Religare Enterprises Limited

Q1 FY2011 Investors/Analysts Conference Call

Tuesday, August 03, 2010 at 4:00 pm IST.

Kishore Belai: Good evening everyone and thank you for joining us on this call. I am Kishore Belai, Head of Investor Relations at Religare.

We are joined on this call today by members of our senior management. We have with us:

Mr. Shachindra Nath, Group CEO and member of the Board of Directors of REL
Mr. Anil Saxena, Group CFO and member of the Board of Directors
Mr. Sunil Garg, Head of Group Treasury
Mr. Martin Newson, Global CEO for Investment Banking
Mr. Saurabh Nanavati, CEO - Religare Asset Management Company
Mr. Paresh Thakker, Head - Group M&A and Managing Director - Global Asset Management, and
Mr. Basab Mitra, Chief Strategy Officer.

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 invitation for this call.

We will begin the call with opening remarks from Mr. Shachindra Nath on the Company's overall business and strategy after which Mr. Anil Saxena will take you through an overview of our quarterly financial performance. Thereafter, we will open the lines for the Q&A session.

I now turn the call over to Mr. Shachindra Nath.

Shachindra Nath: Good evening everybody and thank you for joining us on Religare's quarterly conference call. I am sure you would have already gone through the quarterly financial results and the press release.

On our previous conference call, we promised that over a period of time we would be bringing our senior management team for direct interaction with you. On our last call, Mr. Kavi Arora, CEO of Religare Finvest Limited, which is our NBFC, and Mr. Gagan Randev, CEO of Religare Securities, which is our retail brokerage firm, were present. On this call, I am joined by Mr. Martin Newson, CEO of Global Investment Banking from London, Mr. Saurabh Nanavati, CEO - Religare Asset Management from Mumbai, Mr. Paresh Thakker, Group Head - M&A and Managing Director - Global Asset Management from New York, and our Chief Strategy Officer Mr. Basab Mitra who would be interacting with you every quarter.

Religare has been growing its financial services franchise in India and abroad rapidly and we feel that before we begin the discussion on the quarterly numbers we should spend a few minutes to walk you through our strategy and explain how we are executing on our vision of becoming the leading global financial services player from the emerging markets.

We have circulated our presentation and I would request you to turn to slide 2. There are three opportunities in the financial markets that we are capitalizing on, which constitute the three broad pillars of growth for Religare.

First, the Indian growth story continues to be compelling and is leading to the deepening of financial services and rapid growth of profit pools. This we seek to exploit through our Integrated Indian Financial Services play. As you know, we are present in most sub-verticals within the Indian financial services space and our integrated offering allows us to realize maximum possible value for each customer we acquire and bring into the system.

The second opportunity is in the form of the increasing weight and growing integration of emerging markets with the global economy. We are tapping into this opportunity by building a truly pan-Emerging Markets Investment Bank. A large portion of the incremental global capital flows are moving into emerging markets as the western world seeks to increase its return. Also an increasing number of M&A deals today have companies from emerging markets at least on one side. By creating a deep knowledge base, intimate client relationships, the flexibility to operate in tune with the local practices in each of the target emerging markets and the ability to offer the client a single view across all emerging markets, we believe we will be well positioned to capture a significant portion of these flows.

The third opportunity is that of a creating multi-boutique asset management platform by bringing together multiple asset managers in the western world and providing them access to clients, and more importantly, alpha in the emerging markets. Post the crisis, smaller asset managers are finding it difficult to operate in the new environment. Profitability being at a ten-year low and trading multiples being depressed, create opportunities for attractive acquisitions. Also, industry analysis reveals that multi-boutique asset managers are emerging as a profitable business model with attractive cost and profitability structures. Our pan-Emerging Markets Investment Bank platform will be one of the key enablers of our strategy of building this multi-boutique asset management business.

One of the advantages of following this three-pronged approach is that we create a balanced portfolio of businesses with inherent risk diversification and the opportunity to derisk growth by participating in multiple geographies.

We have in our portfolio Balance Sheet-heavy businesses such as Life Insurance Manufacturing that give us the opportunity to create underlying value over a long period. At the same time we have Balance Sheet-light businesses such as Retail Broking that provide high operating leverage and allow us to capture upside in good years.

We are delivering to this strategy by what we believe is a unique operating model.

