

Religare Enterprises Limited

Q4 & FY2011 Investors/Analysts Conference Call

Wednesday, May 25, 2011 at 3:30 pm IST.

Kishore Belai: Good afternoon everyone and thank you for joining us on our Fourth Quarter and full year FY11 results conference call. I am Kishore Belai, Head of Investor Relations at Religare.

We are joined on this call today by Mr. Shachindra Nath, our Group CEO, Mr. Anil Saxena, our Group CFO, and members of our senior management.

Before we start the proceedings, I 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 refer to the Draft Letter of Offer (DLOF) for further details. The Draft Letter of Offer 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 our statement on slide 1 of the 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's strategy as also review the operational and financial performance of the business. Thereafter, we will open the lines for Q&A.

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

Shachindra Nath: 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 am sure you would have studied the numbers already.

Many of you would have attended our earlier conference calls and would be familiar with our three-pillar strategy. This has also been summarised on slide 3 of our results presentation.

Let me now give you an update on execution of our strategy:

- First, on the Integrated Indian Financial Services Platform, the Indian market has presented multiple challenges in the last few months:
 - I will start with the **Lending Business**, which is housed within **Religare Finvest Limited**, and consists of Asset Finance and Capital Market Lending.

The industry experienced tight liquidity through most of the previous financial year as the Reserve Bank of India kept raising interest rates. There were in all eight increases of 25 basis points each in the policy rates during FY11, translating to a total increase of 200 basis points, which was followed by a 50 basis points increase in the second week of FY12. The maximum impact of the tight liquidity conditions was seen in short and medium term rates – in the maturity buckets within which we typically operate.

Our Asset Finance Book – which comprises Loan Against Property, Commercial Vehicle & Construction Equipment Finance and SME Working Capital Loans – grew 14% quarter on quarter and 224% year on year to ₹58 billion as of March 31, 2011, close to the top end of our target range of ₹50-60 billion for the year.

We continue to do well on all operational parameters including the Opex/ANR ratio, which has improved during the year, as well as credit quality, indicated by the percentage of dues remaining past due date, which is within acceptable limits: as of 31-Mar-2011, 0.84% of our receivables were 30 days past due and only 0.25% were 90 days past due.

The Capital Market Lending Book – which comprises Retail Loan Against Shares as well as Wholesale Loan Against Shares or Promoter Funding – was scaled back marginally to ₹21.4 billion during Q4 in light of the soft market conditions.

- I'll turn now to our **Retail Broking** business which is operated through Religare Securities Limited and Religare Commodities Limited.

In the Retail Equity Broking Business, there has been a market-wide decline of 22% in cash equities turnover in Q4. The share of the low-yielding Options segment continues to increase within the overall market and now accounts for 65% of overall turnover. The Futures segment accounts for nearly 25% and Cash Equities for just 10% of the overall turnover. The dominance of Options has impacted our brokerage yield, which declined to 3.55 basis points for Q4 as against 3.93 basis points for Q3. The trading pattern of our clients has been skewed towards cash equities and as a result, our market share declined to 2.1%. In turn, the revenue and profitability for the business were adversely impacted. We continue to focus on cost-optimisation, leveraging our distribution capabilities and increasing retail participation.

In the Commodities Broking space, our market-share remained steady at 3.9% and we continue to remain among the largest commodities brokers in India. Brokerage yield has come off a bit and stood at 1.50 basis points in Q4 as against 1.53 basis points in Q3. Religare Commodities has been known for its superior research in the space. We won 'Best Commodity Broker of the Year' at Bloomberg UTV's Financial Leadership Awards 2011.

We have said in the past that the softness we saw in Q3 would continue for a couple of quarters and that has played out in Q4. The leadership

team for the retail broking business continues to single-mindedly focus on improving cost productivity and realigning the operating model.

- Let me now come to the **India Asset Management** business, which is operated under Religare Asset Management Company Limited. The industry-wide average AUM for Q4 was a shade over ₹7 trillion, around 4% higher than the previous quarter. Religare Mutual Fund improved its AUM by 11% quarter on quarter to ₹117 billion. Last quarter, I had talked to you about the mandate that our Global Asset Management unit has secured for the Indian AMC for advising a dedicated India small- and mid-cap fund raised by a leading Japanese asset manager. The fund has closed at USD 105 million and during Q4 Religare Asset Management has commenced deployment of the funds. To reiterate, our success in winning this mandate is significant as it:

- Demonstrates the marketing and distribution capabilities of our Global Asset Management unit;
- Is a validation of the investment processes we have established; and
- Is a testament to the secular growth potential of the Indian economy

We continue to focus on getting similar offshore mandates which will leverage our existing team and infrastructure.

- Our **Life Insurance** business is operated through a joint venture with AEGON, namely AEGON Religare Life Insurance Company Limited. You are all aware of the adjustments the industry has had to make as the regulatory framework changed. I have mentioned to you before that as a young company, we did not have to deal with any legacy of an inflated cost structure and in fact, we have more than doubled our branch network to 118 during the year ended March 31, 2011. The fourth fiscal quarter is usually a busy one for this business, and even taking that into

account, we did quite well: total premium increased 119% year on year and first year premium crossed ₹1 billion for the quarter.

