter and have a strong pipeline at the moment.

A few minutes ago, I had explained to you the long-term funding arrangement we have made for the EM Capital Markets business with RHC. This arrangement has basically insulated REL and its shareholders from the execution risk in RCML and taken the burden of financing RCML away. However, the equity ownership remains with REL and therefore REL and thereby its shareholders will enjoy the upside from RCML once it becomes profitable.

Turning now to our Global Asset Management Platform. As I have stated before, this business is bringing together best-of-breed asset managers in the alternate assets space onto our platform and providing them distribution reach which they would not be able to build individually. Our Affiliates have also started to benefit from Religare's emerging market presence by way of access to local deals, flow of market intelligence and client leads. Our team in Japan continues to meet with success in distributing the India AMC's equity and debt products.

While the environment has been quite tough during this financial year, we at Religare have taken it as an opportunity to take a hard look at our structure, recalibrate our operating model, and build greater flexibility and

resilience in the model. Religare is an extremely agile organisation and its ability to make tactical shifts without losing focus on the long-term objectives is its greatest strength.

With this, I conclude the opening remarks. The senior management team and I would be glad to address any queries that you may have.

Moderator: Ladies and gentlemen we will now begin the question-and-answer session. The first question is from Ritesh Nambiar from UTI Asset Management Company, please go ahead.

Ritesh Nambiar: One thing I wanted to know, I see a lot of Admin and OpEx being reduced across segments, especially in Religare Finvest, which I am seeing depending on the scale of growth, which I see in the top-line, it's not fitting, is there any savings on account of Admin and Operating expenditure?

Shachindra Nath: If you recall last time, we have explained the structure of a shared services organization which we have built, named "Religare Corporate Services." It is now the shared services organization across all our subsidiaries and has entered into long-term service level agreement across our subsidiaries and now they share services like Infrastructure Management, Back Office and multiple other services which are common across our multiple businesses and that has resulted in significant operating sale across our subsidiaries.

Ritesh Nambiar: Specifically that has been consolidated in Religare Enterprises?

Shachindra Nath: If you go through our last quarter analyst presentation, the Religare Corporate Services structure is such that it shares revenue from each of our operating subsidiary. If there is a gap between the revenue share and the OpEx that gap is not funded by REL. That gap is funded directly by the entities, which control Religare Corporate Services, which is Religare's current shareholders.

Ritesh Nambiar: The promoter structure, is similar structure as in case of RCM?

Shachindra Nath: Yes, the only differences here is that, there is a 10-year long term contract which allows Religare Corporate Services to share revenue from each of our subsidiaries. It gets the benefit of growth in the revenue from our operating subsidiaries but it has been structured wherein the revenue share growth is also blocked or curtailed in a manner that both sides are very balanced.

Ritesh Nambiar: How much do you share with the Religare Corporate Services business wise if you could help us?

Shachindra Nath: It is across our subsidiaries; 2.5% of revenue is shared but if the sharing of the 2.5% grows by more than 30% then it gets restricted to that growth rate. So, suppose the 2.5% grows more than 30% on year-on-year basis that's the cap.

Ritesh Nambiar: Now, within your NBFC, how to look into the OpEx going ahead? Because now it's very volatile.

Shachindra Nath: From a modeling perspective the increase in OpEx would be 2.5% of revenue, growth would be subject to maximum of 30%.

Ritesh Nambiar: And regarding the same agreement with the promoters, is the RHC funding taking place through non-equity, or it's purely through debt, how is it, any clue on it?

Shachindra Nath: It's a preference share whose term is between 7 year or 20 years, but that is redeemable out of the profits of Religare Capital Markets or fresh capital raised by Religare Capital Markets.

Ritesh Nambiar: But how are promoters funding it? Who are the participants for the preference share?

Shachindra Nath: RHC Holding Private Limited.

Ritesh Nambiar: Yes, but how is RHC funding it?

Shachindra Nath: Unfortunately, I can't answer that question, that question you should pose to RHC, but as you know the family has been very liquid and that's their own investment and they are doing for a return. Basically they have a return which is coming out, so they have a participation in risk also. So the risk of growth or execution risk of RCML is what they care about, from this point onwards. If the business succeeds then they get their returns and if business does not succeed then they take it through their preference participation.