If you turn to page 4 where the operating model has been shown to you, Religare Enterprises Limited, the holding company, provides capital and defines the value that underpin all our businesses. We have been augmenting the governance and the management at Religare Enterprises level. Religare Enterprises drives the strategy, sets the growth agenda for all its subsidiaries and is entrusted with the responsibility of creating a uniform value system, operating metrics, and human resources DNA. Over the last three years, we have significantly enhanced our management capabilities in a number of areas across the group - Business Strategy, M&A, Human Resources, Legal & Compliance, Brand & Communication and IT functions in addition to the operative senior management team.

The second constituent of our model is business units which are basically all our operating subsidiaries and joint ventures that have ownership of and accountability for business performance wherein we have been very focused on bringing the right leadership team and aligning them with the growth of their unit as well as Religare as a whole. I am very happy to report that all our businesses today are managed by independent CEOs and their management teams. Religare group management team today constitutes of 8 CEOs, 28 President/Managing Directors, 27 Directors/Executive Directors, and 426 Executive Vice Presidents, Senior Vice Presidents, and Vice Presidents across its various subsidiaries.

Third constituent of our model is our approach of using strategic partners who provide intellectual capital combined with our ability to be nimble footed and flexible in working with different partners across the globe. This approach accelerates the creation of the Religare franchise.

This model brings about an alignment of incentives, encouraging entrepreneurship within the businesses and leveraging best in breed partners.

We believe that we are tracking well on each of our strategic objectives.

In the Indian market we continue to grow and expand. Our retail distribution now covers 2,123 business locations across 560 cities nationwide making us one of the largest financial services network in the country.

For the pan-Emerging Markets Investment Bank, we have made appointments for most of the key positions, and are in the process of building out the platform. We are also judiciously supplementing these efforts with inorganic initiatives to accelerate the build out of the envisioned high quality investment bank. Our acquisition of Aviate Global (Asia) is a case in point.

With respect to global asset management we are in the process of closing the first acquisition - Northgate Capital - and have a healthy pipeline of deals. In parallel, we have also started building our distribution capabilities. The first step in that direction was bringing on board the Japanese distribution team of KBC which we have reported to you earlier.

Let me now turn to the two important developments since our last interaction with you on our Q4 FY2010 earning call.

Firstly, let me state that we are delighted with the induction of Mr. Stuart D. Pearce and Ms. Kathryn Matthews as Independent Directors on the Religare Board. As you would have seen from their profiles, they both bring with them vast experience in financial services. More specifically, Stuart has been involved in setting up, restructuring and running financial services business in various parts of the world and also setting up a modern regulatory framework in Qatar from scratch, while Kathryn has experience in running asset management businesses globally. As we pursue our vision of building a pan-Emerging Markets Investment Bank and a Global Multi-Boutique Asset Management platform, their guidance and expertise will be crucial in shaping our strategies going forward.

Secondly, our Board has approved raising of additional funds up to Rs. 20 billion through issue of further capital and we have now the flexibility to raise the capital in a suitable form at the time of our choosing. The additional capital is required to support the growth of our global platform, grow the lending book in RFL and create more capital adequacy and capital cushion. We are looking at growing the investment banking platform aggressively and this will require significant capital this year. As we grow the business, we expect it to remain opex heavy in FY11, as we recruit the teams, build the infrastructure and develop a product suite for our clients all in line with our business plan, we developed with McKinsey and in some places opportunistically accelerating it.

In the Global Asset Management business, we are looking to build on our initial transaction and while deal timings are difficult to predict, we expect to close out a number of additional deals, subject to regulatory approval.

Finally, we plan to more than double our lending book through both organic and inorganic route.

Let me now turn to our performance for the first quarter of FY11. Total income for the quarter stood at Rs. 4,476 million, a growth of 42% over last year. We reported a loss of Rs. 494 million in Q1 FY11. We track our businesses primarily on two accounts, our stable and mature businesses and new growth businesses. We have taken a conscious call to invest significantly as per our business plan while maintaining the prudence to achieve our three-pillar objective architecture in order to execute on our strategy and these losses should be seen in that context. For the current quarter, this loss is primarily on account of the investments we are making in building out the Emerging Market Investment Bank in line with our plans, and the losses due to portfolio readjustment and upfront brokerage for new fund launch in Religare Asset Management.

You will notice that on a consolidated basis, we have made a pre-tax loss of Rs. 247 million; however, we have also had to make a tax provision of Rs. 245 million. This is because REL's businesses are structured as separate legal entities and profits from one subsidiary cannot be set off against losses from another for making tax provisions. The net loss therefore was Rs. 494 million including the impact of minority interest.

