



Religare Enterprises Limited

Q3 FY14 earnings conference call

Wednesday, February 12, 2014 at 04:00pm IST

Kishore Belai: Good afternoon everyone and thank you for joining us on our 3rd quarter FY14 results conference call. We are joined on this call today by Mr. Shachindra Nath – our Group CEO, Mr. Anil Saxena – our Group CFO, Mr. Sunil Garg – Head of Group Treasury and the senior Management of our portfolio companies.

Before we start the proceedings, I would 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 presentation.

On this call, Mr. Nath will first give you an update on recent developments in the company and the company's performance for the quarter. We will subsequently open the lines for Q&A. I now turn the call over to Mr. Nath.

Shachindra Nath: Good afternoon everybody and thank you for joining us on this call. I hope you have been able to study our results presentation which has been uploaded on our website.

Before I discuss the operating and financial performance of the businesses, let me take a minute to update you on the expansion of our Board of Directors. I am pleased to report that the Board of Directors of Religare Enterprises Limited at its meeting held on January 31, 2014 has appointed Mrs. Sangeeta Talwar as an independent Non-Executive Director. Mrs. Talwar brings to Religare a very deep understanding of the consumer space and extensive hands on experience in the rural economy. In an illustrious career spanning over three decades, she has worked with India and overseas with organizations such as Nestle, Mattel and Tata Global Beverages, and more recently she helped to set up the NDDB Dairy Services, a company mandated by National Dairy Development Board and funded by the World Bank to deliver the National Dairy Plan and ushering in the second white revolution. We believe that the experience that Mrs. Talwar brings with her and in particular, her insight into the consumer's mind will immensely benefit Religare and we look forward to her counsel and advice. Consequent to Mrs. Talwar's appointment, we have proactively met the requirement of appointing a female director as contemplated under Companies Act, 2013, although the

relevant sections and rules have not yet been notified. Mrs. Talwar's appointment was the culmination of a very rigorous search process in which we were assisted by Argus Partners, a firm specializing in helping Indian and global companies in finding top-notch professional, independent Board members. Argus Partners also have facilitated the search process for Mr. Arun Ramanathan – the former Union Finance Secretary and Mr. A C Mahajan – former Chairman and Managing Director of Canara Bank who joined the REL board as independent non-executive Directors last year. Besides Mrs. Talwar, Mr. Ramanathan and Mr. Mahajan, we have on our board now:

- Mr. Monish Dutt who has worked with the International Finance Corporation for 25 years holding various positions including their global Chief Credit Officer
- Mr. Ravi Mehrotra, who has over 25 years of experience in the Financial Services business and has been the Global Head of Retail and Intermediary Channels at PineBridge which was earlier known as AIG Investments
- Mr. Padam Behl , a practicing Chartered Accountant specializing in taxation matters
- Mr. Virendra Kumar Madan, the former President and CEO of DCM Limited
- Mr. Harpal Singh, Mr. Deepak Sabnani and Mr. R. K. Shetty, all of whom have been in leadership positions of various businesses in India and overseas
- Mr. Sunil Godhwani – Our Chairman and Managing Director who is the driving force behind Religare and its vision

Thus, we now have a formidable board with outstanding professionals with experience in various facets of running businesses to guide Religare and help fulfill its vision.

Let me now turn to our financial performance of Q3 FY14:

An overview of the consolidated financials of Religare Enterprises is on Slides 6-8. The revenue for Q3 FY14 is up 6%, quarter-on-quarter to ₹8,935 million. For quarter 2 FY14, revenue was ₹8,390 million. EBIT excluding exceptional and one off items was ₹747 million for Q3 FY14. In Q2 FY14, the comparable number was ₹408 million; normalized profit after tax for Q3 FY14 was ₹56 million as against negative ₹122 million in the earlier quarter. During Q3 FY14, REL has discharged its liability in respect of the debt obligation of Religare Capital Markets Limited to the extent of ₹310 million which has been reported as an exceptional item. As you are aware upon setting up the funding arrangement for Religare Capital market with effect from October 1, 2011, REL has ceased to fund the incremental capital requirement of this business, but continues to remain liable for the debt that subsisted on RCML books prior to that date. A majority of REL's

obligations in this regard have been discharged and its unpaid liability stands reduced to ₹2.29 billion. As a matter of prudence and in line with the principle of conservatism, REL has made full provisions against this investment made in RCML. As and when we realize value of this investment, the provisions would be reversed.