Ritesh Nambiar: If suppose this agreement wouldn't have been done, what would have been the consolidated profit after tax?

Shachindra Nath: You can call us separately, we can give it you. It's a de-consolidated number that's why technically we can't report that because our auditors have deconsolidated the accounts.

Moderator: The next question is from the Ravi Mittal from BNP Paribas Asset Management India Pvt. Ltd., please go ahead.

Ravi Mittal: With regard to this arrangement with RHC Holding, can you throw some light on what is the total amount of funding that we are looking at, and probably at what rate of interest?

Shachindra Nath: This is not about an amount of funding. They are funding the operating gap, so between revenue and expense, if there is an operating gap that gap would be funded by them through a preference capital whose terms are between 7 years and 20 years at a rate of 14%, but that rate of interest is paid only out of the profit of that entity itself.

Ravi Mittal: And what was RCML's standalone revenue and profit for this quarter?

Shachindra Nath: This quarter which has been deconsolidated that's not disclosed, but until last quarter it is all reported you can see that.

Ravi Mittal: So we don't have this number for this quarter at least?

Shachindra Nath: As I explained earlier that because we have structurally shifted the business to Asia and taken out substantial amount of cost from other market which is UK and other markets that has been reported from last quarter it has significantly reduced, but only from a reporting perspective and given the fact that there is no further exposure to REL, the financial numbers will not be reported henceforth.

Ravi Mittal: Coming back to our NBFC, Religare Finvest on a quarter-on-quarter basis, we see that there is a decline in our SME working capital portfolio. Any particular reason for that or is it mainly because of may be lack of opportunity for us or may be a conscious approach?

Kavi Arora: If you look at the disbursement figures they are pretty steady. If you look at book composition, it will be smallest book in terms of tenure compared to products like loan against property which are longer-term. So on a composition basis, at book level you see that difference because the other assets are long-term, vis-à-vis working capital which is shorter. But the way to look at is actually whether the acquisition numbers are there, and in that we have been fairly steady for the last three quarters of this year, consistently increasing the SME working capital disbursement month-on-month.

Ravi Mittal: With regard to our NBFC business, can you throw some light on our asset/liability management profile for less than 3 months bucket and less than 12 months bucket? We don't have the RFL figures yet, so can you give us some idea about it?

Sunil Garg: Currently, on three months and 12 months basis, we are not getting any mismatch on ALM side.

Ravi Mittal: And just on the funding profile, out of the total borrowing at Religare Finvest, how much would be from a short-term capital market borrowing?

Sunil Garg: Short-term capital market borrowing would be in the range of ₹ 3,000 crore which is through the commercial papers.

Moderator: The next question is from Ravi Ratanpal from J.P. Morgan India Pvt. Ltd., please go ahead.

Ravi Ratanpal: In loan against property, the outstanding loan at this point of time somewhere around ₹ 51 billion and in capital market lending is somewhere around ₹ 21 billion. So, can you just elaborate on that and what exactly comprises of loan against property and capital market lending and what will be the collateral against this? What kind of loan to value is this?

Kavi Arora: Loan against property business, as the name obviously suggests is against a property which is fixed assets, land and building. We have 55% of our book which is residential property where self-occupied residential property is a majority chunk. The balance is commercial property. The average loan to value on book level is about 50%. The maximum at a loan level goes up to 65% and there is a hierarchy in our risk management where you look at the kind of property and we decide LTV accordingly. So, from 65% down to about 40% and book level is about 50% at the time of origination of loan at those values. If I were to look at the current value of the property and the loan amount outstanding, as of today, obviously it goes down further below 50%. On Capital Markets Finance, it is basically loan against shares, where the collateral is a marketable security. The large chunk is against equity shares and the cover is 2x vis-à-vis the loan, so you can say it's about 50%.

Ravi Ratanpal: And who are the major borrowers in loan against property? And what is the final usage of this thing? Can it be for any usage?

Kavi Arora: The majority of our business is for the self-employed in India who have an existing profit-making business, looking money for expansion where they pledge their personal or properties owned within the business to leverage that ownership and get some money into the business. So, it is basically self-employed and the money is going into the business for either to expand capacity or to fulfill the order book and thus the requirement is checked when you give the loan.

Ravi Ratanpal: In loan against property, what is the real estate exposure, in a sense given to builders for construction of the building?

Kavi Arora: So are you talking about specific commercial real estate?