On a sequential basis, our revenues declined 16%. This has been the outcome of seasonality in some of the businesses with the last quarter of the financial year being the best quarter for these businesses, decline in investment banking revenues, which by their very nature are lumpy, and macro factors affecting some businesses such as asset management which saw a decline in AUM.

This covers our strategy, performance, and outlook for the rest of year. I would now like Mr. Anil Saxena our Group CFO to walk you through the details of our financial performance. Thank you.

Anil Saxena: Thank you Shachin. I will now briefly take you through the financial performance for Q1 FY2011. Let me share here that all the figures in my remarks are based on REL's consolidated performance.

Total income for the quarter stood at Rs. 4476 million, an increase of 42% year on year, and a decline of 16% sequentially.

Let me now give you the segmental revenues.

Broking revenues (Equity, Commodity and Currency) stood at Rs. 1,100 million during the quarter as compared to Rs. 1,096 million in the previous quarter. Our equity broking market share for the quarter increased to 3.47% as compared to 3.41% in the previous quarter. We also continue to be a leading player in the commodities brokering space. The market share for the first quarter stood at 4.52%.

Revenues from the Lending segment stood at Rs. 1.53 billion in Q1 FY2011, a sequential growth of 18%. The lending book stood at Rs. 53.7 billion as at 30th June 2010. The Asset Finance book stood at Rs. 25.8 billion with Rs. 9.7 billion in disbursals attained in the quarter. Just to mention, this does not include the portfolio buy out we did recently. Our LAS book stood at Rs. 15.7 billion at the end of the quarter. During the quarter, ICRA reaffirmed Religare Finvest Limited's short term credit rating of A1+ and enhanced the amount covered to Rs. 50 billion from Rs. 40 billion earlier. As of July 2010, ICRA has upgraded RFL's long-term rating to LAA- from LA+ rating for an amount of Rs. 20 billion which has been enhanced from Rs. 10 billion earlier.

Moving on, our Asset Management revenues stood at Rs. 104 million during the quarter as against Rs. 167 million in Q4 FY2010. There has been an industry–wide decline in AUM and therefore revenues, due to large scale redemptions triggered by the bank financing of 3G licenses. Average AUM for the month of June stood at Rs. 109 billion and Religare Mutual Fund was ranked 14th in terms of AUM out of a total of 39 players in India.

Revenues for the Wealth Management business stood at Rs. 69 million (at 100%), as compared to Rs. 38 million in Q1 FY2010. For the quarter we have added 510 new clients and our AUM now stands at Rs. 11 billion excluding group business.

Revenues for the Investment Banking / Financial Advisory segment stood at Rs. 257 million for the quarter as against Rs. 1,123 million in Q4 FY10. During the quarter we advised Fortis Healthcare on the issuance of foreign currency convertible bonds totalling USD 100 million.

Our Life Insurance revenues stood at Rs. 486 million, during the quarter as compared to Rs. 878 million in the previous sequential quarter. The total number of policies sold as on 30th June 2010 was 84,428 across 77,073 unique customers.

Moving on to profitability, EBITDA for the quarter stood at Rs. 1,272 million up from Rs. 936 million, an increase of 36% year on year. Loss before tax for the quarter stood at Rs. 247 million against the profit before tax of Rs. 339 million of Q1 FY10. There is a tax provision of Rs. 245 million for the quarter as against the tax provision of Rs. 205 million in Q1 FY10.

To sum up, during Q1FY2011 we faced multiple headwinds in the form of regulatory changes, adverse impact of macro factors and seasonality in certain businesses. Yet, in the long-term interest of the business and in line with our vision, we chose to make investments in our emerging lines of business. We are confident that with these investments, we are laying the groundwork for building a world class financial services player from the emerging markets.

With this, I wind up the opening remarks. Shachindra, the senior management team, and I would be glad to answer any queries that you may have. Over to you, Kishore.

Kishore Belai: We can now open the lines for questions.

Operator: First in line, we have a question from Mr. Apurva Shah from Prabhudas Lilladher Pvt. Limited. You may go ahead, please.

Apurva Shah: Just one question on the Life Insurance business. You know on these new IRDA guidelines, what kind of impact do we see on our business and what do you think will be the changes in the business model as a result of these guidelines?