Let me now give you a brief update on each of our portfolio companies which is presented on slides 9-31 of the presentation. In Religare Finvest Ltd, which houses our lending business, the focus has been on carefully growing the SME lending book. Our SME loan against property books has grown by ₹2.8 billion quarter-on-quarter. The total lending book stood at ₹99.1 billion as at December 31, 2013. Core NIM was at 4.66% during the quarter, OPEX-to-ANR ratio for the quarter stood at 2.10%, an improvement of 23 basis point quarter-on-quarter, as an outcome of driving efficiency through the organization. While the macro environment was challenging during the quarter, recovery efforts have helped us shore up the asset quality: reported gross NPA on a 90 day basis stood at 1.9%, lower quarter-on-quarter by 24 basis points. On a 180 day basis, which is the norm prescribed by RBI, gross NPA was 1.09% and net NPA was 0.65%. The provision coverage ratio as on December 31, 2013 stood at healthy 73.4%.

For the quarter, RFL achieved revenue of ₹4,998 million and PBT of ₹1,031 million. RFL has consciously increased direct sourcing of business leading to a three-fold impact: lower costs, enhancing its relationships with clients and creating a process of better credit management.

In Religare Securities Ltd. and Religare Commodities Ltd., our retail broking business, we continue to focus on client acquisition and operational efficiency in an environment where the market has itself contracted. During the quarter there has been a 17% quarter-on-quarter decline in equities markets turnover. Turnover in the commodities market and currency market continued to be affected by regulatory actions that occurred in the previous quarters and the prolonged crisis in one segment of the commodities market dampened overall sentiment. While the market wide volume has dropped, efforts in the Retail Broking business to diligently work at improving productivity and providing better offering to our clients has resulted in an increase in cash turnover within our mix, and this has helped to raise the brokerage yield.

Our Retail Broking business reported revenue of ₹904 million in Q3 FY14, 3% higher than the previous quarter, and PBT of ₹89 million during the quarter compared to ₹42 million in the previous quarter. More importantly, our client acquisition engine has been delivering very well, with the number of unique clients acquired increasing by 34% quarter-on-quarter.

In Religare Wealth Management Limited, our AUM stood at ₹29.6 billion as at December 31, 2013. You would recall that we had mentioned during our last call that Macquarie has decided to exit the wealth management business across Asia and accordingly, during Q3FY14 Religare acquired Macquarie's interest in the Joint Venture. Religare Wealth Management Limited is now a wholly owned subsidiary of Religare Securities Limited.

In Religare Capital Markets Limited, we continue to focus on creating sustainable platform for the business. As at December 31, 2013, the business was empanelled with 450 institutional investors globally with active coverage of over 230 stocks globally. Q3FY14 was a strong quarter for RCM's ECM business in the Asia Pacific region. Religare Capital Markets completed two landmark transactions:

- First, RCM acted as Joint Global Coordinator, International Bookrunner, International Lead Manager and Special Advisor for the USD 474 million IPO of Travellers International Hotel Group, Inc. This transaction represents the largest share offering in the Philippines and 6th largest IPO in Southeast Asia in 2013. Globally, Travellers is the 2nd largest gaming IPO since 2010 and the second largest gaming ECM deal in 2013.
- Second, RCML acted as Joint Placement Agent for a USD 19 million secondary share offering for Tune Ins Holdings – a composite insurer that underwrites both general and life insurance products across the Asia Pacific region.

While the Mutual Fund industry saw a quarter-on-quarter improvement in assets under management, investors have been extremely cautious and have favoured liquid and money market funds. Our India Asset Management business, Religare Invesco Asset Management Company Pvt. Ltd., similarly experienced a shift in favour of Liquid and Money Market funds within the Debt segment, which impacted the average yield negatively. During the quarter, we launched a Fund of Funds in India for investing in Invesco-managed European equities fund and are now conceptualising more products involving collaboration with Invesco.