While this business is still in investment mode, our investment comes with complete downside protection because, as I have mentioned before, we enjoy a capital guarantee with a minimum assured IRR of 12% and no upside cap on our investment in the joint venture.

- We have promoted Religare Health Insurance Company Limited to pursue the **Health Insurance** business. For this business, we have filed the R2 application and are awaiting approval from IRDA. In the interim, we have been developing the product, marketing and distribution strategies, and are in a position to launch products rapidly once the approvals are in place.

I had informed last quarter that we have brought in Corporation Bank and Union Bank of India as partners in the venture. I am happy to report that both these banks have subscribed to their shares and now own 5% each in Religare Health Insurance.

We are part of a unique ecosystem as we have within the extended group, Fortis Healthcare, the second largest hospital network in the country, Super Religare Laboratories, the largest path lab chain in India and Religare Wellness, a leading pharmacy chain. This provides a significant competitive advantage as we can provide better integration of services across the entire healthcare delivery chain.

The dominant themes for the India businesses in FY11 were regulatory changes and macro overhang. While the industry is stabilising under the new regulatory framework, we believe that macro overhang will continue for some more time. Our house view is that while we will see real GDP growth of 8.2% in FY12, inflation will average 8%. The stubbornness in inflation will lead to further

policy action – we expect further hikes of 75 basis points in policy rates in calendar 2011. Overall, we expect a pickup in the environment in the second half of the year.

- I now turn to our **Emerging Markets Investment Banking Platform** which operates through Religare Capital Markets Limited in India, Religare Capital Markets plc, UK and various subsidiaries around the world. As mentioned before, our focus here is on building the flow-driven business as the anchor for the business and develop advisory capability with sector specialisation, largely targeted at the mid-market, which, we believe, is an underserved segment but will generate a large share of economic activity and deal flow going forward.

Our institutional equities business was empanelled with 580 clients globally as at the end of Q4 as against 521 at the end of Q3, and we are getting good traction with our clients, particularly for our India product. The bolt-on acquisitions we had made earlier have been integrated and rebranded, and now function under the 'Religare Capital Markets' umbrella globally. Religare Capital Markets Limited, India was named 'Best India Brokerage Research Firm' at the Starmine Awards, part of Thomson Reuters family of awards. The awards follow an objective methodology, ranking analysts according to their Industry Excess Return, computed from a portfolio simulation that measures each analyst relative to an industry-based benchmark.

In Investment Banking and ECM, our deal pipeline is maturing and we have seen conversion across geographies.

- In India, we were the Manager to HEG Limited's buyback offer and were appointed Book Running Lead Manager to the proposed IPO of Super Religare Laboratories
- In the US, we placed shares for Far Eastern Energy Corp.
- In the UK, we managed the rights issue for Ablon Group and were Placement Agent for the Convertible Share Issue of Noventa Limited; and

- In Singapore, we advised Fortis Healthcare International on acquisitions and a tender offer, among others

Our total headcount in Religare Capital Markets stood at 277 as of March 31, 2011 – a net addition of 28 persons during the quarter. Religare Capital Markets has been able to attract some of the best talent in the industry. For example, just yesterday we have announced that Gautam Trivedi will join us as Head of Institutional Equities in India. Gautam joins us from Goldman Sachs where he was Head of Sales in India. Most of our employees come with impeccable credentials and outstanding pedigree.

- Turning now to our **Global Asset Management Platform**, which is operated through Religare Global Asset Management Inc., which in turn holds stakes in the acquired asset management companies. During Q4, we obtained RBI permission for acquiring Landmark Partners LLC. Landmark is the pioneer in the PE Secondaries space, having itself created the Secondaries category. However, the transaction has been completed in Q1FY12, and so Landmark has not been consolidated in our financials for FY11.

Our immediate focus continues to be on building out the distribution platform for Religare Global Asset Management. As I mentioned a short while ago, during the quarter, RGAM secured for the Indian AMC, a mandate from Japan for advising a US\$ 105 million dedicated India small- and mid-cap fund. This is just an instance of the synergies that exist between our global and Indian asset management businesses and we continue to pursue such opportunities.

We had advised you on our previous call that the Board of Directors has approved raising ₹25 billion in further capital. Under this enabling resolution, our Board of Directors has approved on April 26, 2011, a rights issue of up to ₹8 billion, with an option to increase the issue size by up to 10%. We have filed the Draft Letter of Offer with SEBI on May 6, 2011. We propose to use the capital raised from the rights issue to

infuse capital in our subsidiaries and joint ventures as well as for general corporate purposes. Specifically, we intend to infuse capital in

- Religare Finvest Limited, to enable it to meet its growth requirements and the corresponding capital adequacy and business requirements
- Religare Capital Markets Limited, to support future growth of business and partial repayment of debt;
- AEGON Religare Life Insurance, to fund their business requirements

Our Promoters and Promoter Group have committed that they will fully subscribe to their entitlement under the rights issue and also subscribe to further shares if required, such that the minimum subscription to the issue is 90%. In fact, the Promoter Group has already made an advance subscription of ₹4 billion towards the issue, which is a testament to their commitment to the business.