Shachindra Nath: The exact impact of the new IRDA guidelines is yet to be firmed up. We are doing a sensitivity analysis for our Life Insurance business as well. Vis-à-vis other industry players, since our business is relatively new - it is just a two-year-old business, so our model is still not so fixed in terms of how we are going to operate. So, we are seeing whether our current model is good enough to undertake the changes which have happened into the industry. We believe that these are systematic changes which are happening in the industry which would impact the industry on a long-term basis and some of the large players would have to significantly change their model. As far as AEGON Religare Life Insurance business is concerned, for the current year we do not see much of an impact on the business, but we are doing the analysis for a long-term business plan.

Apurva Shah: Sure, thank you.

Operator: Thank you sir. Next in line we have a question from Mr. Amit Kawle from CRISIL. You can go ahead please.

Amit Kawle: I had a question on the AMC business. This quarter you have taken a charge of around Rs. 160 million on the change in yield curve. What is it related to? Is it related to your FMPs or something?

Shachindra Nath: Mr. Saurabh Nanavati, our CEO for Religare Asset Management is on the call. I would request him to answer your question.

Saurabh Nanavati: Yes, I think let us break this figure of Rs. 16 crore or Rs. 160 million. Of the Rs. 160 million we have spent close to Rs. 4 crore towards our new fund offering which was the two MIP plans. As you would appreciate, now the new fund launches are basically debited to the balance sheet and when you advertise, when you promote it and you have to pay upfront brokerage that will now come from the balance sheet of the AMC. So, close to Rs. 4 crore has come from there. Another Rs. 2 crore has come towards giving upfront brokerage, post the 1St August 2009 ban on entry load when we provide upfront brokerage we again now need to provide it from the balance sheet of the company. So, Rs. 2 crore have come from there, and then there is a hit of Rs. 10.2 crore on the mark-to-market valuations.

I will try and just explain the situation. On 20th May 2010 there was a sharp outflow of close to Rs. 70,000 crore from the industry due to the 3G auction and subsequently over the next 10 to20 days you saw another Rs. 1,00,000 crore coming out of the industry due to advance tax payments, the BWA auction also. So, effectively, the industry AUM dropped by Rs. 1,75,000 crore. Religare AMC in fact on 19th May had reached its peak AUM of close to Rs. 17,500 crore, and subsequently then we saw outflows of close to Rs. 6,000 crore in our AUM. What happened on 20th May was the yield curve which was at 4 to 4.5% increased to 6 to 6.5% in a day and virtually did not provide an opportunity for anybody to exit at the lower yield curves. And put this in context when April-May all this money has flown in into the industry, and the fund managers across the industry have deployed it at 4 to 4.5%, all of a sudden you are staring at 6 to 6.5% on the yield curve. As per the SEBI mandate, the industry was supposed to adopt the mark-to-market guidelines on 1st of July 2010. It was subsequently postponed to 1st August in the last week of July. Religare AMC prudently chose to book the losses and spread it over two quarters than booking a larger loss in one quarter. I think this is a one-time event due to the sharp hike in interest rates and you will not see this getting repeated from the 3rd quarter onwards.

Amit Kawle: Okay, that was helpful. One more question on the Life Insurance business. Apurva did touch on it. With the IRDA regulations being changed and as Shachindra mentioned that you have done a sensitivity analysis, now in the last quarter you have mentioned that you are seeing a break even at around 7 to 8 years down the line. With the new regulations, have you made any changes to that estimates?

Shachindra Nath: No, as I said we have done a very quick impact analysis. For the current year we are in line with our plan for the Life Insurance business. For the whole plan, for 8 years we are yet to do the impact analysis, but we have done a broad sensitivity study and because we are relatively new entrant into the marketplace, we think we can adopt the new systematic change which is happening in the industry because we are not yet fully fixed in terms of our roll out and our operating model. But I think, by next quarter we would be able to report to you if there is any change in terms of our final break-even point for the business.

Amit Kawle: Okay, thank you.

Operator: Thank you sir. Next in line we have a question from Mr. Viraj Gandhi from ICICI Securities. You may go ahead please.

Viraj Gandhi: Good evening sir. Just wanted to clarify on our yields which have fallen down very sharply. In our presentation we said that our market share in retail cash and F&O has gone up sequentially, but overall market share for retail has come down. So, in absolute terms are we improving our volumes on the retail side?

