

Religare Enterprises Limited

Q3 FY16 Results Conference Call

Monday, February 8, 2016 at 3:30 p.m. IST

Kishore Belai: Good afternoon everyone and welcome to our Third Quarter FY16 earnings 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 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: Thank you, Kishore. 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.

I will walk you through our results for Q3FY16, but before that let me give you updates on some significant developments that have taken place since our last quarterly conference call:

- The first update is on Religare Invesco Asset Management which runs our domestic Mutual Fund business. You will recall that we had inducted Invesco – one of the Top-10 asset managers globally – as a joint venture partner in this business in FY2012-13. Recently, our joint venture partner Invesco, expressed its desire to increase its ownership of the business to 100%. Given Invesco's scale and global reach, their taking full control is in the best long-term interest of the business and we therefore agreed to the sale of our holdings in the business to Invesco. Over the years, Religare Invesco has created a distinctive position for itself by developing a robust and disciplined investment process and I am certain that full integration with Invesco will further strengthen the business. Mr. Saurabh Nanavati will continue as the CEO and the existing senior management team will continue to be part of the business. The transaction is subject to customary regulatory approvals and completion of

due process. We have already received approval from the Competition Commission of India and will consummate the transaction upon fulfilment of the remaining requirements. I'd like to mention that there has been no accounting impact from the transaction as yet. We will recognise the transaction in our books only upon its consummation.

- The second update is on the divestment of Religare Health Trust Trustee Manager Pte. Ltd., Singapore, in favour of a subsidiary of Fortis Healthcare Limited. Religare Health Trust Trustee Manager was part of our Global Asset Management platform and is the Trustee Manager of Religare Health Trust, a Business Trust having its units listed on Singapore Stock Exchange; Fortis is the main sponsor of the Trust. As the assets underlying the Trust were predominantly operated by Fortis, it was decided to align the ownership of the Trustee-Manager with the Sponsor and accordingly we have divested our stake in favour of a subsidiary of Fortis. The transaction was done on an arms-length basis as per an independent valuation, and was completed on February 2, 2016. Accordingly, the accounting impact of the transaction will be reflected in our financials for Q4FY16, that is, the quarter ending March 31, 2016.
- Third, as I have mentioned to you earlier, we had entered into a definitive agreement to divest our equity in the Life Insurance joint venture with AEGON in favour of Bennett, Coleman and Company Limited, an existing shareholder in the JV. I am happy to report that after receiving all necessary regulatory approvals, we have completed the divestment of our stake and ceased to be partners in the venture since December 2015.

I will now walk you through our financial performance for the quarter gone by. Let me first apprise you of our consolidated financial performance for Q3FY16 which is presented on slides 5 to 7:

- Revenue for Q3FY16 was ₹11,369 million compared to ₹11,542 million during the previous quarter, a decrease of 1.5%, which corresponds to the quarter-on-quarter decline in the revenue we have recognised from the life insurance JV. The rest of the businesses in the aggregate reported flattish revenue: the Lending business reported revenue growth of ₹107 million quarter-on-quarter on the back of growth in book size and the Health Insurance business reported higher revenue by ₹79 million reflecting the growth in the business, but these were offset by lower revenue in Retail Broking, Wealth Management and Global Asset Management. On a year-on-year basis, there was marginal growth in consolidated revenue: the Lending, Health Insurance and Domestic Asset Management reported healthy growth, but the high base from one-time "catch-up fees" in Global Asset Management in the year-ago quarter dampened the overall reported growth.
- Profit Before Tax before exceptional items for Q3FY16 was ₹980 million as against ₹1,396 million in the previous quarter, decrease of ₹416 million. The quarter-on-quarter decline is

largely on account of movements in PBT in our Global Asset Management and Lending businesses. In Q3 of last year, PBT was substantially higher at ₹2,107 million primarily due to the effect of the “catch-up fees” in the Global Asset Management business that I referred to earlier. Therefore year-on-year comparison will not show a meaningful picture.

