Religare Enterprises Limited

Q1 FY2012 Investors/Analysts Conference Call

Wednesday, August 03, 2011 at 3:30 pm IST.

Kishore Belai : Good afternoon everyone, and thank you for joining us on our first quarter FY'12 results conference call. We are joined on this call today by Mr. Shachindra Nath, our Group CEO, Mr. Anil Saxena our group Chief Financial Officer and members of our senior management.

Before we start the proceedings, I would like to mention that we have filed with the Securities and Exchange Board of India, a Draft Letter of Offer in connection with our proposed Rights Issue. Investors are requested to refer to the Draft Letter of Offer for further details. The DLOF is available on the websites of SEBI and the Lead Managers as mentioned on slide 1 of our results presentation. I would also like to draw your attention to the statement on slide 1 of our results presentation that we do not undertake to publicly update any forward-looking statements.

On this call Mr. Shachindra Nath will first update you on the progress made in executing the company strategy and also review the operational and financial performance of the business. Thereafter we will open the line 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, so I'm sure you would have studied the numbers already.

This being the first quarter of FY'12, we have made few changes to our presentation format with the objective of making the presentation crisper and providing some more meaningful metrics such as NIMs for our lending business. I hope you find the presentation more insightful than before.

Let me first brief you on our Q1 FY'12 financial performance in the context of the macro environment. Thereafter I will discuss the progress across the three pillars of our strategy.

On a consolidated basis, income from operations for Q1 grew 8% quarter-on-quarter and 68% year on year to ₹7,364 million. We reported a PBT level loss of ₹1,330 million for quarter 1 as against loss ₹1,103 million in Q4 FY'11. At the net level, we reported a loss of ₹1,497 million for the quarter as against loss of ₹1,284 million in Q4 of FY'11. Note that our consolidated revenues and profit for quarter four FY'11 includes one time capital gain of ₹1,287 from sale of immovable property by a subsidiary.

As you know the sentiment in the capital market has been weak since the second half of FY'11 and this has been accentuated further in Q1. While the weak market dampened the overall business environment, two of our businesses, Religare Securities Limited (RSL) and Religare Capital Markets Limited (RCML) are directly affected by such headwinds. Moreover, RCML is currently in the investment mode. As you know we are in the process of building out our emerging market investment banking franchise. If we exclude pretax losses of ₹1364 million incurred by RCML and ₹265 million incurred by RSL, the consolidated profit before tax of Religare Enterprises would have been ₹ 299 million.

While you are all familiar with the macro situation, let me list out some of the headwinds we have been operating against. Turnover on the exchanges in India saw an absolute decline of 14% quarter-on-quarter with the share of low yielding option increasing marginally to 67%. Interest rates have been steadily rising with the Reserve Bank putting through the eleventh hike in the benchmark rate last week, and as a result the yield curve is practically flat. This has put a lot of pressure on lending businesses especially, businesses that operates at the shorter end of the curve. AUM for the mutual fund industry has seen a steady decline month on month between April and June.

Investment banking volumes have not been encouraging at all. M&A and ECM deal volume is about half of the level compared to year ago. The life insurance industry saw an year on year decline of over 12% in the new business premium collections during Q1. FII investment in the Indian market is declined by a staggering 91% in the first half of the calendar year 2011 compared to the first half of calendar year 2010. These factors have a direct bearing on our financial performance for the quarter. However, we believe that this adverse macro environment opens up significant opportunities for Religare to expand its business portfolio as it is backed by a very strong capital provider and run by a management team with diverse experience leading various businesses.

While the environment has posed challenges, we continue to make progress in implementing our strategy, which we believe, we will stand us in good stead for the long term. Many of you would have attended our earlier conference calls and would be familiar with our three pillar strategy which has also been summarized on slide three of our results presentation. Let me now give you an update on execution of our strategy.

First, let me talk about our integrated Indian financial services platform. As anticipated, the overall sentiment in the Indian market continued to be challenging in Q1 FY'12 and while this did have a significant effect on us in some businesses, we did quite well in others. Our lending business have performed to expectation with an across-the-board growth in all segments. While our SME focused lending segments have been doing well consistently, we had scaled back our Capital Market Lending book over the last two quarters in light of the environment. We have re-priced virtually the entire capital market book and have thereafter focused on growing the book again with good results. We have also raised interest rates for our SME focused products in line with the changes in the market. The equity broking business continue to be challenged and in fact there was a quarter-on-quarter decline of 14% in marketwide turn over during the quarter, leading to pressure on entire broking industry. While we are taking measures to counter these pressures, the business will continue to be challenged in the near term.

