Religare Enterprises Limited

Q4 FY16 Results Conference Call

Monday, May 30, 2016 at 4:00 p.m. IST

Kishore Belai: Good afternoon everyone and welcome to our fourth quarter and full-year FY16 earnings conference call.

We are joined on this call today by Mr. Sunil Godhwani, our Chairman and Managing Director; Mr. Anil Saxena, our Group CFO; Mr. Sunil Garg, Head of Group Treasury; and the CEOs of our operating business namely Mr. Kavi Arora, Managing Director and CEO of Religare Finvest Limited; Mr. Anuj Gulati, Managing Director and CEO, Religare Health Insurance Company Limited; and Mr. Nitin Jain, Managing Director and CEO, Religare Securities Limited.

Before we start the proceedings, I would like to mention that certain statements that may be made on this call may be forward-looking statements and we do not undertake to publicly update them. A statement in this regard has been included in the presentation.

On this call, Mr. Godhwani will first apprise you on the proposed reorganization of our corporate structure which we have announced along with our results, and update you on the performance and direction of our businesses. Thereafter, Mr. Saxena will walk you through the highlights of our financial performance for the quarter and the year. We will then open the open the lines for Q&A. I now turn the call over to Mr. Godhwani.

Sunil Godhwani: Good afternoon everybody and thank you for joining us on this call. It is indeed a great pleasure to interact with all of you today.

Along with our financial results for the fourth quarter and full year FY16, REL's Board of Directors has in-principle approved a proposal to simplify our corporate structure and independently list each of our three business verticals on the stock exchange. Let me first give you the background of this proposal for reorganization:

Religare has had an exceptional journey of growth over the past 15 years and I have been fortunate to lead this unique organization through every phase of this journey. Over the years, we have seeded and nurtured business across the financial services spectrum with a view to building scale business in our chosen verticals. Over the last two years, we have refocused our resources and energy on three verticals viz. Lending, Health Insurance and Capital Markets, and decided to concentrate on opportunities in the Indian market. While Religare Enterprises Limited, as the holding company of the group has been listed for over eight years, our underlying businesses have now achieved a certain scale, and in our assessment, the future strategic objectives of each of the businesses and interests of their respective stakeholders will be best served by listing them independently on the stock exchanges.

In line with this assessment, our Board of Directors has in-principle approved a reorganization of Religare's corporate structure which has been explained on slide three of the presentation. As you will see from the presentation, each of our three businesses, viz. Lending, Health Insurance and Capital Markets, are proposed to be listed independently on the stock exchanges. We believe that this reorganization will help all our stakeholders:

- Each business will be able to define its growth strategy independently and the management of each company, as management of a listed entity, will have direct accountability for accomplishment of the strategic objectives of their businesses
- Customers will benefit from greater focus given that each business addresses the needs of a different customer segment
- Shareholders will have a choice of participating in the business of their choice

Overall, we believe that this reorganization will result in unlocking a value from greater focus and simplicity.

In terms of the process, the Board has constituted a Management Committee to examine all aspects of this proposal, evaluate alternatives and drive the preparation of a detail scheme of arrangement. I will be personally leading this initiative. The Management Committee will make suitable recommendations to the Board of Directors of REL for its review and approval and thereafter we will seek the approval of the shareholders, relevant regulators and judicial authorities. Our understanding is that processors of this nature usually take an average of 12 months to complete, although, we will endeavour to complete it as early as possible.

Let me share with you some highlights of our performance which appear on slide 4 of the presentation:

- During FY16 our consolidated revenue has grown from ₹4,500 cr. which reflects 8% growth on a reported basis and a 13% on a comparable basis, considering that we divested our Life Insurance business during the year and therefore the revenue was absent for part of the year. The growth has mainly come from our Lending business, Religare Finvest Limited and Religare Health Insurance Company, our health insurance venture. Religare Finvest lending book has increased by 23% during the year and Religare Health Insurance's gross written premium has increased to ₹503 cr. in FY16 from ₹276 cr. in FY15.