Religare Global Asset Management which operates our multi-boutique Alternative Asset Management platform. Landmark Partners, the Private Equity and Real Estate Secondaries fund continues to get good traction in its ongoing fund-raising initiative

Religare Health Insurance Company Limited, our Health Insurance venture, which commenced operations in July 2012, continues to roll out as per plan. During the first nine months for FY14, the company crossed the

₹1 billion of Gross Written Premium (GWP) milestone. It now provides health cover to around 1.5 million lives as of December 31, 2013. During the quarter, RHICL launched its 'critical illness' product which has found wide acceptance in the retail market. The company also strengthened its distribution further by entering into a Bancassurance arrangement with IndusInd Bank. IndusInd is our second Bancassurance partner, the first being Union Bank of India.

AEGON Religare Life Insurance Company Limited, our Life Insurance JV, continues to build its franchise with an increase in the customer base to over 300,000 customers and year-over-year increase in First Year Premium of 44%. During the quarter, the company increased its online product offerings and introduced 'AEGON Religare iGuarantee' plan, a traditional product that guarantees periodic income. AEGON Religare has established leadership in the use of technology and continues to reinforce its position.

In conclusion, I'd like to say that during Q3FY14, we have tried to improve our operating performance by focussing on productivity and better customer-connect.

With that, I come to end of my opening remarks. The senior management of REL, our portfolio companies and I would be glad to address any queries that you may have.

Moderator: We will now begin the question and answer session. The first question is from the line of Chandan Gehlot from Deutsche Asset Management, please go ahead.

Chandan Gehlot: My question is regarding the Religare Finvest side. Can you just help me with, what is the size now of the corporate loan book?

Kavi Arora: Yes, the corporate loan book, it stands at ₹1,372 crore as of December 31, 2013.

Chandan Gehlot: What is the size of investment in trading book now?

Bipin Kabra: I do not have the quarter end number. But on an average, for the quarter, arbitrage book is been in the range of about ₹325 crore.

Shachindra Nath: Just to clarify for other participants on the call, we do not run a trading portfolio as such. What we run is just the liquidity management through an arbitrage portfolio, wherein all the positions taken in to that portfolio are on a fully hedged basis. And it is just for the purpose of generating liquid yield.

Chandan Gehlot: What is the total borrowing outstanding at the Religare Finvest?

Bipin Kabra: About ₹10,000 crore.

Chandan Gehlot: What is the CP outstanding amount there, within the 10,000 crores?

Bipin Kabra: As on December end, it was in the range of about ₹1,100 crore.

Chandan Gehlot: Lastly Sir, I just have a bookkeeping question. I have seen there is a change in the NIM margin, vis-à-vis which you have reported last quarter. Is there any change in the methodology of computation of the NIM?

Bipin Kabra: Yes, what we have done this time is from all the last previous quarters also, we have changed the methodology to reflect the NIMs from the business activity. So the liquidity which we carried extra and which we have deployed in the businesses like arbitrage, the yield used to be fluctuating. So we showcased only the core business activity spread under NIM out of it.

Kavi Arora: So entire asset book, loans and advances, the yield on that and that's how it reflects the NIM now.

Chandan Gehlot: As I understood correctly, it is now core businesses NIM, is it correct?

Bipin Kabra: Yes.

Chandan Gehlot: Lastly just wanted to check with Kavi, we have seen some improvement on the asset quality front, so what drives this? This kind of level is going to be sustainable or do we see some uptick from here?

Kavi Arora: It is basically higher collection efficiency and focused collections by the teams on the ground. We had earlier also mentioned, though the environment is challenging, we will continue to maintain the NPA numbers where they are. Even during the last two quarters concall, I had said the same, I would say the efforts will continue the way they are and we will maintain the averages at current levels.

Moderator: The next question is from the line of Bikram Mahajan from Bay Capital. Please go ahead.

Bikram Mahajan: I just wanted to understand that in the current economic environment, which are the primary growth drivers do you see that will try the next phase of growth for Religare?

Shachindra Nath: Religare Finvest continues to be the biggest revenue growth driver for Religare Enterprises as a consolidating entity. We have been working very hard to remain cautious but simultaneously continue maintaining our disbursement. Also there is change in to the portfolio mix, we made our focus to continue to rely more on the SME market side and expand that market. And as we enter the next financial year, we will also think through what are the other new product lines which we can do, which can expand the margin for the business and also bring more efficiency so that we can get more operating cost leverage. On a short term basis, I think Religare Finvest would continue to drive the revenue growth for the consolidating entity.