In the Commodity broking business, there has been a market wide growth in turn over, but at the same time competition has become intense. Our India Asset Management business is moving along the right trajectory. We have been working on improving our fee yield by improving our domestic product mix and focusing on raising offshore funds for the last couple of quarters and this strategy has paid off.

Q1 is a relatively quiet quarter for the insurance business and yet, we grew our premium income by 66% year on year. We are also enthused by the traction that our online sales efforts are seeing. 6% of the premium collected during the quarter came from the e-sales channel.

Moving now to our emerging market investment banking platform, our build out continues as per plan. We have added 23 people to our headcount during the quarter, taking the total strength to 300. Our India equity product is gaining client acceptance and we are now using our presence in various money centers overseas to distribute Indian equities to large global funds. We have expanded our product and distribution capability across Asia and we believe that large Institutional clients now recognize the advantages of our integrated emerging market approach which currently provides them an Asian equity platform.

Coming now to our global asset management platform, in Q1, we completed the acquisition of Landmark Partners LLC which is the pioneer in the PE secondaries space having itself created the secondaries category. We continued to build our distribution platform for Religare Global Asset Management including overseas distribution for our India AMC and are encouraged by the results so far.

Let me now walk through the performance of our major subsidiaries. I will start with the lending business which is housed within Religare Finvest Limited and consists of asset finance and capital market lending. The successive interest rate hikes by the Reserve bank of India have increased the cost of borrowing at the short end. A further increase of 50 bps in the second quarter FY'12 signals that situation is likely to continue for some time. Our loan book comprising of loan against property, commercial vehicle and construction equipment finance, SME working capital loan and capital market lending grew 9% quarter on quarter and 91% year on year to ₹ 86.2 billion as of June 30th 2011. We continue to do well on an all operational parameters including the OpEx to ANR ratio which is stood at 3.1% for the quarter an improvement over the earlier quarter as well as the average for the previous year. Our portfolio quality is in control with gross NPA at 0.21% of the book and net NPA at 0.01%. Over 91% of the loan book is secured, which gives us further comfort on the quality of the book.

In terms of financials, Religare Finvest reported quarterly revenues of ₹ 3.8 billion, 10% higher than the last quarter and 86% higher than year ago. Quarterly PAT was also up by 18% quarter-on-quarter, to ₹ 115 billion due to better overall cost management.

Let me now turn to our retail broking business which is operated through Religare Securities and Religare Commodities Limited. As I mentioned earlier, in the equity broking business, there has been a market-wide decline of 14% quarter-on-quarter during Q1 FY'12. In cash equities there has been an absolute decline of ₹ 20 billion in the market-wide turn over during the quarter. Our brokerage yields were flattish and we improved our market share marginally. However this could not compensate for overall decline in the market volume. We continue to focus on cost optimization, leveraging our distribution capabilities and increasing retail participation. We have consolidated some of our less profitable branches but overall distribution presence basically remain unchanged as we added franchisees and in the process, we are moving towards a more flexible cost structure.

The weak market sentiment was reflected on the financial performance of Religare Securities. Total revenue for the quarter was ₹1.19 billion, a dip of 3% quarter-on-quarter and we reported a net loss of ₹193 million versus a loss of ₹142 million in quarter four FY'11. In the commodities broking space, our market share came off and stood at 3.3% for the quarter. However as an outcome of introducing new products such as E-Gold and E-Silver as well as some of the re-pricing during the quarter, our brokerage yield improved to 1.65 bps as against 1.5 bps in the earlier quarter.

Quarterly revenue for Religare Commodities was ₹260 million, marginally lower quarter-on-quarter and PAT was lower by 10% quarter-on-quarter at ₹46 billion. The environment has posed significant challenges for retail broking businesses during the quarter and we expect this to continue in the near term. Meanwhile, we continue to single mindedly focus on improving cost productivity and realigning the operating model.