- Pre-exceptional Profit after Tax for FY16 increased to ₹225 cr. from ₹154 cr. during the previous financial year, an increase of 47% year-on-year. The improvement in profitability is the result of several measures we have taken at REL, holding company, level as well as in the operating businesses, to improve the quality of our revenue and rein in cost and reduce leverage at RFL
- During the quarter gone by, we saw nearly 5% sequential growth in our consolidated revenue on a comparable basis and a substantial improvement in operational profitability. Our pre-exceptional PAT for the quarter was ₹83.8 cr. reflecting an improvement in the underlying strength of our businesses.

Our Group CFO, Anil, will shortly provide you detailed analysis of our financial performance.

Looking ahead, each vertical will continue to pursue its stated strategic priorities in FY17. Our Lending business will focus in approving return on equity while ensuring that the quality of the book is maintained above benchmark; Health Insurance will focus on growing gross written premium as per plan why insuring it remains most efficient in terms of revenue generated for every rupee of capital invested; and Capital Markets will focus on generating superior return on equity and attaining sustainable profitability.

I will now hand over to Anil for an update on the financials.

Anil Saxena: Thank you Mr. Godhwani and good afternoon to all our participants.

The consolidated financials of Religare Enterprise Limited appear on slide 5 and slide 6 of the presentation. Let me take you through some of the key numbers

- Reported revenue for Q4FY16 for ₹11,502 million compared to reported revenue of ₹11,369 million in Q3FY16, up 1% quarter-on-quarter and down 2% from Q4 of earlier year which was ₹11,755 million. As you are aware, we divested our stake in our Life Insurance JV during Q3FY16, and our reported consolidated revenue includes revenue from the JV to the tune of ₹390 million in Q3FY16 and ₹1,351 million in Q4FY15. If we exclude the Life Insurance business, the like-to-like revenue growth was 4.8% sequentially and 10.6% on year-on-year basis. This growth was driven by our Lending and Health Insurance businesses, with the Retail Broking business experiencing some softness.
- Pre-exceptional Profit before Tax was ₹1,743 million for Q4FY16 as against ₹980 million for Q3FY16, an increase of 78% quarter-on-quarter driven by higher profit in our Lending business. The quarterly PBT reflects an increase of 33% over the pre-exceptional PBT of ₹1,310 million reported for Q4FY15.

- Pre-exceptional Profit after Tax for Q4FY16 was ₹838 million as against ₹412 million in Q3FY16, an increase of 104% quarter-on-quarter. The corresponding pre-exceptional PAT for the year-ago quarter was ₹494 million, translating to an increase of 70% YOY.
- During the quarter, we booked exceptional gains of ₹489 million arising from disinvestments made mainly in our Global Asset Management business. We also have an exceptional charge of ₹4,662 million for impairment of goodwill relating to one of our US affiliates. This is in line with our policy of testing Goodwill on Consolidation for impairment on an annual basis.
- The net impact of these exceptional items on our P&L statement was a negative of ₹4,173 million and therefore, on a reported basis we had a loss of ₹3,335 million during the quarter. Of course on an operational basis, our profitability has improved as I have explained before, but the exceptional charges have led to this reported loss.

For FY16 as a whole year:

- Revenue has grown by 8% year-on-year at ₹45 bn. compared to ₹41.9 billion in FY15 primarily due to revenue growth in the Lending and Health Insurance businesses. Like-to-like revenue growth, that is revenue growth excluding the Life Insurance business, was up 13%.
- Pre-exceptional Profit before Tax was ₹5,351 million in FY16 as against ₹4,852 million in FY15, a growth of 10% year-on-year and pre-exceptional Profit after Tax stood at ₹2,254 million in FY16 vs. ₹1,538 million in FY15 an increase of 47%.
- On a full year basis, in addition to the exceptional items that I explained earlier, we had a gain of ₹3,740 million from the sale of our stake in a joint venture and a charge of ₹2,294 million towards diminution in the value of an investment, which represents discharge of a past liability towards Religare Capital Markets Limited. The net effect of these exceptions was that on a reported basis, we logged a loss of ₹477 million for the full year. Again, on an operating basis, we have actually improved our profitability during the year.

I would like to add here that in the first week of April 2016, we have completed the sale of our stake in our Domestic Asset Management business to Invesco Limited. While the transaction is complete, it has taken place in FY17, and accordingly, the gains from this transaction will be recognized in the financials for Q1FY17.

