

Religare Enterprises Limited

Q2 FY15 results conference call

Tuesday, November 11, 2014 at 3:30 p.m. IST

Kishore Belai: Good afternoon everyone, and thank you for joining us on our 2nd Quarter FY15 Results Conference Call. We are joined on this call today by Mr. Shachindra Nath – our Group CEO, Mr. Anil Saxena – our Group CFO, Mr. Sunil Garg – Head of Group Treasury, and the senior management of our portfolio companies.

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

On this call, Mr. Nath will first give you an update on recent developments in the Company and the Company's performance for the quarter. We will subsequently open the lines for Q&A. I now turn the call over to Mr. Nath.

Mr. Shachindra Nath: Thank you, Kishore. Good afternoon everybody and thank you for joining us on this call. I hope you have been able to study our results presentation, which has been uploaded on our website.

Let me begin by first giving you some updates on recent events.

- As you may know, one of the key functions of Religare Enterprises Limited is providing capital to the operating businesses and it is therefore crucial that Religare itself always maintain a strong balance sheet. We are constantly working on strengthening the REL balance sheet and I am happy to report that during first half of the current financial year, we have reduced the debt outstanding on the REL standalone balance sheet by a total of ₹10.3 billion. Out of this, ₹4.05 billion was in the form of Compulsorily Convertible Debentures issued to the International Finance Corporation which got converted into equity shares on 6th May 2014 as per the terms of the issue of CCD. Further, on 26th September, 2014, REL has redeemed Non-Convertible Debentures outstanding to the tune of ₹6.25 billion. The combined effect of

the two is a reduction of ₹352 million of finance cost from REL's standalone P&L account on a full quarter basis. Therefore the debt reduction will help shore up the consolidated profitability besides strengthening the REL balance sheet.

Let me now turn to business related updates.

- The first relates to our life insurance joint venture, AEGON Religare Life Insurance Company Limited. We carried out a strategic review of business and our assessment is that it will more efficient for us to deploy our resources in our other businesses. Accordingly we have communicated to AEGON, our desire to exit the joint venture. As I have stated on our past calls, our investment in the joint venture – along with floor return – has been guaranteed by AEGON and as such we will exit the venture with positive returns. AEGON will identify another shareholder alongside us who will replace us in the venture but till such time we will continue as a JV partner.
- The second major event of interest is that the rating agency ICRA has reviewed the long-term debt rating of our NBFC, Religare Finvest Limited and has upgraded the outlook to 'Stable', reflecting the improving business fundamentals and strengthening financials of Religare Finvest. RFL's long-term debt rating now stands at 'ICRA AA minus (Stable)'. A reduction in the cost of borrowing is one of the key pillars of our strategy to improve profitability in Religare Finvest Limited; the upgrade in rating outlook will further strengthen our efforts in this direction.
- Let me add that at this point of time, you may know that yesterday Reserve Bank of India published the revised guidelines governing the regulations around non-bank finance companies. I am very happy to report that we would be among the very few non-bank finance companies which on all parameters already comply with the revised guidelines for non-bank finance companies. We will happy to answer any questions around that.

Let me now turn our consolidated financial performance for Q2FY15 which is presented on slides 6 to 8:

- The highlight of our performance for Q2FY15 is that we have generated normalized Profit Before Tax of ₹1,092 million and Normalized Profit After Tax of ₹451 million. Normalized Profit is arrived at by adding back one-time finance expenses of ₹341 million, which arose as we had to accelerate writing off the expenses pertaining to the prepayment of the NCDs of ₹6.25 billion.

- Our profitability has improved significantly both on quarter-on-quarter and year-on-year basis, as you will see from the comparative numbers. I would like to mention here that the structural saving from repayment of ₹6.25 billion of NCD is not yet reflected in Q2FY15 profitability as the repayment took place very close to end of the quarter.
- Revenue for Q2FY15 was ₹9,643 million, representing a year-on-year increase of 15%. On a quarter-on-quarter basis, revenue increased by ₹499 million, or 5%, largely on account of growth in our lending book and retail broking business, partially offset by a quarter-on-quarter decrease in revenues in Global Asset Management due to the high base effect as Q1FY15 revenues for Global Asset Management include catch-up fee for closure of certain funds.