Moving on to the India Asset Management business, which is operated under Religare Asset Management Company, while our AUM was stable during the quarter at ₹113 billion, the AUM mix shifted in favor of high yielding products especially longer tenor debt funds. Our focus on offshore mandates in collaboration with our global asset management business continues. There has been further subscription in the existing fund raised in Japan and the AUM has gone up to USD 125 million from USD 105 million a quarter ago. Initial discussions on new mandates have been encouraging. As I mentioned earlier, such mandates will leverage our existing team and infrastructure thereby contributing to the bottom line. The recent changes by SEBI allowing asset management companies to directly manage offshore mandates will give a further boost to our well-laid strategy. Revenue for Q1 improved by 25% quarter-on-quarter to ₹ 151 million as our management fee yield improved due to change in AUM mix. Consequently the entity achieved a break even this quarter versus the net loss of ₹ 46 million in Q4 FY'11. As I mentioned before, Religare Capital Markets Limited, our Institutional Broking and Investment banking platform is in the investment mode and we continue our build out.

We announced some significant hires during the quarter:

• Gary Lilley, who joined as the CEO North America to build US distribution for emerging market products and last was with Morgan Stanley

• John Sturmey who joined us as global head of equity capital markets and comes from UBS

• Gautam Trivedi who joined us from Goldman Sachs and will head our Indian Equities Business.

The Religare Capital Market showed a 54% decline in revenue quarter-on-quarter to ₹1008 million as subdued capital markets impacted our institutional equities business, and the lumpy nature of investment banking business led to a lower revenue on that count. We reported a net loss of ₹1384 million. As I have explained before, this represents the investment we are making in the business which is reported as a loss in accounting terms.

Religare Global Asset Management completed the acquisition of Landmark Partners LLC on April 18, 2011 and we have consolidated Landmark in our financials from that date. RGAM reported quarterly revenue of ₹ 732 million and net profit after minority interest of ₹ 50 million as against loss of ₹ 7 million in Q4 FY'11, as the effect of the startup costs wears off.

I had mentioned on our previous call that we have filed with SEBI, a draft letter of offer for a proposed rights issue of up to ₹ 8 billion with an option to increase the issues size by 10%. Our promoter group has made an advance subscription of ₹ 4 billion towards the rights issue which is a testament to their commitment to the business. We are going through the due process in this regard, and as you know these processes are time consuming. We will provide further updates on this at an appropriate time. It has been our philosophy to provide a level of information and disclosure for the individual operating businesses, which is among the best in the industry and our endeavors is to keep investors informed of all our actions with respect to these business in as elaborate a manner as possible within the constraints of the applicable regulations. At the present time, the fact that we have filed a draft letter of offer for our proposed rights issue, constraint of some providing information on actions we are evaluating for each of our business in response to the macro environment and our plans for capturing growth opportunities that are naturally arising out of the current macro situation.

To summarize our performance, the continued weak sentiment in the Indian market led to a subdued performance for the quarter as we had anticipated and communicated earlier. Our belief is that vigor will return to the market during the second half of the financial year. We are on the whole satisfied with the build out of our capital markets business and our global asset management business.

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

Moderator : Thank you very much Sir. Ladies and gentlemen, we will now begin with the question and answer session. Our first question is from the line of Deepak Tiwari of KR Choksey. Please go ahead.

Deepak Tiwari : Good afternoon, sir. Congratulations for a good set of numbers. Couple of questions. My first question is related to Religare Finvest, lending business. Why there is a decline in profitability from Q1 FY'11 onwards? Though margins have been pretty steady at 4.5% on an average for the last year or nine months and asset quality is also very robust. So what could be reason of decline in profitability? And my second question is related to Religare Capital Markets and life insurance businesses. It's showing a loss at the EBITDA level. So what is our outlook for them? When we can expect that they start making profit at EBITDA level? And my last question is related to life insurance business what would be our strategy for growth going forward and what would be our product mix currently in between traditional and ULIP products?

Shachindra Nath : Mr. Kavi Arora is the CEO of our NBFC business. He will answer the first part of your question. I would give you the answer on Religare Capital Market and Mr. Basab Mitra, our chief operating officer, will give you on life insurance.