Ravi Ratanpal: Okay.

Kavi Arora: About 17% of the real estate book is classified as CRE. **Ravi Ratanpal:** How much 17% will be?

Kavi Arora: It will be under ₹ 1,000 crore. About ₹ 5,000 crore is the loan against property. So it is 20% of that.

Ravi Ratanpal: So is this pure real estate construction?

Kavi Arora: No, let us get that clarity. CRE or commercial real estate exposure does not mean loan to builders, it could even mean loan to somebody who owns the commercial property and where the repayment is through rental that's commonly known as "Lease Rental Discounting." That also gets classified as CRE, and a large part of what is classified as "CRE" is actually through "LRD."

Ravi Ratanpal: You said it is generally self-employed people who want to expand their business. How that is different from SME working capital requirement?

Kavi Arora: Let us go back again, the total book at RFL level, out of which almost 75% plus book is actually focused on SME. The loans are given to SMEs where depending upon the collateral it is classified, if it has property as a collateral then it goes as SME LAP, if there is some marketable security, it goes as part of our capital market whereas if we do unsecured working capital loan, we are treating that book as SME working capital. That is primarily an unsecured book which we had mentioned that about 10% of our total asset book is unsecured, 90% remains secured to some collateral.

Ravi Ratanpal: What kind of NPAs have we seen in the last six months on this unsecured book?

Kavi Arora: You can probably look at the last quarter results which are all given. The gross NPA is 0.27% in last quarter and 0.07% as net NPA. This is total asset book. What we have just done recently is in line with the Usha Thorat Committee recommendation where one of the recommendations, which is not mandated yet, from the regulator is to start recognizing NPAs at 90 days. As a prudent norm, we have already started recognizing NPAs at 90 days instead of 180 days, which is extremely conservative, but we have already changed that requirement internally and that is the NPAs reported ending 31st December is 0.69%, where net NPA is 0.45%.

Ravi Ratanpal: How much is out of this from the SME unsecured lending book segment?

Kavi Arora: I don't have the numbers off hand by individual portfolio. If you need specifically we will provide that offline.

Shachindra Nath: But just to give you, additional comfort, contrary to popular belief our SME working capital portfolio actually performs better than the secured portfolio; that is the answer to your leading question. Now, what you are reading is what is written as SME working capital, loan against property and CV business, all of this we classify as SME business and as Kavi was explaining that it gets further classified based upon the collateral. We would make the necessary changes, so it is actually SME Working Capital, SME Loan Against Property, SME Commercial Vehicle and Commercial Asset Finance.

Ravi Ratanpal: The total net worth of Religare Finvest, which is what is given on Slide 27 is close to ₹ 19,000 million is that correct?

Shachindra Nath: Correct.

Moderator: The next question is from Samridhi Deorah from Edelweiss Securities Limited, please go ahead.

Samridhi Deorah: Can you share with us what is the average yield on your credit book and the average spread?

Kavi Arora: Average spread as reported is at 5.02%. The average yield is in the range of 15.5%, that puts the margin at about 5.02%.

Samridhi Deorah: When we calculated using your interest income, we are getting roughly in the range of around 19%?

Kavi Arora: 19% as the book yield?

Samridhi Deorah: Yes. It's just Income from Operations divided by the average loan book.

Kishore Belai: We can walk you through the calculations off-line, but as Kavi has said, yields currently are at 15%.

Samridhi Deorah: In case of Retail Broking, in Q3 are there any write-back of tax provision below the PBT line?

Anil Saxena: Retail Broking reported a loss so that gives a benefit of tax provision because overall it will be deferred tax. There is no write-back of any tax provision.

Moderator: The next question is from Chandan Gehlot from Deutsche Asset Management (India) Pvt Ltd, please go ahead.

Chandan Gehlot: Probably I missed your opening remarks. So, some of my questions may be repetitive. I want to know has your NIM margin marginally improved? So just wanted to understand is there any change of mix, why the yield improved by 2-3 bps?

Kavi Arora: What we mentioned earlier is that whenever there is an interest rate increase, a large part of our book which is Rs. 5,000 crore of LAP is 100% variable book. So with every intervention by the regulator to change the base rate, you go back and increase your own PLR and thus there is in effect, transmission to the customer, but there is always a lag in this and obviously to the extent that you can pass on. And if you attended the call two quarters back, we had said you will see expansion because we are doing this intervention and the result of that you can see that from Q1 of this year from 4.65%, we are now at 5.02%, so we expanded the margin by about 35 bps while absorbing the increase cost of funds for us. There is no major change in the composition of it.