I will now have the CEO of our businesses provide a brief update on each of the verticals which is presented on slide 9 to slide 31 of the presentation. We first have Kavi Arora, Managing Director and CEO of Religare Finvest Limited who will update you on our SME-focused Lending Business, over to you Kavi.

Kavi Arora: Thank you very much Anil. Good afternoon everyone on the call. Religare Finvest Limited, which houses the SME-focused Lending Business, reported revenues of ₹6,775 million in Q4 FY16, which is a growth of 7% over the previous quarter's revenue of ₹6,311 million, which is largely driven by increase in our loan book size in the last quarter. Quarterly PAT for Q4FY16 was ₹1,003 million as against ₹516 million in Q3FY16, which is an increase of 79% driven by higher book size and a reduction in credit cost on quarter-on-quarter basis. As mentioned during the last call, during Q3 FY16, we had provided for higher delinquencies in that quarter.

Our Opex to Average Net Receivables improved from 2.42% in Q3FY16 to 2.06% in Q4FY16 primarily due to saving on certain expenses in Q4FY16. The Core NIM increased to 4.23% during the quarter, up from 4.13% in the previous quarter and the variation is primarily due to the movement of NPAs and obviously once the NPAs reverse, you recognize the interest which led to 10 basis points increase in the spread. Gross NPA on 90-day basis declined by 42 basis points QOQ to 3.07% at the end of Q4FY16. The RBI stipulated 150-day NPA recognition norm has come into effect from this quarter; however, there is no additional impact on our financials since we have been recognizing NPA at 90 days and making provision in our books accordingly since October 2011.

For FY16, RFL witnessed revenue growth of 17% year-on-year, taking the total revenue to ₹25.3 billion compared to ₹21.6 billion in FY15. The PAT has also grown 15% year-on-year to ₹2,951 million compared to ₹2,568 million reflecting the operating efficiencies that we are generating in the business. RFL continues to actively work on reducing its spread on borrowing and optimizing the mix of liabilities. I now hand over to Anuj Gulati, Managing Director and CEO of Religare Health Insurance Company Limited. Over to you, Anuj.

Anuj Gulati: Thanks Kavi. Good afternoon, we will skip to slide 25 of the presentation. Religare Health Insurance Company Limited has rapidly achieved scale and has clocked gross written premium of ₹1,606 million in Q4FY16 compared to ₹1,123 million, an increase of 44% taking our cumulative GWP for FY16 to ₹5.03 bn. compared to ₹2.76 bn. in FY15, up 82% year-on-year. Further, we have been investing in building out our hospital network to service our customers and we are now at about 4,850 hospitals which gives us a pan-India footprint. The total paid-up capital of Religare Health Insurance now stands at ₹4.75 billion making it one of the most efficient health insurance companies in the country in terms of premium income generated for every rupee invested. I now hand over to Nitin Jain, CEO at Religare Securities Limited.

Nitin Jain: Thank you Anuj. I will take you back to slide 12 of the presentation. Religare Securities Limited and its subsidiaries, which collectively form our Retail Broking business, reported combined revenue of ₹1,126 million in Q4FY16, marginal de-growth of 1% over the previous quarter revenue of ₹1,138 million as the market environment remained challenging. The asset- light model adopted by the business is bearing fruit. Asset-light channels are contributing close to 73% of total revenue in Q4FY16. While PBT for the quarter was flattish sequentially, PAT for Q4FY16 declined to ₹46 million from ₹98 million in Q3FY16, as provision for tax was higher during the quarter.

For FY16 as a whole, revenue was ₹4.69 billion as against ₹4.82 billion in the earlier year. While PAT was ₹227 million in FY16 compared to ₹249 million in FY15, a decrease of 9%. Overall, the business has been resilient in face of challenging conditions during FY16, and the business is focusing in improving quality of revenues and raising yields.

Talking about Religare Wealth Management Limited, which is a subsidiary of Religare Securities Limited, it reported revenue of ₹79 million, a growth of 52% over Q3FY16 revenue of ₹52 million as Equity PMS become one of the key contributors to the business. The business has also built significant traction in Structured Products and Real Estate backed high-yielding NCDs.

Part of the incremental revenue has flown down to the profit line and lower personnel expenses during the quarter resulted in a profit of ₹2 million as against a loss of ₹36 million in the earlier quarter.