Kavi Arora : Primarily already the increase which is there is causing the numbers go down and it is primarily because this is now investment time for us in the lending business. We have increased our footprint to 39 branches in the country which are catering to about 60 locations in India. We have added significant teeth in the market at the front line to now gear up for the next level of growth by expanding geographically so that is the reason which is in last quarter onwards in fact Q4 last year I had in fact mentioned that in the last call as well that we have invested in terms of expanding and hiring people at the frontline to now take this business model into more geographies and cover 13 states and 39 branches that I have just mentioned. So even in this quarter we have started seeing the volumes coming from these geographies and over a period of time we will start seeing our OpEx to ANR numbers which is when more assets are built from these geographies as well, to start showing a decent trend and this is just a phase of build out -- our next phase of expansion of the business.

Deepak Tiwari : But where we are focusing -- on asset finance, corporate lending, SME working capital? Where?

Kavi Arora : The strategy is very-very clear. In RFL, in our NBFC business, we are an SME focused NBFC. Our all lending products are focused towards fulfilling the requirements of capital for the SME. Whether we give against loans against the collaterals which are form in land and building thus we have loan against property business or for purchase of construction equipment or any other standard equipment that is our equipment finance business and we do working capital loans to SME. So majority of our book is SME and that is the way it will remain. We see over 85% of business going forward continue to be in focus on the SME space.

Deepak Tiwari : Currently it is at 9% or so, so what proportion we are targeting going forward?

Kavi Arora : You are talking about 89% secured loan in the SME space. What I am saying is of our overall book, 85% plus business will be in SME and balance you will say there is part of business on corporate side which we will see over a period of time coming down.

Shachindra Nath : With respect to the Religare Capital Markets business, one question is that when will we see the profitability coming from the business. As I said at the beginning of the presentation itself that we are in an issue mode because we have filed our draft prospectus for a right issue which restrict this management to give you any forward looking statement, but as I said, that if you look at what it cost to build out a large institutional equities–led investment banking platform, the normal cycles historically would be anywhere between two years to three years of time. We are still one and half year of that build out period but I think the traction which we have got on the platform versus some of the peers historically in the current market, we are far ahead of them. So while I can't give you exact number in terms of when we see the final out put coming out, that this should give you a sense of where we stand.

Deepak Tiwari : Give some time horizon?

Shachindra Nath : As I said that, it's not just with us. Any investment bank which will roll out in a larger geography would take actually three years to build that business. It is similar to Indian insurance businesses which take 8 to 10 years to generate profitability. If you compare that to an investment bank, it takes anything between two years to thee years to generate significant cash profitability.

Basab Mitra : Your question on insurance was two fold; one is what is your mix. Right now we are operating at about 60-40 mix in favor of ULIP. 60% in ULIP and 40% in traditional that is beginning to broadly mirror the markets as it stands today. Your second question was around what was strategy for growth going forward and that's fundamentally driven around the singular count of capital efficiency and we are driving capital efficiency using three things, three levers. One is reducing expense our operating expenses inline with the top line. Secondly we will be focusing on the client and making sure our persistency numbers get to the top quartile of the industry. And third is judicious expansion of our distribution platform and using a lot of our Religare system to actually start supporting the volumes in insurance business. That is one huge advantage that we have which is through our broking platform, through our lending platform, a lot of insurance distribution occurs and we want to continue to focus and expand that so that's probably the way we are approaching growth story for insurance.

Deepak Tiwari : My last question would be on Religare Securities. So when do you expect consolidation will start happening? And what is the outlook for this business?

Gagan Randev : Hi this is Gagan here. When you talk about consolidation are you talking about consolidation in the industry? So I think while people were being pretty optimistic in the last couple of years that some amount of consolidation was inevitable, fact of the matter is that you haven't really seen serious consolidation happen. However given the change in the dynamics in the structure of the industry where clearly retail has not come back to the market in they way we had anticipated, I don't think, it's inconceivable that the next couple of years we would definitely get to see weaker players starting to get challenged. It doesn't help that you have brokers in the market advertising pricing at 1paise etc. So the fact of the matter is that all that is absolutely inevitable and clear. And I think in the next couple of years we will definitely see stronger players acquiring brokers who don't have the wherewithal and capacity to keep standing. So it's inevitable. I hope that answers your question.

Deepak Tiwari : Thanks.

Moderator : Thank you Mr. Tiwari. Our next question is from the line of Elizabeth John of Crisil Research. Please go ahead.

Elizabeth John : Hello, hi. Few questions. First of all, on a consolidated basis, wanted to understand that our personnel expenses have declined 17% that is the first thing and even operating and admin expenses have declined 24% Q-on-Q. Can you explain the reason for this?