Chandan Gehlot: On the other side like we have seen your OpEx percentage is declining from 3.1% to 2.23%. So what is significantly driving this number?

Kavi Arora: I will just add, certain impacts, Shachindra Nath had already explained that to a response to an earlier question.

Shachindra Nath: As I said earlier, we have created a shared services organized called "Religare Corporate Services." There we have combined common services across all our subsidiaries and that company has entered into a long-term service arrangement which is on the basis of revenue share of 2.5% with a cap of 30% growth

on year-on-year basis. So that has effected into an operating efficiency at every subsidiary level and that is seen over here. Now the OpEx which is seen in RFL or any of our subsidiaries is the base line OpEx which is to continue to move for every quarter and the increase would maximum be proportion to the revenue growth but there will be a cap of 30% on that.

Kavi Arora: Therefore, all subsidiaries are underneath REL. At RFL level we had earlier also mentioned that the entire infrastructure, our distribution and entire management team has put in place and you will see operating leverage as we grow our book size which is what you started seeing.

Chandan Gehlot: We had seen Q-on-Q and Y-on-Y decline in the employee cost. Just wanted to see is there any headcount cut, what kind of reduction is this?

Kavi Arora: Within RFL, obviously, we would focus on time and on the productivity and the rest of the things. We had a distribution team which was part of the total headcount, we have seen the changes in pure distribution revenues, which have declined over last year. There was obviously significant realignment of the team. So the employee cost you can see it is going down.

Chandan Gehlot: So we can see this trend continue, is it correct?

Kavi Arora: I think interventions have been made. What you are seeing is the cost line that is flat from here on.

Chandan Gehlot: Another question is on the asset quality size. We have seen the net NPA increase almost 0.07% to 0.45%. So just wanted to understand from which segment the net NPA is coming from?

Kavi Arora: Yes, I think you also missed the part that it's just a change in reporting. Let me explain that again. RBI requirement as on date is to identify NPAs at 180 days plus. In the Usha Thorat Committee Report, recommendation has been made on 90 days plus. It is a pure recommendation not yet adopted by any regulator. As a prudent norm we have gone and changed identification of NPAs at 90 days by just being more conservative and prudent and that is the impact that you are seeing. The number if you were to see at the footnote, the number would be at 0.09% if you were to take it to 180 days. So, actually it is very flat. There is no real increase.

Chandan Gehlot: So the impact on your net NPA is because of this new recommendation of the Usha Thorat Committee, is it correct?

Kavi Arora: Exactly, because you identified 90 days. There is a lot of correction that happens between 90 days to 180 days where you get corrected because 90% of the book is actually secured, it does not really go away. It's just the reporting format how that money gets reported.

Chandan Gehlot: Lastly on the advances side, we have seen that we decreased the capital market lending. So I just wanted to understand what kind of business change we can see going forward. This book will continue to decline or will this stabilize at this rate?

Kavi Arora: Capital market lending is obviously very dependent on the capital market performance and as a prudent lender in the market you would always align it with the growth or the way the volumes are in the market and if you look back what happened in last few quarters because of the performance of the market themselves.

Shachindra Nath: But just to add on that, as what we have been constantly saying is that within our entire asset book, we have a cap limit for entire Capital Markets financing. So, we will remain in that cap limit, but from there the book would degrow if the market performance is not seen or we see weakness in the market, but it can go back to the cap limit, but that is the way it would continue to function and perform.

Chandan Gehlot: Can you just recall what is the cap limit which you have in place for the Capital Markets?

Shachindra Nath: We keep reviewing it on an ongoing basis, it is fixed on 6 monthly to yearly basis, but on an average Rs. 3000-odd crore is the cap at which we freeze our book.

Chandan Gehlot: And what was the average cost of borrowing during the quarter?

Anil Saxena: The average cost of borrowing during the quarter was around 11.5%.

Chandan Gehlot: Is it possible for you to add one more slide in terms of ALM for the Religare Finvest?

Shachindra Nath: We would consider that.