Let me now turn to our consolidated financials. Revenue for Q4 grew 62% QOQ and 119% YOY to ₹11.66 billion. We reported a PBT-level loss of ₹1,189 million for Q4 as against a loss of ₹797 million in Q3 of this year. At the net level, we reported a loss of ₹1,298 million for the quarter as against a loss of ₹985 million in Q3.

For the full year, our revenue grew 78% year on year to ₹29.87 billion and we reported loss before tax of ₹2,074 million for FY11 as against a profit before tax of ₹1,974 million in FY10. The net loss was ₹3,019 million as against a net profit of ₹969 million in FY10. On a consolidated basis, we had to make a tax provision despite a loss before tax as tax is payable on the profits generated by our mature and profitable businesses.

Note that our consolidated revenue and profit for Q4FY11 and FY11 includes one-time capital gains of ₹ 1,287 million from sale of immovable property by a subsidiary.

As you will appreciate, some of our businesses are in investment mode and accounting principles require us to report losses as the costs towards building out the businesses as revenue expenditure rather than capital expenditure.

Turning to the Balance Sheet, our net owned funds position as of March 31, 2011 was ₹29.7 billion and our consolidated debt-equity ratio was 3.82, giving us headroom to increase leverage.

Let me quickly walk you through the financial performance of the major subsidiaries:

- Religare Finvest, our NBFC, reported quarterly revenues of ₹3.5 billion, 5% higher than last quarter and 115% higher than a year ago. Quarterly profit after tax, however, was down 60% quarter on quarter to ₹97 million as there was a sharp increase in cost of borrowings during the quarter. Revenues for FY11 were ₹11.6 billion, 117% higher than a year ago and full year PAT was ₹1.1 billion, translating to year-on-year growth of 12%.
- The softness in the market was visible on the performance of Religare Securities, the retail equity broking business. Religare Securities experienced a decline in market-share and at the same time, brokerage yields were lower. Consequently, total revenue for the quarter was ₹1.23 billion, a dip of 27% quarter on quarter and we reported a net loss of ₹201 million vs. a PAT of ₹74 million in Q3. On a full year basis, revenue was ₹6.26 billion, 4% higher than a year ago but profit after tax declined from ₹742 million to ₹58 million.
- In the Commodities Broking business, quarterly revenue was ₹264 million, 20% higher quarter on quarter and profit after tax improved 125% quarter on quarter to ₹51 million, owing largely to some savings in operating expenses. For FY11 as a whole, revenues were ₹911 million, 27% higher than the earlier year and profit after tax improved 31% YOY to ₹121 million.
- Religare Asset Management: Revenue for Q4 improved by 42% quarter on quarter to ₹121 million as our management fee yield improved. Consequently, the net loss declined from ₹53 million in Q3 to ₹46 million in Q4. Annual revenue for FY11 declined 34% year on year to ₹392 million and the net loss was ₹502 million as against a loss of ₹31 million a year ago as FY11 had a ₹242 million loss on account of valuation losses borne by the AMC after the new accounting norms came into effect.
- Religare Global Asset Management reported quarterly revenue of ₹250 million and a net loss of ₹24 million. Annually, RGAM reported a total income of ₹335

million and a net loss of ₹26 million. These numbers include the one-time acquisition costs we have incurred. Note that Northgate has been consolidated with Religare Enterprises effective December 1, 2010. The Landmark acquisition has been completed only in April 2011 and the financials will therefore be consolidated starting Q1FY12.

- Religare Capital Markets India showed a 16% decline in revenue – from ₹148 million in Q3 to ₹124 million in Q4 as the previous quarter included substantial fees from investment banking deals, which by their very nature are lumpy. Annually, revenues improved 68% year on year to ₹1,020 million.
- RCML Overseas, which encapsulates our investment banking and institutional equities business overseas, reported revenues of ₹2,124 million against ₹493 million in Q3, reflecting quarter on quarter growth of 330% and the reported net loss decreased from ₹1,022 million in Q3 to ₹598 million as during the quarter we realised a capital gain of ₹1,287 million from the sale of immovable property. Annual revenues grew 57% year on year to ₹3,144 million. This includes inorganic revenue from Aviate, BJM and Bartleet which have been incorporated since the respective dates of acquisition. On a full year basis, the loss increased to ₹2,848 million from ₹211 million – this was anticipated as we accelerate the build out of the Emerging Markets Investment Banking Platform.

To summarise our performance, softness in the Indian markets translated into a subdued performance for the quarter, as we had anticipated and communicated earlier. However, the growth prospects of the Indian economy remain strong, notwithstanding some near-term pressures, and this augurs well for the financial services industry. Our Investment Banking business is in build out mode and we have made very good progress so far. Our Global Asset Management business has acquired two asset managers with products in our targeted categories and has met with early success in its distribution efforts.

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

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

[Operator Instructions]

Operator: First in line, we have a question from Mr. Ritesh Nambiar from UTI Mutual Fund. You may go ahead please.

Ritesh Nambiar: Good afternoon sir. You have acquired three AMCs investment companies and you have acquired three broking houses. Just wanted a sense about what is the general cost of acquisition on the broking side. If you could give and consolidate it over the last two years what is the kind of breakup how much is debt funded and how much is equity funded?