Shachindra Nath: I think we have on standby Gagan from Calcutta, but in the interim I will request Anil to answer your question.

Anil Saxena: Yes, Viraj actually, the overall volume on market share has increased for Religare Securities, but as you know that almost 50% of the volume these days is happening in options because of which the overall yield is coming down. This is not only with us but industry-wide the same phenomenon.

Viraj Gandhi: Right. But sir, when we are saying that our retail market share is improving, the yields on the retail side are higher than the institutional side that is what we understand.

Anil Saxena: No, we said our overall market share is increasing.

Viraj Gandhi: Is it because of the fall in overall retail share from 54% odd to 50% in the market, because in absolute terms it should not be improving, right, for us?

Anil Saxena: No, let me just again explain you. On a overall basis, we have increased our market share from 3.41% to 3.47% and because most of the volumes these days in the market is happening in the options segment in F&O, the overall blended yield is coming down, but we have maintained the top line.

Viraj Gandhi: Okay. And what will be the proportion of our own trading unit? Are we having any?

Shachindra Nath: Viraj as we have been informing every quarter, Religare does not do any proprietary trading on its own account.

Viraj Gandhi: That should be all from my side, right now. Thank you.

Operator: Thank you. Next in line we have a question from Mr. Pankaj Agarwal from Execution Noble. You may go ahead please.

Pankaj Agarwal: Can you throw some more light on your strategy for building the pan-Emerging Markets Investment Bank? I mean how would you compete with global investment banks and local players in these markets?

Shachindra Nath: Pankaj, we have Mr. Martin Newson who is our Global CEO for Investment Banking joined us from London. So, I will request him to throw some light on how we are rolling out our Emerging Market Investment Bank.

Martin Newson: Yes, thank you very much. The way we look at this is as follows. I mean, I think it is inconceivable that over a 5 to 10-year period you will not see the emergence of one or two global players out of India, one or two out of China, one or two out of Brazil, and most likely one or two players out of Russia. So, I think these BRIC economies over the next 5 to 10 years will support the existence of one or two such players. We want to be in that bracket of one or two for India and we stress that it is a Global Emerging Markets play not just an Indian play.

Now, I accept that the big global Investment Banks are not just going to roll over and die but are going to be serious competitors. I would however say that embarking upon this strategy now makes more sense than say 10 years ago. If you look at what is the difference between today and say even 5 or 6 years ago.

I would say there are four key differences that make me believe that a focused approach will be successful.

One, I think that the veneer of certainty has gone away from the global bulge bracket. I think many of us did not think that Lehman would be gone, Bear Stearns would be gone, and Merrill Lynch would be gone. So, I think that that veneer has gone away and with that veneer, goes the attraction that they hold for potential recruits that allows us to recruit.

The other thing I would say is that financial regulation which is being pushed through in the US and elsewhere, although may be not as damaging as it first appeared, net-net is a negative for the big Investment Banks. You can debate how negative it is, but it is definitely a negative.

The third point I would make is that I do think that public opinion is hurting the ability of the big Investment Banks to operate freely. So, for example, you are seeing in Europe a push to the regulators to get heavily involved in the compensation practices, which I think further, reduces the attractiveness of working for a major bank.

Finally, on the fourth point, I guess the key competitive advantage they might argue is the size of their balance sheet. But in truth when you speak to customers, it is not really being put at the disposal at least as much as before in big M&A transactions.

So, I think if you add up all these four points, what you find is that there a chink is developing in the armour of the bigger players allowing well funded smaller players who are nimble to build up something that will allow to compete both on the ECM side, the M&A side and on the equity side.

Pankaj Agarwal: Okay, thanks Martin.

Shachindra Nath: Pankaj, I would just broadly add one thing. If you purely look, not at the bank side, but if you look at the sales, distribution, research capability, unfortunately most of the global Investment Banks, the way they are structured, they are structured on geography and country-specific markets, while most of the buy side mandates are broader geographies. So, the buy side manage their investment and money on the basis of Emerging Markets, Latin America, pan-European, US, but if you go to the Investment Bank, nobody gives you one full product suite of an emerging markets play. So given that we have the ability to go and partner and get access to smaller markets which are emerging frontier markets and create one product suite which can service the client according to their mandate, this would be a significant plus in the competitive market place.

Pankaj Agarwal: Okay. And coming back to your global asset management business, you are saying that you are acquiring asset managers across the globe. So, as a firm how you are going to add value to these acquired entities. Second, has anyone done this before where you know through acquisition mode building a global franchisee in asset management?