For FY16 as a whole, revenue was ₹248 million as against ₹308 million in FY16, a decrease of 19% and PAT was negative ₹18 million compared to negative ₹37 million in FY15.

Let me hand the proceedings back to Anil for the updates on the rest of the businesses.

Anil Saxena: Thank you Nitin. Religare Capital Markets successfully executed equity transactions in various formats aggregating ₹9.4 billion and syndicated multiple debt issues aggregating to ₹4.4 billion during FY16 as the India platform continuous to deliver in Investment Banking.

I had mentioned in my remarks earlier that during FY16, we had provided for diminution of an investment to the extent of ₹2,294 million which represented discharge of past liabilities for Religare Capital Markets. With this, our entire liability towards Religare Capital Markets which originally stood at ₹11.2 billion has been discharged.

As announced earlier on April 7, 2016, we have completed the sale of our 51% of stake in the Indian Asset Management business to our joint venture partner Invesco. Subsequently, the Mutual Fund, Asset Management Company and the Trustee Company have been renamed and the schemes have been rebranded to reflect a Religare's divestment.

Turning to Religare Global Asset Management, we have announced earlier that we have entered into binding agreements to divest two of our largest affiliates viz. Northgate Capital and Landmark Partners. The closing of these transactions will, for all practical purposes, mark our exit from the Asset Management business. For the quarter, RGAM Inc. reported revenue of ₹1,939 million compared to ₹1,799 million in Q3FY16, an increase of 8% quarter-on-quarter and pre-exceptional PAT after minority interest of ₹125 million compared to ₹35 million in Q3FY16, an increase of 257% quarter-on-quarter. As mentioned during the last call, PAT was lower in Q3FY16, PAT decreased due to lower income, high base effect and one-time financing related cost.

For FY16, revenue was ₹7,409 million compared to ₹7,984 million in FY15, a decrease of 7% year-on-year driven by high base in FY15 as the business had received substantial catch up fees in FY15.

That completes the update on the performance of our underlying businesses. I would like to add that during FY16, the overall macro environment was challenging. However, Religare's consolidated performance on an operational basis has improved as the operating companies continue to scale nicely. With that, I come to the end of opening remarks, and the senior management team of REL and our operating companies are present on this call and would be glad to address any queries that you may have.

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

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of first question is from the line of Ritesh Gandhi of Discovery Capital. Please go ahead.

Ritesh Gandhi: How much is your exit run rate on your NBFC business in terms of ROEs and how do you intend to actually increase this going forward with regards to NBFC?

Kavi Arora: Our ROEs in the NBFC are in double digits, 10% and beyond and what we see is as we are scaling the business, there is huge operating leverage in the business. The delta on revenue is far more than delta on cost as we grow this book over the next few years, which clearly results into improvement in our return. As we are scaling, one of the most important lines for us is cost of borrowing which is actually going down, and I mentioned that during my opening remarks as well that we are reducing our spreads on our borrowing. So both put together, the operating efficiency and reduction of cost of borrowing, basically helps improving the ROEs from 10.5% currently to taken to 16% beyond over the next three years.

Ritesh Gandhi: Over the next 12 months, would you expect ROEs to continue to be at less than 10.5% or do you expect them to increase?

Kavi Arora: This year we expect some growth, I cannot say because when we are looking at ROEs, we are looking at a 3-year frame. In this current year, we will see a marginal improvement over the existing ROEs.

Ritesh Gandhi: You have a slight decline in your NPAs. Is there any specific colour you can throw on your NPAs?

Kavi Arora: As I have said during last call as well that the headwinds in the market is severe in terms of the cash flows and we are a business which is focused on SMEs. The cash flow is a challenge, however, we have been managing our book performance very closely that is the reason you see reduction from 3.49% to 3.07%, a 42 basis points reduction on quarter-on-quarter. We believe very strongly that our performance will stay at these levels. Just to give you another update, unlike all other NBFCs or majority of NBFCs that still recognize NPAs at 150 days, we recognize NPAs at 90 days. We will continue to maintain this kind of performance.

Ritesh Gandhi: With regard to the proceeds that you receive from the assets sales which you all are doing, is the intent to actually dividend that out to your shareholders or it to actually continue to invest and grow the existing businesses?