- Reported Profit After Tax for Q3FY16 was ₹1,853 million as against a PAT of ₹633 million in the previous quarter. Q3FY16 includes two exceptional items: the first is a profit of ₹3.74 billion on sale of stake in the Life Insurance JV and the second is a provision of ₹2.29 billion against investment in Religare Capital Markets Ltd. You will recall that our Capital Markets business was deconsolidated after September 30, 2011 and at that time a contingent liability was created on our balance sheet for the past debts of the Capital Markets business. With this investment of ₹2.29 billion, we have completed the discharge of that liability. The net impact of the two exceptional items was ₹1.45 billion and therefore PAT excluding exceptional items for Q3FY16 stood at ₹412 million.

Let me now give you an update on our portfolio companies, which is presented on slides 8 to 27 of the presentation:

- In **Religare Finvest Limited**, which houses our **Lending Business**, the SME-Secured book is driving the growth in overall book size. SME-Secured book has grown by ₹7.3 billion quarter-on-quarter. The total lending book stood at ₹155.4 billion as at December 31, 2015 as against ₹146.3 billion as at September 30, 2015. Opex to Average Net Receivables for the quarter was flattish at 2.42%. Core NIM has decreased to 4.13% during the quarter from 4.54% in the previous quarter – this decline primarily reflects the accounting impact of the increase in Non-Performing Assets. Gross NPAs on 90-day basis moved up to 3.49% at the end of Q3FY16 as the macro environment weighed on the cash flows of some of our customers. While there is an uptick in NPAs, I’d like to highlight that across our portfolio we have adequate security cover – most often in the form of self-occupied residential property of the owners of the businesses we have lent to – and we are working very closely with our customers to regularise the accounts. I’d also like to mention that we have been recognising NPAs at 90 days and making provisions in our books accordingly since October 2011. Therefore when the RBI-stipulated 150-day NPA recognition norm comes into effect next quarter, there will be no additional impact on our financials.

RFL’s revenue for the quarter was ₹6,311 million, an increase of ₹107 million or 2% over the previous quarter as the overall book size increased. Profit After Tax was ₹560 million compared to ₹637 million during Q2FY16, decrease of ₹77 million as we provided for higher delinquencies.

- In the **Retail Broking business**, market-wide volumes fell sharply as uncertainty in global markets was transmitted to the Indian market through the pull-out of foreign capital:

market-wide equities turnover decreased by almost 20% quarter-on-quarter. The fall in the volumes we traded for our customers was limited to 12% as the business grew its customer base and helped customers identify investment opportunities through its actionable research. As a result, market share went up quarter-on-quarter from 1.3% to 1.5%. Similarly, market-wide turnover in the Commodities segment decreased by 8% but Religare's commodities turnover decrease was limited to 3% and the market share went up quarter-on-quarter from 2.9% to 3.15%.

The Retail Broking business reported revenue of ₹1,138 million in Q3FY16, decrease of 12% over the previous quarter and 2% lower year-over-year, as a result of lower volumes. Net profit was ₹98 million during the quarter compared to a net profit of ₹116 million in Q2FY16 – lower by nearly 16% due to a combination of lower revenues in the quarter and the high base of PAT in Q2FY16 due to some non-recurring items in that quarter. In the year-ago quarter, we had incurred a net loss of ₹17 million.

- In **Religare Wealth Management Limited**, which is a subsidiary of Religare Securities Limited, the Assets Under Management were largely unchanged from the previous quarter at ₹40.1 billion. The business has been earning the trust of clients by providing relevant and unbiased advice. As it strives to help clients position their portfolios for riding out the volatility in markets, it is focusing on building yields in clients' portfolios and is experiencing success in alternative investment products such as PMS products with underlying real estate non-convertible debentures.
- **Religare Capital Markets Limited** closed calendar year 2015 as the No. 2 QIP manager in India for transactions of more than USD 10 million excluding transactions for BFSI companies, and No. 4 overall, successfully executing transactions across sectors as diverse as pharmaceuticals, agrochemicals, heavy engineering and real estate. On the debt side, RCML successfully syndicated multiple issues aggregating ₹2.15 bn. during Q3FY16. This calendar year, RCML is working towards further strengthening its position, in particular the lead it has established in QIPs.
- In **Religare Invesco Asset Management Company Pvt. Ltd.**, our India Asset Management business, in Q3FY16, the average Assets Under Management stood at ₹199 billion. During the quarter, the business witnessed further increase in retail participation in equity schemes, resulting in an increase in equity as a proportion of total AUM to 16% as against 9% a year ago. Revenue for the quarter was ₹254 million, a marginal increase over the revenue of ₹253 million in Q2FY16 and healthy growth of 45% over the year-ago quarter's revenue of ₹175 million. Net Loss After Minority Interest for the quarter was ₹6 million compared to ₹1 million during the previous quarter.