Shachindra Nath: Ritesh, this is Shachin. I have with me Paresh Thakker who heads our Global Asset Management business and Martin who heads our Investment Bank. So, before they give broader details let me just clarify a few things. One, our Global Asset Management platform is being built on an inorganic strategy. The strategy is to acquire very well established boutique, leading asset management businesses in US in all classes and categories of asset management and then help them to grow their investment product in emerging markets and help them to grow their assets by building distribution globally. In pursuit of executing that strategy we have acquired two asset management businesses both in alternate asset world of which is one Northgate which is the seventh largest private equity fund of fund business and Landmark which is the founder of secondary Private Equity space, and we are now roughly around USD 12 billion of assets in size in our Global Asset Management platform.

And on the broking side, our investment banking side, we have not acquired any broking business in India neither at this point of time we have any intention. But with regard to our Emerging Market Investment Banking platform, we have done few bolt on acquisitions and those should be seen as a part of our execution strategy to expand our market reach and expand our equity distribution platform. With respect to the cost, Paresh if you can answer the queries in terms of the average acquisition cost if they

have been disclosed earlier. We can give you a broad sense. We have not disclosed the cost of acquisition transaction by transaction but we can give you some sense of how these acquisitions are executed and valued.

Mr. Paresh Thakker: Hi Ritesh. Basically, when we work on this inorganic model, we are looking at best of the breed asset managers. Our philosophy is that in different segments of asset management we want to partner, and I will emphasize this, we want to partner with existing players. We already acquired, as Shachin mentioned, a private equity fund of funds and we acquired a secondaries player - this is an illustration. Over the next three years we would want to have presence in other traditional segments like long only equity, long only fixed income, etc. Whatever we do and whatever we have done, in each of the cases is to have a partnership. We will never acquire a 100% stake in any company. We try and identify targets where the management team is the selling shareholder and hence when we acquire say a 50 to 60% stake there is a natural alignment with the selling shareholders and the management team for the balance 35 to 40% that they hold.

Further what we try and do is we focus on succession planning. So, in most of these firms, for example for Landmark which has a 20 years history of existence, top three or four people have large ownership. We focus on the next generation as we call them, the younger partners in the firm who are senior and we try and create an incentive plan and an ESOP plan for them also. So in Landmark apart from the four main shareholders we have created an ESOP or equity pool for the next eight partners. Basically, our focus is to deepen our management bandwidth in each of the affiliates. We also allow the management to continue in each case because they are specialized people who have built this track record over decades, we also help them, we allow them to run the business on a day to day business but we have Board control and we protect our economics and the strategic direction of the firm.

So, this is broadly in terms of our downside protection and the execution. Coming back to your specific question as to what price we pay and how we create value for our shareholders, in each of these cases we basically are very disciplined. So, we have

looked at multiple targets before we short listed the two transactions that we did. We are very price conscious and basically pay a single digit EV/EBITDA multiple. Further since these are very profitable businesses, there is a direct high dividend yield that we get in asset management since we do not need to retain the profits, very high single digit dividend yield in each of this case. I hope this gives you a little colour about our business.

Ritesh Nambiar: Yes, actually on valuation side in fact that is not even cheap also because Northgate and Landmark both are somewhere in the region of 3.6 to 4% of AUM if I am not wrong.

Shachindra Nath: Ritesh, the way to look at an asset management acquisition globally is not to value it on the basis of the percentage of AUM, because when you go and acquire say for example a fixed income business, there the percentage when you convert it as a percentage of a AUM it would be far lower versus when you go and acquire something in the private equity space, because in the private equity space you are getting locked in revenue and there is a certainty around it. That is why if you treat it as a percentage of revenue you pay higher, but most of the asset management businesses in US would be done on purely on EV to EBITDA versus a percentage of the AUM. So, on an average when we will have full portfolio constructed, so when we will have multiple alternates which is a private equity fund of fund, secondaries, fixed income, long only, distress debt manager, when we would have all of that then probably the blended percentage would be far lower than what you see today.

One of the other questions which you ask is what is the leverage which you are getting? Normally, these businesses, given that you are acquiring them on a single digit EV to EBITDA, we have seen that we have an ability to do 1:3 debt equity ratio to acquire these businesses.

Ritesh Nambiar: Coming to my earlier question which I have asked, roughly all the six acquisitions which we have done, what is the rough debt and equity contribution which you have provided at the enterprise level?

Shachindra Nath: As I said the strategy for Religare Global Asset Management is inorganic and wherein the acquisitions are funded through debt and equity as compared the capital market acquisition largely funded through equity because those should not be considered as acquisition of businesses they are more acquisition of people and accelerating your build out rather than acquiring businesses per se.

Ritesh Nambiar: Sure. So, what is the consideration like?

Shachindra Nath: We have not disclosed the consideration but those considerations would be actually far lower if you were to hire those many number of people and wait for those businesses to convert into revenue. So, for example, in Hong Kong, we have acquired Aviate. If those number of people you have to hire afresh and get to the same number of empanelment in the revenue cycle, you will take at least two years. The cost of acquiring is far lesser than hiring those people and then waiting for the revenue for next two years to come.

Ritesh Nambiar: Sure. On each of the businesses I just want clarity on the margins which we could expect whether on global asset management or on the IB side, what kind of margins are there globally and what kind of margins do you expect the firms to report?