Shachindra Nath: Thanks Pankaj. Paresh has also joined us from New York, must be early for him. So, he must be fresher than what we are. So, why don't I request him to throw some light on our global asset management business strategy and execution model.

Paresh Thakker: Thanks Shachindra and thanks Pankaj for asking the question allowing me to participate. Pankaj, I will answer your second question first and then answer the first question.

Your second question was: has anybody else done it or are we the first ones who try this? See, this model has been in the western world and has been adopted on multiple occasions. Over a number of years, it has changed and there have been examples of it. First there was a Company called United Asset Management which had tried creating a multi-boutique Asset Management platform. Then subsequently, Old Mutual which acquired the UAM business, which is a large Insurance company, they have done it. There is a listed company in US called AMG which is very famous for the multi-boutique asset management platform, Legg Mason, Franklin Resources; so there are a lot of companies who have done this.

We started exploring and thinking about this business approximately 18 months back when the Board and the top management decided that you know we want to go global. Two businesses were identified to go global; one which you heard about from Martin and this was the second business which we thought we will go global. As we decided to enter this business, we studied models of all the players who have done this over the last 10 to 20 years. We saw what they have done, what is their model, their positioning. We identified differentiating factors and that is how then we decided to do this. We spoke to consultants, we spoke to Bain, McKinsey, we are speaking to each and every large global investment bank in terms of how they are servicing their clients, and we learned from that and then we adopted an approach which has been customized for Religare.

Now, I will expand on how will we differentiate or add value to the acquisition, few things by which we think we will create value for the firm by making this acquisition. What happens is in the asset management business, especially the boutique asset management businesses where the investment professionals have created the firm, many a times it tends to revolve around superior investment performance and they are not focussing on building a business or creating visibility for that, which is fair because we do not want the investment professionals to be focusing on building the business. So, it helps them get the initial phase of growth then they kind of reach a plateau because after that they do not know how to take it beyond the word of mouth and into different geographies. That is where platforms like us come into play and we create that common sales and distribution platform which creates economies of scale and access and focus for providing client access, that is one.

How do we differentiate from the other dozen players who might be doing this? We differentiate ourselves by two ways.

One, not everybody does that and, we are trying to again position ourselves as the Emerging Markets Multi-Boutique Asset Management flavour, which means we will try and help the firms that we are acquiring raise money in non-US markets, non-European markets over a period of time. There is no rush or promise to the target where we will help them double or quadruple in size in the short term, but that is over a period of time. There is a general belief that there is an inflection point in terms of emerging markets also being a source of capital apart from only seeking demand for capital. And it is in demonstration of this intent already by the fact that what Shachindra mentioned that we have been able to attract the KBC team in Japan, so we have already been able to create the first step towards creating this distribution team.

Second, I think equally important if not more important, many of these asset management firms have this first generation of founders who are the investment professionals started like 10 or 15 years back. As the founder starts becoming older and he thinks of succession planning, I think we come into play. In the investment business I think the most important thing is having team stability. I think more important than Investment Banking or any other business where there is team stability, because that is what allows investors to place their money and trust the fund house, and that is where we come in again because the founder who has created the business 15 years back suddenly cannot wake up one day without a trigger and say, and it is very difficult for him to say, that I will share 10 to 15% of my firm with the rest of the team if he has not already done it. And if he has already done 10 to 15% what happens to the balance 70 to 80% among the senior founders. The junior partners are not in a position to buy that piece of equity from the senior partners if the firm has been moderately or very successful. That is where we again come in and we help succession planning. So, that is our value-add.

The third differentiating factor versus the competition is, many players made mistakes by acquiring 100% of asset management firms leaving no incentive and alignment for the selling shareholders or the management team of the asset management firms. So, what we intend doing is in no case acquire 100% of the firm to create this long-term alignment.

Pankaj Agarwal: Okay.

Shachindra Nath: I will add a few things to that and also try to summarize what Paresh has said. One, all these small boutique Asset Management firms, they find it difficult to compete with the global Asset Management firms. So, we come and being their controlling share holders give them their institutional feel of size, secondly we give them the access to the emerging markets, because most of their LPs and the investors want them to go to emerging markets and have a deep-rooted access over there, not just manage money sitting in the US. Third, the Emerging Markets Investment Bank franchise which we are creating that gives them the access to information, access to distribution, and access to the proprietary deal flow which is also very important for these funds become very-very attractive. And the last which is not the least, we are the only ones able to give them partial liquidity for all the effort which they have done for the last 7 to10 years and also the incentive to give them the full liquidity over a period of time, in turn giving liquidity and value creation for Religare.