- In **Religare Global Asset Management**, our multi-boutique Alternative Asset Management platform, the total Assets Under Management of the affiliates as at December 31, 2015 stood at USD 20.49 billion. For the quarter, RGAM Inc. reported revenue of ₹1,799 million compared to ₹1,924 million in Q2FY16, decrease of 6% quarter-on-quarter due to the high base in Q2FY16. As mentioned on our last call, Q2FY16 included gain on sale of fund-related investments. PAT After Minority Interests and Share of Associates was ₹36 million compared to ₹253 million in Q2FY16. PAT decreased due to lower income, high base effect and one-time financing-related cost.
- **Religare Health Insurance Company Limited**, our Health Insurance venture, has outperformed its plan and crossed ₹3.4 billion in Gross Written Premium for the nine months period ended December 2015. RHICL has a comprehensive suite of 10 products covering health, personal accident, critical illness and travel. During the quarter, RHICL launched 'Group Explore', a group travel insurance product that stands out for offering a high degree of flexibility and customisation based on the needs of corporate organisations and other groups that it is targeted at.
Gross Written Premium for the quarter was ₹1,123 million compared to ₹1,065 million during the previous quarter. On a year-on-year basis, GWP increased by 67%. Net Earned Premium increased by ₹71 million quarter-on-quarter and Net Loss After Minority Interest decreased by ₹59 million quarter-on-quarter. RHICL is well-positioned to meet its plan of exiting FY17 at break-even on a run rate basis and turn profitable in FY18

That completes the update on the performance of our underlying businesses.

In conclusion, I'd like to say that during Q3FY16, the overall macro environment was challenging and while this did have some impact on Religare's consolidated performance, all our businesses are tracking well and our overall portfolio continues to remain strong.

With that, I come to the 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.

Kishore Belai: Operator, we can now open the lines for questions.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Subir Sen of Birla Sunlife Mutual Fund. Please go ahead.

Subir Sen: I wanted to understand for Religare Finvest, quarter-on-quarter the gross NPA on a 90 day basis has gone up by more than 50 basis points. So just wanted to understand this is more due to the newer assets or you find that this delinquency is primarily because of old assets? And give me an

understanding of what exactly is happening with cash flows of borrowers and why this has gone wrong and this is more of one quarter result or it is going to be sustained?

Kavi Arora: Hi Subir, thanks for your question, this is Kavi here and I am here with Pankaj Sharma, our Chief Risk Officer as well. So to your question the increase in NPA in last quarter has largely come from very well-seasoned accounts so there is no new delinquency. Our average asset which have moved into delinquency is more than 25 months on book, so the point is that customers during the last week of last quarter which is from Christmas to New Year, missed certain commitments and because of that we have seen the rise in delinquency. We are already tracking those accounts very closely and we have seen some already getting repaid during this quarter. To your second question, we don't see this as an absolute increase going forward. We don't see there is a trend of rise and we are seeing these accounts getting resolved and thus we will have a number which is better than last quarter in the current quarter itself.

Subir Sen: Do you see a change in LTVs now; the LTVs are rising because of asset prices being marked down?

Kavi Arora: I had updated that earlier as well, every year we do an exercise where we do a complete revaluation of the NPA assets portfolio. Because they are seasoned accounts and the LTVs were there with us at the time of origin, on the NPA assets actually our cover has improved to 2.9x, so we don't see that deterioration in whatever way.

Pankaj Sharma: When we on-board the clients, the average LTV that we lend at is about 2.1x and over the period of this last one year we have seen for the NPAs actually it has improved from 2.4x to 2.9x, very clearly corroborating the fact that the NPAs are not coming from the recent vintages but they are actually coming from the older vintages which is what Kavi has referred to in his answer to the first part.

Kavi Arora: As these are amortising loans, the principal has come down and while even if the property values have not gone up they stayed where they are, our covers have improved because there have been actual repayments on those accounts.

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

Note: This transcript has been edited to improve readability