Shachindra Nath: See, Global Asset Management Ritesh, on an average if you see most of the large asset management businesses, roughly operate on a 45% margin pool, because largely the cost is cost of distribution and cost of people which is the investment professionals. So in any case the gross margin is not less than 45 to 50%. With respect to Investment Banking, most of the large investment banks have huge amount of balance sheet pool and prop businesses which we do not have today, but on a pure agency basis, a fully matured business should generate roughly around 25% margin.

Ritesh Nambiar: Okay. So, in fact a year after say by FY12, what should be the rough contribution of all these new emerging entities both on top line and on bottom line to Religare Enterprise, just a rough picture?

Shachindra Nath: I would have loved to answer this question in fact we intend to give guidance over a period of next few quarters, but unfortunately we are restrained because we have filed our Rights Issue document which restricts us from disclosing more information than what we have disclosed over there.

Ritesh Nambiar: Okay, then just on the borrowing side of it, on the flagship business of yours currently Religare Finvest, what is the incremental borrowing cost which Religare Finvest is incurring on the borrowing side?

Sunil Kumar Garg: Hi, Ritesh, In comparison to Q3 our cost of borrowing has gone up by say 100 bps in Q4, so that is the difference we have seen in Q4 vis-à-vis Q3.

Ritesh Nambiar: Okay, and how is it based on ALM? You are pretty frequent on the short term side of borrowing, so just wanted a rough picture on ALM also. How is it panned out currently?

Sunil Kumar Garg: Yes. Basically short term borrowings are there but matching that there are short term assets also, which we are carrying in our portfolio. So, ALM is perfectly matched and there are long-term borrowings from the bank and debentures which are taking care of our long-term assets.

Shachindra Nath: And also in addition to that a very large portion of our book is variable which gets re-priced to match the ALM.

Ritesh Nambiar: Okay, on the same Finvest side, what is the ICD quotient, because in fact last quarter it had actually risen, what is the inter-corporate deposit which Religare Finvest has on the books.

Sunil Kumar Garg: It had come down, you know at the end of Q4 this has come down even less than Rs.1000 crore from the level of say ₹1200 crore which we were carrying at the end of Q3, but this is less than even ₹1000 crore.

Ritesh Nambiar: Okay. And to which group entities are these being allocated?

Sunil Kumar Garg: There are some group companies no doubt, subsidiary company groups, Religare subsidiary companies and there are some outsiders also where we have long-term relationship with the promoter and we have better control and visibility on their numbers. We have extended such lines of credit to them and these are all short term loans repayable on demand.

Ritesh Nambiar: Okay, and what is the unutilized bank lines which you have?

Sunil Kumar Garg: We carry liquidity, to backup the liquidity we carry the bank lines of credit, and at any given point of time we will be having around ₹500 to ₹600 crore rupees of the bank lines of credit.

Ritesh Nambiar: Unutilized?

Sunil Kumar Garg: Yes.

Operator: Next in line we have a question from Mr. Vikas Garg from Fidelity Mutual Fund. You may go ahead please.

Vikas Garg: Just a couple of questions on Religare Finvest Limited. In fact it is a carry forward question from the previous question asked by the other analyst. As you just mentioned for the previous question that your loan book is quite fillable in nature and you have a flexibility of repricing it upwards as and when the systemic interest rates go up, but we do not get to see all these things in the yields which you have put forward on QoQ basis. Almost all the segment classes have shown a decline or have rather stayed stable I would say, in yield basis but it does not reflect the case that almost 200 basis

point would be the increase in cost of funding for you over the past may be some months. So, what is the catch over there? Is it some kind of a competitive pressure which is not letting the yields increase on the ground or otherwise?

Kavi Arora: Yes, you know, we just mentioned that out of our total asset finance book, about 60% is our loan against property business which is 100% variable rate contract, and in the past one year we have increased the base rate corresponding to the increased by the Reserve Bank. But there is always a lag effect once the rate goes up and then obviously you go at the back end, change of PLR and every loan that is in your system is boarded vis-à-vis that in relation to the PLR. In March we did it on the first of March. We effected a half percent increase which doesn't give you full impact within the same period. When you look at the book yield as it stands in May you would find that that the increase is already reflecting. Also, in May next action will happen, so you know there is always a lag effect before it hits your book and that is at the end of the day still 60% of your book where 40% remains fixed rate contract which cannot be repriced. The other impact is on the acquisition of new portfolio. Over the last month, there has been a steady increase in the acquisition of new business, but as I said there is also change happening and there is always a lag effect and the second point is that it is not always 100% given that every half a percent increase changes your market yield by half a percent. So, thus there is a margin compression that has happened which you know we have absorbed and even going forward our acquisition yields are looking up, and basically you have to stay competitive in the market and the segment that you are operating in.

Vikas Garg: Yes, I take fully your point, I take it that 60% of the book which is in the form of loan against property would be linked to your base rate, but incrementally you are doing your business, it is not that you have just stopped doing your business. In Q4 also you had some ₹1200 crore of disbursement in the asset financing which would have come at an incremental higher yield. But still coming to the same question, on an average basis if you have some kind of a book which is built up at an incremental higher rate, still the yields continue to come down on quarter on quarter basis.