Anil Saxena : Yeah so, Elizabeth this personnel expense decline is actually in line with the consolidation which we are doing in some of the business areas especially insurance broking and some other retail distribution lines. At the same time there were bonus provisions in last quarter so, if you are comparing quarter-to-quarter, there is a decline in the personnel expenses both on account of headcount and lesser provision because we see it inline with the current performance of the company. As far as the other expenses are concerned, we are in the same way looking at rationalizing and bringing synergies and reducing the cost. We have closed down some branches which is in line with our strategy of consolidating some of the retail distribution business because obviously it is a tough market condition and in line with that some of the steps that we have taken have started showing results and obviously it is not the full impact because it is happening over the quarter which will be reflected in the next quarter also.

Elizabeth John : Okay and in terms of headcount, can you just state the number how much was it on Q4 11 and how much was it on Q1 12. I mean a percentage change?

Shachindra Nath : So, as headcount as of June 30th, 2011, is 10,369 versus as of March 31st, 2011, which was 11,597 this includes Religare Capital Market the Global Businesses and Religare Global Asset Management.

Elizabeth John : Okay and one more part that I wanted to understand in Religare Finvest, how much is the corporate lending book at the moment?

Shachindra Nath : The way we classify our entire lending portfolio is we classify among the business lines which are three at the moment. One our asset finance business which is structured business which is structured between our loan against properties, commercial vehicles and equipment finances and SME working capital and capital market lending business. Now rest whatever is the differential is around our arbitrage business, treasury operations and surpluses are deployed among the corporate lending businesses. So at this point of time we won't have the segregation on each line of activity because always it is a more of a treasury operation so, it just moved but we can give you data separately if you want.

Elizabeth John : Okay and another thing I mean you have mentioned in the call that the SME portfolio you wanted to be around 85% of the loan book or more going forward. So, right now the SME book is like 9% of the overall loan book so, how?

Kavi Arora : So I think you talk about 9% which is only SME working capital. The loan against property and the commercial asset book is also to SME basically the fundamental lending that we are doing is on the SME segment. When you look at your entire book the way we talk about SME book is we do either against the collateral as I mentioned which can be in form of property or various kind of equipment and working capital or even marketable security which can be whether you term it as promoter funding or loan against shares all of this is going basically to the SME segment right. and that business we see being a majority chunk of our overall asset book in RFL.

Shachindra Nath : Just to clarify, our entire asset finance business is an SME business, the underlying product structure is because of the collateral for funding that SME . So the way to look at the business is that we are focused on SME financing so, that's what we call asset finance business and which has underlying collateral in three product categories.

Elizabeth John : Okay got your point. One last question: what is the interest cost at the moment in the quarter and how much was it in Q4-FY11?

Anil Saxena : Well the average interest rate is 11% for the current quarter, it was 10.05% in the last quarter.

Elizabeth John : Okay thank you so much.

Anil Saxena : Thank you.

Moderator : Thank you, Ms. John. Our next question is from the line of Amol Pathare of Deutsche Bank. Please go ahead.

Amol Pathare : Hi good afternoon everyone. My questions are pertaining to RFL. Sir, what would be funding mix for RFL for the June quarter?

Rashmi Mohanty : Broadly Amol if I were to give you a breakup between short term and long term, we would say long term funding would be about 60% of our total funding. Long term funding primarily comprises of bank term loans and debentures that we have done in the market.

Amol Pathare : Okay so, basically short term would comprise of then?

Rashmi Mohanty : Less than one year products, and that will be mostly CP.

Amol Pathare : Okay and what would be your outlook on the bank financing bit?

Rashmi Mohanty : Outlook in the sense?

Amol Pathare : Given the changes in the RBI guidance…..

Rashmi Mohanty : The RBI changes have been only on the PSL portfolio only those inside the PSL portfolio against which you were taking loans from banks. But even if you look at our current bank term loan portfolio, almost about 80-85% of that portfolio is non-PSL funded or funds are in non-PSL assets. And I think even on the other side there is a clarification that has been issued by the RBI that even though banks cannot make loans any more to NBFCs but securitization transactions have been allowed and we are working with banks and other financial institutions on those structures.

Amol Pathare : Okay. Could you also throw some light on the average maturity on your debts and your advances?