Moderator: The next question is from Kajal Gandhi from ICICI Securities Limited, please go ahead.

Kajal Gandhi: Two questions, one is on the wealth Management side, your OpEx and employee costs have gone down considerably, but if I look at the RM number by deriving from the AUM per RM, doesn't seem to be going down substantially?

Basab Mitra: Let me explain that. I think as you rightly pointed out we have held back on the RM cost. We have a steady number of about 95 RMs. What we have done is obviously scale back on the back office and some of the back office costs now we are sharing increasingly with REL. As Shachin mentioned, some of these costs are now in a shared services setup so all of which have obviously contributed in reducing the cost base of our financial services business.

Kajal Gandhi: Sir then what would be the count of the total employees in Q2 and now in Q3?

Basab Mitra: I think you should assume that 15% reduction in headcount.

Kajal Gandhi: And other question is on the Broking side. We have also seen a substantial reduction in owned outlets in this quarter. If I can get some view on the plan forward and the employee detail report?

Gagan Randev: I think as Shachin enumerated earlier, there has been some restructuring in the Broking business to make it asset-light which was part of strategy that we had carried out and that got concluded by the end of the last quarter. That saw the number of branches coming down, self-owned branches from close to almost 400 to about 245. We have actually at this point of time more or less concluded on that side.

I think we all have seen the under performance of the markets in the last year and obviously, the Broking industry is one where you would always see increase or decrease in the number of people depending on the way the market functioned and I think the fact that last year we saw a period of underperformance with the retail participation being down. It ominously saw scaling back a little bit on the numbers that we had, which is again something very normal for the Broking business. So, we concluded that and obviously, that has brought down our employee cost significantly since the beginning of the year. But we are more or less done at that front at this point of time.

Kajal Gandhi: But self-owned branches would have been bringing in substantial business. And since there is no material addition on the franchisee side, so, is it not affecting the business because if there is no replacement of that?

Gagan Randev: Just to again reiterate what Shachin had already said, while we reduce the number of branches, etc. we never did it in the standalone locations. So, these are only done in multi-branch city locations where we had a number of branches. We in fact have increased our presence in the number of cities and we are present close to 600, thanks to the number of business partners, so we onboard close to about 30 to 40 business partners now on a monthly basis.

So, actually, in terms of distribution footprint, we are pretty much where we are and in terms of geographical presence we have actually increased. So, one of the things we did see as we brought down some of the branches, the short-term impact of that is there is a little bit of loss of market share but starting November our market share again started coming up and as you get into this quarter you will see we are pretty much at where we were prior to this whole exercise. So, we have not really lost too much in terms of market share.

Kajal Gandhi: What would be your employee numbers in Q2 and Q3 outstanding?

Gagan Randev: We are roughly down by about 20% and as of 31st December; the total number of people that we had in the Broking business together was about 3,900 people, and in the previous quarter we had about 4,500 people.

Kajal Gandhi: 3,900 is considerably large employee base for the kind of Broking business that we have?

Gagan Randev: I would like to give you a little bit history on that. In India, about 90% of the Broking business is actually off-line and there is only about 10% of the business which happens on an online basis which is as of now, and surprisingly people would find it difficult to believe it is still a very people-intensive business where a lot of clients actually pick up the phone and call a particular associate. Of course, over the next quarters and years we are going to see these numbers coming down as the market evolves or as we see in the development of other businesses like the cellular business and Internet penetration numbers, etc. you will see online penetration increasing but as of now it is a pretty people dependent business.

Shachindra Nath: If I add to what Gagan has said, while you may consider this number to be a large but we have reconfigured the business to the size of revenue which we generate and as I mentioned in my opening remarks that as on January this business on the current run-rate on revenue is already in profit. So, while these numbers may look large but given the size of the market and the growth opportunity there we feel that it is very reasonable and it would continue to generate, on a run rate basis, significant profitability for us.

Kajal Gandhi: And this employee base includes the Commodity employees also?

Gagan Randev: Yes, people across Equities, Currency, Commodities.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Shachindra Nath for closing comments.

Shachindra Nath: Thank you for attending this call. If you have any further queries please feel free to contact Kishore, our Head of Investor Relations, he will be very happy to be of help you. Have a great day ahead, thank you.

Moderator: Thank you very much. On behalf of Religare Enterprises Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

Note: This transcript has been edited to improve readability