Pankaj Agarwal: Okay. And how would you tackle the cultural issues while integrating all these asset managers across the globe?

Shachindra Nath: Good question. See one of the things as I said earlier is that the beauty of Religare is to have learned this art over a period of time. We did most of the businesses organically where we were nimble footed in terms of our knowledge and understanding of various businesses. We also in the initial part of our life cycle did quick joint ventures. So, we did joint venture with AGEON, which is a Dutch firm, we did a joint venture with Macquarie which is an Australian firm. So, we learned the art of co-inhabiting and also culturally aligning and adjusting. And second, the core DNA of the management architecture of Religare which is distributed in this model whereas it is not driven by one or two people. So, today on this call, you see there are four of our CEOs explaining our business to you and we are of multi-cultural in nature, but we co-exist and align with each other. This allows us the flexibility to continue that DNA and go to other firms. Second, the way we look at this is, that while Religare Global Assessment Management is the combining or the consolidating umbrella, but most of these affiliates would run and operate on their own.

Pankaj Agarwal: Okay.

Shachindra Nath: Martin you want to add something because you must have experienced that how culturally we are as a firm in terms of our international expansion?

Martin Newson: Yes, I think the desire that the Religare has to build a very diverse management team in the Investment Bank, I am sure also comes across as a positive for the people who we are looking to partner with on the Asset Management side. So, for example, if you look at the six person executive committee on the Investment Banking side, we have got a Sri Lankan, we have got three English people, and we have got an Indian person, Mr. Tarun Kataria. So I think there is a desire on behalf of Religare to have in our global businesses as diverse a culture as possible with the pure focus being on excellence, and I think that message that gets sent on the Investment Banking side is also something that is picked up on the Asset Management side, and I actually think that people feel as a result of that that we are quite a diverse group and I think you can look at some of the board appointments as well that in general give people comfort.

Pankaj Agarwal: Okay, thanks. That is all from my side.

Operator: Thank you sir. Next in line we have a question from Mr. Suresh Iyer from Kotak Mahindra Asset Management. You may go ahead please.

Suresh Iyer: Yes, sir, only one question. In the presentation that is posted on the site, the broking vertical for this quarter shows profit of about Rs. 21 crore, whereas when we look at the consolidated financials which has gone to the exchange, we find that broking row is showing a loss. So, just wanted to know any particular components which forms part of this broking row in the consolidated financials?

Anil Saxena: Basically, the loss which you say is on account of Insurance Broking where there is a loss. So, the distribution business and Insurance Broking which when we show segmental revenues are actually in the negative, and that is where we show it on the web site. At the same time it is from a broking perspective we merge the global business also in that. So, when you see the presentation it talks about Indian business and global business separately, but from a segmental reporting perspective, we have to club these together.

Suresh Iyer: Okay. So, global will include basically Insurance, Broking, commodity, and everything, basically?

Shachindra Nath: Yes, so all and everything which relates to broking and trading, basically and globally would come into the segment called broking.

Suresh Iyer: Okay, fine.

Shachindra Nath: Thank you.

Operator: Thank you sir. Next in line, we have a question from Mr. Viraj Gandhi from ICICI Securities Limited. You may go ahead, please.

Viraj Gandhi: Sir just wanted to clarify it once again. Out of our total revenues of Rs. 1440 million for the same equity brokerage, we said that our yields are at 4.08 basis points. What will be the brokerage income of the Rs. 1440 million?

Anil Saxena: The Equity Brokerage revenue is Rs. 926 million, which is Rs. 92 crore, and likewise Commodities Broking is Rs. 165 million.

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Viraj Gandhi: Okay. And sir one more thing, what would be our sharing base with the sub brokers, is it 60:40 again, roughly?

Anil Saxena: See, that is the blended one. On an average it is in the range of approximately reaching towards 50:50.

Viraj Gandhi: And sir the amount of our own locations, out of the 2123, the owned one will be?

Anil Saxena: Again vertical wise, we have separate verticals, so own branches in case of Religare Securities it is 413.

Viraj Gandhi: Okay. So, that was around 411 in the last quarter if I am not wrong?