Sunil Garg: The sale of REL's stake in the Domestic Asset Management business has happened in Religare Securities Limited and we have up streamed the cash flow from Religare Securities to Religare Enterprises Limited, which is the holding company. Using this money, we have repaid our debt for the time being. There is no dividend distribution which we are targeting using the sale proceeds.

Ritesh Gandhi: The other assets sales that you guys are looking at?

Sunil Garg: Sale proceeds from the sale of our stake in the US Affiliates, as and when that happens, it is part of the restructuring plan and eventually we shall upstream the proceeds from RGAM Inc. to Religare Enterprises. In dividend distribution, I would say there is a tax leakage and we would not like to go for the dividend distribution at the REL level currently in the current form and shape and that is why the entire process of restructuring has been announced.

Ritesh Gandhi: So would you reduce the leverage in your NBFCs effectively or I mean how would you do this?

Sunil Garg: It would not be at the NBFC, the cash would be up streamed to the holding company level which would be available for split into all the other businesses.

Ritesh Gandhi: So the intended use of the cash is still to be determined?

Snuil Garg: For business development purposes

Sunil Godhwani: So what will happen on the sale of the Global Asset Management businesses is that these were businesses which were leveraged to buy, so firstly we have the funds to come in, the leverage gets nullified, so we have zero leverage there on the buying of these assets and the balance left over is used as growth capital as part of the restructuring process to allocate to each of the businesses.

Ritesh Gandhi: Understood. How much leverage is there actually at the HoldCo level, just to be clear?

Sunil Garg: At the HoldCo level currently, what we carrying is external debt of around ₹600 crore.

Ritesh Gandhi: At a high level, I am seeing at a Landmark having about USD 15 billion of AUM and in Northgate having about USD 5 billion of AUM, so if you take the proportionate stake which is at 55% in Landmark and 85% in Northgate and anyway we use a rough rule of thumb of 5% of AUM, you will get to about USD 600 million of the price and then you have got about USD 100 million of HoldCo loan which you will pay down, so you still got about USD 500 million and you will use all of those proceeds effectively to grow your other business. May be I am aggressive in my 5% AUM assumption.

Sunil Garg: We have not yet disclosed the sale amount in the public domain. As and when the transactions get completed, those numbers in any case would be reported. It would be reflected in the financials. As of now these numbers are not reported in the public domain. We would not like to make a comment on that, but the intent is very clear we would like to use the available cash for the growth of the underlying businesses.

Moderator: The next question is from the line Saurabh Dhole of ICRA. Please go ahead.

Saurabh Dhole: My question is from slide 6. You have talked about impairment of goodwill on one of your international affiliates; can you add some colour on this particular impairment?

Anil Saxena: As part of our acquisition when we acquired these businesses i.e. Northgate and Landmark, the difference between the purchase price and the net asset value of the business gets accounted as goodwill in our books on a consolidated basis. In any case, on an annual basis we have to reassess and value the goodwill. Since the definitive agreements have been signed, we have to consider those and in one of the affiliates we had impairment on goodwill which we have considered here.

Saurabh Dhole: What would this particular item provision of diminution in value of long-term investments in a subsidiary of about ₹230 crore?

Anil Saxena: If you remember, in 2011 we had taken a contingent liability for Religare Capital Markets of ₹1,120 crore. Over a period of time, we have discharged most of that liability. This is the last portion of that pending liability. Beyond that, the contingent liability is no more there in the books of REL. So as a prudent thing the moment we discharged our liabilities, we have written-off the provisions. The entire investment in Religare Capital Markets has been provided for -off in the books of Religare Enterprises Ltd.

Moderator: There are no further questions.

Sunil Godhwani: In conclusion, I would like to mention that we at Religare, continue to be very passionate about and enthused by the financial services opportunity in India. With the proposed simplification of the corporate structure and independent listing of the three verticals viz. Lending, Health Insurance and Capital Markets, each business will have sharper focus and be able to further accelerate its growth and profitability trajectory. The reorganization will thereby by unlock value for all stakeholders and provide a sustainable basis for value maximization on an ongoing basis. I will keep you updated on the progress we make in the businesses and on the reorganization at least on a quarterly basis.

Thank you all for participating on this call. If you have any further queries, please feel free to reach out to Kishore Belai, our head of investor relations. Thank you everybody and have a great day ahead.

Note: *This transcript has been edited to improve readability*