Kavi Arora: Yes, because, see look at ₹1200 crore in context of the overall book which is at ₹5500 crore out of the total book of RFL which is nearly ₹9800 crore, so the incremental business which comes, firstly for changing the total book yield it takes a while before that can be booked and matched. I am sure, as you go ahead and you know if the pressures remain as they are, you would see the book yields anyway climbing up from where they are.

Shachindra Nath: Besides this Vikas, philosophically we have taken a call so there are multiple asset finance businesses or non-banking finance businesses which are operating in the market place, you have a choice to be the upper end of the pricing in the market place but that also comes with certain credit quality or asset quality. The reason why around 90% of our book is a secured book because on sacrifice of some dips of yield we want to maintain healthy asset quality and we just don't want to price in a manner that we get adverse selection on all the assets which we acquire. So, that is why you always have this lag effect wherein you want to increase your pricing in the market place by remaining competitive and acquiring the top quartile of the asset versus the bottom quartile of the asset.

Vikas Garg: Okay, so, since you are targeting the lower band of the industry standard. . .

Shachindra Nath: I would say the medium band not the lower band.

Vikas Garg: Okay. So, will there be any difference in the clientele also that you are targeting, so far the asset quality has been quite good, but at the same time the book is not very much seasoned and when we go ahead and book and get seasoning, at that point in time what would be your view on the asset quality.

Kavi Arora: You have got to look at that in various buckets. There are three distinct lines of businesses, loan against property which is a long-term asset, and there the MOB or month on books of the assets is about 9.3 months, when the asset acquired is for about nearly ten years So, there I take your point, but when you look at our unsecured book which is at the time of origination for 28 months that is already looking at about

13 months MOB This clearly reflects the overall quality of the asset because it is a good representation when more than one third of the term has already passed and you have a substantial book which is more than 12 months and more than 15 months which will be reflecting that credit quality. So, it is always a lead indicator of how your book quality will come and you run various models to do your reserves and life time loss which you are expecting on the Book. I think the credit quality will stay pretty much where it is, loan against property book is also decent as per early indications. So, I do not see too much of an issue as we go ahead and the book matures a little more.

Shachindra Nath: And Vikas, in addition to what Kavi said, while the standard practice of looking at these books is to see the average maturity and how long these assets have been on our books, but the fact is that in these kind of businesses when the cycle hits whether your asset is nine months old or two years old or five years old, all of them would underperform depending upon your customer and credit quality. It is the combination of your product offering and combination of your customer selection which gets reflected in your asset quality rather than just looking at the maturity of the assets.

Vikas Garg: Okay.

Kavi Arora: And I will just add to what Shachin had earlier mentioned, this was a conscious call on our part. We are funding the self-employed segment for productive end use of funds and whenever there are interest-rate cycles which become prominent in the market, there is a compression and expansion of margins which happens as the cycle turns. So, you know the basic fundamental is that you are going to stay in that segment, remain focused, get the asset quality which we have started building up and not get defocused by all the changes around it. All of which does mean in the short run a compression of your margin but when you stay in that segment steady over long-term it has far more dividends that come back to you in the form of your business and asset quality than the temporary compression in margins that you take.

Vikas Garg: Right, perfectly. Yes, one more clarification on the number that you have reported for Religare Finvest: quarter on quarter basis there has been a significant jump in administrative and other expenses and also in the operating expenses. Any particular reason over there?

Kavi Arora: Majority has been addition of people and geographies we have built out our business in a very, I would say, kind of a block manner. We put out geography, we put out assets in that geography, then we have hired next level of people to expand into new geographies. So, you know if you follow the trend basically that we have now moved up to 29 cities in India, there is a block of cost which comes which gets added to your base for expanding those locations, and the revenues that follow subsequently by going into those locations will also get reflected as we move ahead in the next few quarters plus the value because of those reasons.

Vikas Garg: So, what is the sense on expansion mode, for how long would you think that the company would be in expansion mode and putting more on the infrastructure and moving to newer geographies before achieving some kind of economies of scales?

Kavi Arora: We have already stated that the segment that we operate is in the self-employed SME segment in India, we are now in 28 cities which predominantly cover almost 80% of the addressable SME market in India. To speak more ahead, we are also bound by our document not to give forward-looking statements, but I would say that we are very much in the kind of geography that we want to address. There will be some additions but you know the majority is now in place with 28 cities.

Vikas Garg: Okay, good. Thank you very much. That is it from my side.

Operator: Thank you sir. Next in line, we have a question from Mr. Rahul Vikaria from Axis Mutual Fund. You may go ahead please.

Rahul Vikaria: Yes. Sir just a continuation of the previous two questions again on Religare Finvest. I wanted to know a bit on your borrowing profile on the flagship company for Religare Finvest.

Sunil Kumar Garg: We have largely all long-term borrowings from the banks as well as NCDs which we have placed in the markets, and then short-term borrowings we have done from commercial paper, largely it is all commercial paper, and when we look at the debt equity mix, I would say it would now be around 50:50, so 50% is coming from the bank lines of credit as well as NCD and the balance 50% we are sourcing through commercial paper which is short-term in nature.

Rahul Vikaria: Can I get the numbers in that case please?

Sunil Kumar Garg: Numbers, we will provide you separately.