Anil Saxena: Last quarter it was 414, it is practically the same, only one branch less.

Viraj Gandhi: And sir the net yield would be 4.08 or the gross yield would be 4.08?

Anil Saxena: The gross yield is 4.08.

Viraj Gandhi: Okay, thank you sir.

Operator: Thank you sir. Next in line we have a question from Mr. Brian Hunsaker from KBW. You may go ahead please.

Brian Hunsaker: Hello, this is Brian Hansaker from KBW.

Shachindra Nath: Go ahead Brian.

Brian Hunsaker: Okay, thank you. So, I have got a question about this issue of the commercial banking licenses potentially being issued in India. Of course your name is out there in the press as being someone that would be interested in a license. Could you talk about you know whether this is something you are interested in and you know if so how you see the process in terms of receiving a license and sort of investment, etc., etc.?

Shachindra Nath: Brian, the press keeps speculating about it for everyone and for us as well. But since you have asked this question, we want to build integrated financial services play in India and banking is a true integrated part and parcel of that play. In order to achieve our vision of building fully deep-rooted financial services play, banking is an imperative portion of that. Having said that, we are yet to evaluate under the new policy guideline which has to be published by Central Bank, that how much value accretive banking would be, because from various quarters we have heard that the banking regulation would be very highly capital intensive with policy guidelines towards building rural banks. So, we have not yet taken a firm call that when the new license would come up, whether we would apply or not. So, we would evaluate that option only once we see the policy guidelines and then depending upon what business model it has to evolve and whether it makes sense for all of the rest of our businesses, we would take that call. So, in terms of the process, I think once the guidelines would come in, there will be a window which will be given by Central Bank for the players to apply, but the time line is not known to anybody till date.

Brian Hunsaker: Thank you.

Operator: Thank you sir. Next in line, we have a question from Mr. Chandan Gehlot from Deutsche Bank. You may go ahead, please.

Chandan Gehlot: Sir, my first question is related to Asset Management Company. Sir, so far in this quarter we have taken a one-time MTM loss of Rs. 102 million. So, I just want to understand can we see this kind of loss in the coming quarters as the SEBI new MTM guidelines also come into the picture. So, I just want to understand how going forward this assessment management business will impacted by these guidelines

Saurabh Nanavati: Yes, I think the MTM guidelines became effective yesterday, 2nd August, so everybody had to switch to the mark-to-market guidelines. I am pretty sure you will see this impact in this quarter for a lot of players. Whoever is involved in the institutional and corporate segment on the debt side will feel this impact because effectively as I have said if you have deployed money in April or May at 4 to 4.5 and even today the rates have not yet come off and are trading at 6 to 6.5%, then you will have to bear that loss or you take the risk of passing it down to the investor and then you see very high redemptions coming in.

Chandan Gehlot: Okay. So, I just want to clarify one thing. This Rs. 102 million is a one-time loss. This kind of loss we cannot see in the future.

Saurabh Nanavati: Yes. And what are the risk mitigants on this, actually I mean you know the industry basically since now it has become mark-to-market, earlier it used to be all instruments with a one-year duration not getting mark-to-market and it subsequently came down to six months and now it is down to three months. So, I think just from an industry perspective it is evolving very-very rapidly and you know investors will also need to get used to the volatility on returns unlike you know two to three years back where they knew that they would get a particular yield.

Chandan Gehlot: Okay. And my second question is on the Religare Enterprise level. We have seen the interest cost has gone up significantly to Rs. 1,338 million. So, I just want to understand, can you share the broader numbers like how much is because of increase in the borrowing and how much is due to the increase in the interest cost?

Shachindra Nath: Our head of Treasury Mr. Garg is here. He would answer.

Sunil Garg: Yes, Hello. The interest hardening has happened in the last quarter, but the impact of that is not significant. It is I would say 30 to 40 bps on account of the interest hardening and rest everything is on account of the increased borrowing for the purpose of deployment. Our assets book has also grown and so has borrowing also. It is on the two ways, a significant portion is on account of increase in the borrowing book size.

Chandan Gehlot: Okay, thank you. This is from my side.

Operator: I would like to hand the floor back to Mr. Shachindra Nath for final remarks. Over to you, sir.

Shachindra Nath: Thank you very much for all the participants for joining the call. If you have any further queries, you can write to Kishore or send your queries to us and we will be very happy to answer going forward as well. Thank you so much.

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