Rashmi Mohanty : On the debt side our bank terms loans which obviously now comprises a large chunk of our liability mix would be with an average tenor of about three and a half years. Some of them, on door to door basis, extend all the way up till five and half years as well. The commercial papers obviously are less than one year in tenor.

Amol Pathare : Right and on the advances side.

Kavi Arora : The combination is between the various products against which you are lending. The loan against property is the longest term which is 120 months at the time of origination and which doesn't necessarily mean it will be an asset on your book for that long. We are still a two and half year old business so over a period of time we will see what is the average maturity and the average age of the assets on book. The other lending which is SME working capital is only 28 months weighted average at the time of origination. And the commercial asset business is 42 to 43 months. And all our capital market business is one year or 12 months at max and also substantial portion of that is repriceable in any case.

Amol Pathare : All right. So, my last question is regarding your targeted CAR for the RFL business: what would that be?

Shachindra Nath : 16.50% we are already ahead of that 15% statutory requirement and we would be consistently targeting at 16.50% at least.

Sunil Garg : It was rather on the higher side. It was closer to 16.8% and the target is somewhere it would be 17 or so that would be the target.

Amol Pathare : Okay, right. Thanks a lot sir.

Moderator : Thank you our next question is from the line of Vikas Garg of Fidelity Mutual Fund. Please go ahead.

Vikas Garg : Hi everyone. I have some couple of questions on Religare Finvest Limited, so goes to Kavi. Just on a very broad perspective I just want to understand the strategy of this company. What is it that I being an analyst can keep in mind to analyze the performance of the company? Is it just volume based, what will be the situation in the market: will you go after the volumes or you are also looking at some kind of a profitability indicators in the shorter term which you would like to achieve going forward?

Kavi Arora : Profitability is the key for any business that you setup. So, I won't say that it's only volume and a certain size that we are targeting and we will reach there. We have been consistently maintaining that we will keep our NIMs between 4.5 to 5%, keep a healthy portfolio quality, and get our operating expenses to ANR which is an important benchmark of how efficiently the business is being run to some of the well defined and almost marquee kind of numbers in the market and we are tracking in the short term to all of these individually. Our margins continue to be in the range of 4.7 to 4.8%. As Shachin just mentioned, majority of the book is also repriceable so, we are in that sense in the increasing interest rate scenario, we have the capacity to kind of keep our NIMs intact. We have been able to successfully increase our incoming volumes which are coming at a higher yield. We have been able to increase the yield even despite growing volume we have been expanding the yield by almost 150 bps and if you compare to the last quarter we are ahead by about 150 bps now. So, as I said, profitability is the driver. We have been able to track to all those short term objectives and goals that we fixed and we continue to do that. Also because we are still we believe a much smaller player and the market opportunity is huge, we will be able to grow at a pace that we have decide for ourselves and we continue to build those assets.

Vikas Garg : Okay so, what's the growth rate that you are looking in this business maybe for next couple of years?

Kavi Arora : For couple of years' perspective I think in terms of book size we are saying we should be growing between 40-50% in the two years' context.

Vikas Garg : Okay and this would be possible by in this current geographical mix which you have around 39 locations which you have already expanded to?

Kavi Arora : Absolutely. We don't need to build on anything significant post this because these 39 branches cater to almost 80% to 85% of the addressable SME market in India.

Vikas Garg : Okay so, if you were to just take the guidance and going forward you would see the NIM should be maintained. You would not see too much of an incremental expense because you are expanding the branch network so that way the bias would be upwards only in terms of the profitability of the company.

Kavi Arora : That's right.

Shachindra Nath : In addition to that, given that our experience and our maturity of the risk in the business and all the risk metrics which we have built, we have also a leeway of changing the mix of our portfolio between secured and unsecured. Today our portfolio is roughly around 91% secure and we would make conscious effort and deliberately but in a very prudent manner to change that mix and bring down the secure portfolio to some extent.

Vikas Garg : Right okay. Just one question out of curiosity. You will started expanding the book when the funding cost was low for many of the borrowers and the economy was also on a better footing, Now we are entering into a territory which could be quite reversed, we could be seeing higher funding cost, higher macro pressure on all the borrowers and at the same time the economy maybe slowing down. So, what's your sense of the asset quality going forward? We are seeing some jump in the at least in the reported NPA percentage in this quarter but is it some kind of a trend which would pan out at least for now in next couple of quarters or it may not be the case?