Rahul Vikaria: All right, and sir we said our incremental cost of borrowings have increased this quarter by 100 bps, so that is sequentially or year on year?

Sunil Kumar Garg: No, this I said quarter on quarter basis.

Rahul Vikaria: So what would be the cost of funding there in that case?

Sunil Kumar Garg: For the quarter it is coming around 10.25%, blended cost.

Rahul Vikaria: And incremental would be?

Sunil Kumar Garg: 10.25% is for the current quarter, and it has already gone up by 1%, so this would be 9.25% for the previous quarter.

Rahul Vikaria: And sir how would your NIM margins be?

Kavi Arora: At a composite level of the book, we are maintaining the NIMs at about 4.3 to 4.4%, which was earlier sitting at about 5%. There is a compression of about 50 to 60 bps which has happened, that is what I referred to in my earlier conversation. We will watch and see, it always happens and as I have already answered to the earlier question what is our view on that.

Rahul Vikaria: Yes, just wanted the numbers on it. Alright sir, just if you could mail me those borrowing profile of yours that would be good.

Kavi Arora: Sure, we will.

Rahul Vikaria: Any number on the exposure to mutual funds that would be NCD and CP in particular?

Sunil Kumar Garg: We will provide that.

Operator: Thank you so much sir. Next in line, we have a question from Ms. Elizabeth John from Crisil Equity. You may go ahead please.

Elizabeth John: Good evening. I have two questions. One is about in Religare Capital Market overseas, you know we have other income which is the capital gains of the immovable property. Can you please explain us to which location it was and you know what activity we did in this particular location?

Shachindra Nath: This was the property in which Religare Capital Market in London is headquartered, this property was on our balance sheet and we had the opportunity to sell that property at a very healthy profit, so we continue to be operational in the same property but it has now been sold and leased back to us.

Elizabeth John: Okay, so we continue in that particular premise.

Shachindra Nath: Absolutely.

Elizabeth John: Okay, and another thing about the same business in Religare Capital overseas, the employee costs have increased by almost 82% quarter on quarter, I just wanted to understand one thing is that you know are we still looking at increasing or building up that team in this particularly subsidiary?

Shachindra Nath: As we have stated in the beginning of the call itself that forward-looking statements we would not give but I would ask Martin to give you a broad overview of how we are building the operation. Martin . . .

Martin Newson: Yes, thank you very much. Yes, we will and obviously within the constraints of what Shachin just said, we will be adding staff this year the rate of which will most likely decline as we go through the years. If I think last year was a big jump and part of the jump came through acquisitions, one in particular. This year the growth rates will be less and then the next year the growth rates will be less, etc., etc. And you should then you know on the revenue side start seeing very strong growth this year and strong growth going forward. So Shachin, I do not know if we can say more in terms of percentages, I guess that becomes forward looking.

Shachindra Nath: I just want to give you a sense and this is not in Religare, not just in relation to us, but if you were to establish an Investment Banking business in this part of the world or any part of the world, normally it takes roughly around three years of investment to build it more successfully and generate huge amount of profitability. So, while technically it can be seen that we are in operation of this business for two years, for example Martin joined us one and half year back, but factually we are building this business just for one year, so the key hires for this business have come and been into the business for roughly around 12 months to 15 months. So, we are in the cycle, so if we were like any other investment bank in the world, which is trying to establish a full-fledged equity distribution platform on the institutional equity side, it is trying to build an ECM platform in key market and the corporate finance business, it takes roughly around three years to build it very profitably and very successfully. The key things for analyst to watch is to make sure that the people who have been hired have high

pedigree, they have been a successful professionals at other places and that you are getting timely traction of increase of revenue growth rather than profit growth and we are in the right mode of achieving the desired result of making a successful Investment Bank.

Elizabeth John: Okay, yes, thank you very much.

Martin Newson: Just a follow up on that, you know the goal is obviously to get revenue growth but actually 100% mission is also to turn this into a highly profitable situation.

Shachindra Nath: Yes, absolutely Martin, rightly said.

Operator: Thank you madam. Next in line, we have a question from Mr. Hemang Jani from Sharekhan. You may go ahead please.

Hemang Jani: Yes, I just wanted to know, would we have any kind of a proprietary desk under which the fund management is being undertaken and what kind of performance has been there for this quarter in terms of yield, etc.?

Shachindra Nath: Religare till date does not do any proprietary business nor does not take proprietary risk on its balance sheet; however, as a part of our treasury operation under Religare Finvest, we maintain a book which is an arbitrage book, but it is a fully hedged portfolio which we manage, which cannot be considered as a proprietary position but that is just to match your liquidity position.

Hemang Jani: Okay and what kind of returns this quarter we would have generated there?

Shachindra Nath: Roughly around 12% range which we have generated on that book during the quarter.

Anil Saxena: Hemang, this is Anil here. Normally actually if you really see the arbitrage books give various returns depending on the market volatility and the buoyancy in the market. Since we have not seen a buoyant market especially the equity market side, there was not much demand or deployment that we can do as far as this arbitrage is concerned.

Hemang Jani: Okay. Thank you.

Operator: Next in line, we have a question from Ms. Kajal Gandhi from ICICI Direct. You may go ahead please.

Kajal Gandhi: Hello, good afternoon sir.