On medium-to long-term horizon, I think some of our businesses would definitely create long term value. We continue to see the securities business wherein we have worked very hard and brought it to a level of efficiency, where even in the most challenging environment we now generate cash profitability. Our view is that if there is a slight uptick in market movement, we will see a significant cash flow being generated from our securities business, and the hard work which we have done in terms of converting this from a transaction platform to more an advisory-led distribution platform, we see huge value to get created from that business. And third is our Health Insurance business, which had a very good start. We would like to continue that momentum. And in terms of the value creation, we expect the similar kind of value which we created from our Asset Management Business to get created out of our Health Insurance business as well.

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

Kajal Gandhi: Can you share, how do you see a Wealth Management business panning out and when it is going to start being profitable? And secondly have you cut down on any employees because your personnel cost has also come down?

Shachindra Nath: Basab is here, Basab is the CEO for our Retail Securities business, Capital Markets, and Wealth Management all put together.

Basab Mitra: Your question is basically on Wealth Management. I think we have taken action over the last six months on consolidating our personnel footprint and you can see that our asset under management per RM has increased dramatically. So we have not done any specific large scale activity but we have trimmed the sails and improved the quality of our team. I think it is a business where we continue to focus now more

on the UHNI and family offices which is the next driver of growth for that business and we are acquiring talent and building up our product portfolio in that direction. There is a lot of activity that is going to happen in the Religare arena in terms of manufacturing which will support the business. It is a combination of higher quality people - you can already see the economics - focus on the family office, and our product distribution platform on product side and manufactured products from Religare, these are the three things that we see as drivers of growth and profitability.

Kajal Gandhi: Sir but then your total income is also coming down, it is not that in last one year total income has come down in the benefits.

Basab Mitra: The total income has come down because the portfolios have not been churning; we have specifically kept the client focus in mind. We have not churned the portfolios and of course, yields and these markets are significantly lower than yields and other markets one year back. So it is not a surprise that portfolio yields have come down. One we have not churned, and then overall yields and the market have gone down. So at the top of the cycle, you should expect anywhere between 90-95 bps on the AUM, where we are in the cycle we should not have more than 55-75 bps. You are seeing the reflection of that contraction.

Kajal Gandhi: And second thing, on the commodities broking, what market is speaking is that the share has come down for large players that I have seen, Kotak and India Infoline had seen that their commodity brokerage commissions have come down. So what is there to your share going up?

Basab Mitra: Two things have happened. One is that we continue to maintain our leadership position in commodities and in fact, we have consolidated that. As many of the players who have been impacted by the NSEL crisis, that is one thing which we stayed away from very judiciously. That certainly helped the client off the risk and that has reflected in the numbers.

The other thing which has also happened post-CTT, is that many of the prop traders have moved out of the market which has fundamentally increased share for us. It is a combination of us staying away from NSEL and continuing to build our commodities platform and many of the arbitragers and prop traders coming out of this platform means that the share of pure retail players like ourselves has gone up significantly. And we expect this trend to continue and position to be consolidated further in commodities business.

Kajal Gandhi: For data purpose, can you just share, how are the average daily markets volumes moving and commodity markets moving in the last 2 quarters?

Basab Mitra: I am sure Kishore can share the data with you. You can talk to Kishore separately; he will share with you then.

Kajal Gandhi: How are the yields moving there now and is it that after the CTT, now again people have started showing interest in the market?

Basab Mitra: We have been taking lot of pricing action. I cannot speak for the market yields, I can talk about my yields. My yields have certainly gone up. That is because of the pricing actions that we have been taking over equities and commodities. Interest in commodities is still tepid, has not come back as we wanted it to be. But we are seeing gradual improvement at least in the metal space, agri is taking more time.

Kajal Gandhi: So what is the kind of basis points you must be making?

Basab Mitra: We do not share that information.

Kishore Belai: As there are no further questions, I will ask Mr. Shachindra Nath to make some closing remarks.

Shachindra Nath: Thank you Kishore. Thank very much participants for participating in this call. If you have any more queries, please feel free to contact Kishore Belai, head of Investor Relations. Have a good day.

Note: This transcript has been edited to improve readability