Kavi Arora : One slight correction we started in the time when actually the yields were much higher, in 2009 January when we hit the market. Actually it was the converse - again the funding was very low in the market and the interest costs were very high and we started testing our book in those times and our book quality currently which we have said is very good and we have given those numbers as well. That has given us the further confidence. After that the interest was coming down in 2010 and then after middle of 2010 again started coming back to a level where we are today. What we haven't seen is any deterioration in portfolio because of these increased costs and going forward as well in next six to eight months or ten months we don't see any particular deterioration on the portfolio quality because of the interest rate scenario. And as everyone is reading, when interest rates will start softening, it will be the easiest cycle that comes back and we are more bullish on that side that our portfolio quality is very good and we don't see any of those issues coming and hitting our book.

Shachindra Nath : In addition to that, if we look at the macro environment the interest rates cycle, we are not seeing unfortunately the economy slowing down to the expectation of the regulators but even if that happens the worst hit is first large institutions, large corporate and then cycle hits large retail consumer businesses and we are in actually in the mid which is SME and given the we have a high secured portfolio and the portfolio and the assets which back our lending are close to them. So, expectation is that even in the slowdowns large corporate, large institutions and big ticket sizes will see deterioration and not the SME book which is collateralized largely by portfolio of assets. Basab, you want to add to this?

Basab Mitra : Also the fact is that we have significant headroom given where we are against our provisioning norms so there is really no reason for us to worry at this stage.

Vikas Garg : Okay, so given the fact that you are more focused on the SME, any plans of getting into the riskier segments of the SME, like may be the used tractors or such asset classes going forward?

Shachindra Nath : No, I think we will hold on and maintain the lines that we have. We may add some products in the same segment per se but we are not looking into moving to high risk segments.

Vikas Garg : Okay, and just one question to Rashmi on the liability profile. I know that you have been changing the liability mix for at least the past one year in terms of getting more funding from the banking channel but now given the fact that most of the banks would have their base rate as high as 10.75% or so, going forward you think the same kind of a mix will be maintained or you would see more issuances in the CP market also?

Rashmi Mohanty : One, I think the base rates are not at 10.75%, they are a little lower. However, whatever be the base rates fortunately for us a large part of our asset finance book, which is loan against properties, has floating rates. So any increases on the base rate in the bank term loans we've been able to largely pass on to the customers so far. And so, we've been protected from the increase in the cost that we've experienced. Going forward I don't think liquidity is the problem, the banks have deep pockets, I don't think we've tapped them enough as yet. There is still scope for our products to increase our credit lines with the banking system and we've done that in fact, there has been repeat sanctions that we've got from the banking system. I guess your question would be that if in case the rates keep on increasing we'll be able to pass on? We have been able to pass on largely the cost so far, hopefully we should be able to pass on the cost in future as well.

Kavi Arora : To add to what Rashmi said, I think one thing is very clear - consciously we will continue to focus on the bank lines from our borrowing side and not carrying any ALM risk. That's a very conscious call. Second, as she just mentioned, the longer turn tenor assets are mortgage assets and those are 100% repriceable book. And so far, the entire increase of 3% in base rate which has translated to increased cost of funds, has been passed on as increased base rate for us on our assets for these lines. And the other medium term loans which are significantly better yields than the unsecured working capital so there is enough cushion that we have in terms of absorbing some of the pressure for that some time when the rate goes up because the acquisition yield also starts going up as you start passing on this to the customers. We have that kind of capacity to hold on to the margins despite increase in cost of funds. And thus we will continue to have bank lines as a major source of our long term borrowing.

Vikas Garg : Rashmi, just one number on the unutilized bank lines that have happened, how much would that be?

Rashmi Mohanty : As of June end?

Vikas Garg : Yeah.

Rashmi Mohanty : Can I get back to you separately on that Vikas?

Vikas Garg : Sure, no problem. Thank you very much, that's it.

Moderator : Thank you Mr. Garg. The next question is from the line of Sameer Kulkarni of Vantage Securities,. Please go ahead.

Sameer Kulkarni : Sir, good afternoon. I just got a question on the broking side. As the volumes in the cash market are coming down and the options volume are going up, what strategy you are adopting to improve the profitability of the broking buildup and the revenue part also?