Shachindra Nath: Good afternoon Kajal.

Kajal Gandhi: I wanted to know one thing on the volumes front, the equities volumes have fallen on the retail side. Is it because most players are reporting fall in volumes; however, overall Q4 market volumes have gone up. So, who is gaining market share, basically?

Shachindra Nath: I would let Gagan answer this question, but the broad sense which I have is that it is the institutional investors who are gaining the market share but Gagan can answer in detail.

Gagan Randev: Ms. Gandhi, just to carry on to what Shachin said, if you have been following the contours of the market since about October last year, I think the mix of the market has changed. Firstly you were seeing that cash and futures have fallen drastically and you have seen options today which are almost two-third of the total turnover of the market. Cash has been falling significantly, month on month from October-November onwards. Cash used to be predominantly retail with cash being almost 60% of the market turnover, and I think in the last couple of quarters even the share of retail and cash has fallen significantly and clearly the trend today is skewed

towards the FII DII kind of the business. So, today if you look at the overall market, one the trend that you are seeing is a clear one, a clear emergence of options which is now accounting for two-thirds of the market turnover, and number two, the clear emergence of the FII, DII space, and the gradual but very-very significant reduction of retail in the last two quarters. I think these are the two clear trends which have emerged in the last couple of quarters.

Kajal Gandhi: Sir, I wanted to know as we are seeing that participation of retail is falling and that of institutional or DII segment is rising, our Religare Securities institutional business which started some time back, is seeing some business moving towards that segment or is it that we are seeing the entire this increased pie of institutional segment is moving to foreign brokers and not the Indian or the listed brokers?

Martin Newson: We are seeing a significant increase in our market share in the Indian equities market, but as you well know volumes over all are very low, right now, same for Hong Kong, same for the equity markets in general around the world, the last two or three months for example the overall volumes have been very low, but we are winning market share in the Indian institutional market.

Shachindra Nath: Kajal, just to add to that response from Martin, you are right in your assumption that foreign brokers had been winning market share of the increasing institutional pie in the Indian equity space, but a unique advantage which Religare Capital Markets has that it is not compared to the domestic brokerage house rather it is compared to the global institutional desks and that has been our core focus because we are unlike lot of our peer group in India. Our institutional brokerage business is not just in India but it is largely a more Asian focused business, and that is why the institutional clients when they compare us or when they would compare they compare with their global peers and that is why we are seeing a huge amount of traction in terms of the market share and we hope to continue to see the growth happening.

Kajal Gandhi: Sir, are you sharing the number of what is your Religare institutional broking volumes?

Shachindra Nath: We have not done yet, we are waiting for business to mature from where it is, and once that happens we would be showing the market share on the institutional side as well. Today, because it is in build-out mode, those numbers may not reflect consistency and we would like to disclose that when we are comfortable that they would show consistent performance.

Kajal Gandhi: Okay. Martin has told that you are gaining market share, can we get some idea of what kind of volume surge they have seen suppose till six months back it was 100, so whether it has become 120 or 150, what kind of surge in foreign broking volumes they have seen?

Shachindra Nath: Our market share has grown from the beginning of the year to the end of the year, but we have yet not disclosed the absolute percentage of market share at this point of time and I think we would wait before we actually disclose that. Martin, please go ahead.

Martin Newson: Well, I was just going to say that you know we are adding foreign institutional investors at a very rapid rate at the moment. So, last year we started with hardly any and we have got you know I think we are just shy of a 100 now, so those are some of the things that will help you sort of figure these things out, but there has been a massive growth in the empanelment of foreign institutional investors and you would also have seen that yesterday we hired Gautam Trivedi and as we get more coordinated around that effort that number should continue to increase.

Kajal Gandhi: Okay. Thank you very much.

Operator: Next in line, we have a question from Mr. Nischint Chawathe from Kotak Securities. You may go ahead please.

Nischint Chawathe: The income of operation is ₹1.09 billion for fourth quarter FY11 for Religare Securities. Is this entirely broking income or anything else to this?

Gagan Randev: This is broking income and related to broking, the transaction charges, etc., which would come there. So, it is basically income from broking operations.

Nischint Chawathe: Purely, nothing else to this, I mean broking operations, this is purely broking income and nothing else as such.

Gagan Randev: Yes, so if you are asking whether this includes lending, etc., no it is just the income from broking operations and sometimes the interest that you make for any delayed payments, etc. So it would include transaction charges, delayed payment, etc., but everything to do with broking and nothing outside of that.

Nischint Chawathe: Sure. And the other, the non-broking delayed interest, etc., etc., would be what proportion of this? I need just a very gross number.

Gagan Randev: Majority of this would be from broking operations.

Nischint Chawathe: Sure, but can we say 75 to 80% of this should be broking. Any colour in that sense?

Gagan Randev: Broadly yes.

Operator: At this time, there are no further questions from the participants. I would like to hand the conference over to Mr. Kishore Belai for final remarks. Over to you

Kishore Belai: Thank you everyone for joining us on this call. If you have any more queries, feel free to get in touch with us and we will be happy to assist you. Thank you and have a great day.

This transcript has been edited to improve readability. The Company takes no responsibility for errors, although an effort has been made to ensure a high level of accuracy.