Gagan Randev : Okay, Sameer I think, what we've been doing consciously for quite some time is to make sure that on the broking side build-up the business that we do on the currencies and the commodities space, we are today the market leader in the commodities business also along with the equity business we have a very strong commodities business where we have a 3.5% market share. We have been building up our currency business also as there were a lot of exchanges allowed and we have over about 1% of the market share of the currency business, so that is something we'll be doing. We have also been making a constant effort from the end of last year to reprice the rates from the customers that we acquire, we acquired them at higher brokerage yields than we used to in the past, so that is starting to pay results for us and unfortunately I think the slowdown on the retail space is known to everybody. But I think all this that we've done is ought to start impacting on the revenue side. On the cost side, we've been making a lot of efforts looking at the structure given the change of the structure of the market. The whole thing about the distribution doesn't hold true, so what we've been trying to do is look at consciously our infrastructure at distribution points, rationalizing them, make sure that we grow our variable channels like the franchise business, etc., going forward and I think you are going to start seeing the impact of all these structural changes that we are trying to do to our business in a couple of months. Just to share with you in the last two quarters, we've actually brought down the number of people we had on the broking side by almost a thousand and that also includes the rationalization of branch infrastructure. So clearly I think, as we come to the close of this financial year, you are going to start seeing substantial changes in the results that come out of the broking side.

Sameer Kulkarni : Okay, because I have seen the number of franchisee you have gone up from 1439 to 1589 YOY and the number of branches have come down at the same time.

Gagan Randev : That's right.

Sameer Kulkarni : Okay.

Gagan Randev : So that is a very conscious strategy that we've been adopting since the last two quarters.

Sameer Kulkarni : Okay, but as you say it is the number of employees have come down by a thousand, the personnel cost from Q4 has gone up from ₹ 399 to ₹ 463 million.

Gagan Randev : That's right. You will see and that's a one-off. So if you look at the structural change we are far below where we were compared to Q4 last year, the Q4 figure which shows the figure of 399 versus 463 in the current quarter is also because of a reversal that we had in that quarter.

Sameer Kulkarni : And as you have said because there is repricing is happening on the brokerage side for the new customers, is it happening for the older customers also?

Gagan Randev : It is, simple fact is that it is as yet pretty small. We have embarked upon repricing of old structure of the older customers on the basis of the kind of volumes, the kind of business they do so that is something also which is happening but that is still small but we are going to increasingly focus on that also going forward.

Sameer Kulkarni : Okay, okay but as the number of franchisees goes up and the number of employees will ultimately come down only.

Shachindra Nath : Sameer, some of these are very intricate detail of how we are responding to the macro environment, if you like we'll like to have a one-on-one discussion because some of these are very strategic and some of these are operational in nature and we would not like to give information on in terms of how we are managing the macro environment and the changes which is happening into the business.

Sameer Kulkarni : Okay sir. And the last question on the outlook over the next two to three years on the broking side, how do you see the business growing for the next say the next six-nine months are challenging but over the next three to five years, how do you see the business growing sir?

Shachindra Nath : The broader view on the broking business is that as this happens in any part of the world. Broking would be core to the distribution of large financial institutions. What we've not been able to see is that it was to the client acquisition engine or a channel which speeds into multiple manufacturing lines. You will see the convergence of that happening but the journey is a very-very painful and it would take some amount of time because predominantly brokerage industry not only in India but broadly in most of the Asian market is very speculative in nature. But if we are in a bull market and say cash equity has been going up which is more and more investors coming into the market and then you have the opportunity to diversify the investor base with multiple products. So standalone pure retail brokerages, my view is that it would be very difficult for them to succeed, survive, and sustain. Brokerages business as a part of large financial conglomerate which has got manufacturing and distribution both would generate significant profitability and would emerge as large players into the marketplace.

Sameer Kulkarni : Okay, sir thank you very much that is helpful.

Moderator : Thank you Mr. Kulkarni. There are no further questions from participants on the conference call at this time. I would now like to hand the conference over to Mr. Sachindra Nath for closing comments. Please go ahead sir.

Shachindra Nath : Thank you for attending this call, if you have anymore queries please feel free to contact Kishore, our Head of Investor Relations, he will be happy to be of assistance. Have a great day ahead.