Let me now give you a brief update on each of our portfolio companies, which is presented on slides 9 to 31 of the presentation:

- In **Religare Finvest Limited**, which houses our **Lending Business**, the focus continues to be on growing the SME lending book. Our SME Loan Against Property book ended higher by ₹4.7 billion quarter-on-quarter. The total lending book stood at ₹112.7 billion as of September 30, 2014. Core NIM was at 4.91% during the quarter, an increase of 19 bps from the previous quarter driven by an improvement in the yield on the asset side and a better mix between short term and long term borrowings. Opex-to-ANR ratio for the quarter stood at 2.33% and is on a downward trajectory as scale benefits kick in. There has been a temporary increase in the gross NPA on 90-day basis which stood at 2.47% at the end of the Q2FY15, 20 bps higher than the earlier quarter. We are in discussions with the delinquent customers and are confident of resolution of the NPA cases. Religare Finvest's revenue for the quarter was ₹5,268 million, QOQ growth of 6%, resulting from a combination of higher book size and improvement in realized yield over the previous quarter. Profit after Tax was ₹679 million, an increase of ₹ 120 million over the previous quarter as a substantial portion of the increase in Net Interest Income has flowed through to the PBT line.
- Turning now to the **Retail Broking business**: while the overall market turnover has increased during the quarter, the increase was primarily driven by FII inflows and the growth in the turnover has been concentrated in the F&O segment. Thus retail-oriented businesses have not benefited from higher volumes. Further the Commodity and Currency markets continue to remain challenged. However, diligent execution has helped is increased market share in

Commodities from 3.2% to 3.8%, as well as improve overall financial performance in the retail broking business. Our Retail Broking business reported revenue of ₹1,223 million in Q2 FY15, a growth of 34% over the year ago quarter and 15% on sequential basis. Profit after Tax for the quarter was ₹131 million compared to ₹20 million in Q1FY15 and ₹78 million in Q2FY14.

- In **Religare Wealth Management Limited**, which is now a subsidiary of our retail broking business, Religare Securities, our Assets Under Management stood at ₹33.3 billion as on September 30, 2014, an improvement of ₹1.5 billion over the previous quarter. During the quarter strong momentum was witnessed in the equity products, but the change in tax guidelines on debt mutual funds has dampened fresh allocation to the debt mutual funds category which constitutes an important portion of our client portfolios.
- In **Religare Capital Markets Limited**, we have seen good traction both in institutional equities and investment banking. During the quarter, we were empanelled with 67 institutions globally, taking the total tally to 492 as of September 30th, 2014. RCML has active coverage of 250 stocks in India and Asia including roughly around 140 in India. In the month of October, we elevated Gautam Trivedi to the position of Managing Director and CEO of Religare Capital Markets' India operations. Gautam has been with Religare Capital Markets since August 2011 and until recently was Head of Equities and ECM. With the resurgence in the markets, having Gautam lead both institutional equities and investment banking will help maximize the synergies across the two arms of the business. We are excited about the outlook for this business given the improvement in the market conditions.
- In **Religare Invesco Asset Management Company Private Limited**, our **India Asset Management Business**, Q2 FY15 average AUM increased by 10% quarter-on-quarter and stood at ₹177 billion. As we participated in the industry-wide inflows into equities schemes on the back of a strong investment performance over the last five years. For RIAMC, equity schemes accounted for 10% of the total AUM for the quarter. On the debt side, the business is witnessing a gradual shift to long duration products, indicating that investors are preparing for softening of interest rates.
- In **Religare Global Asset Management**, our multi-boutique Alternative Asset Management platform, we have made significant progress in raising funds in Landmark Partners, our U.S. based affiliate managing Private Equity and Real Estate Secondaries funds. Total AUM of our

overseas affiliates is now approximately USD 16.95 billion. For the quarter RGAM Inc. reported revenue of ₹1,512 million and a PAT after Minority Interests of ₹203 million.

As I have mentioned at various forums in the recent past, we are now focusing on utilizing our global experience in managing alternative assets to organically build a comprehensive set of alternative asset management products for the Indian and Asian markets. We are in the process of seeding funds in various alternative asset classes and the first such fund – the Religare Credit Opportunities Fund, which is a SEBI-registered AIF investing in vanilla and structured debt in India – has met with notable success in its funding raising efforts. Religare will launch more alternative asset management products in the coming quarters.

- **Religare Health Insurance Company Limited**, our **Health Insurance** venture, continues to perform as per plan and is rapidly achieving scale with increase hospital in the provider network to 4,075. A new product “Joy” was launched during the quarter, increasing the number of product offerings to eight and underscoring our commitment to designing innovative products to address the unmet needs of our customers. The Gross Written Premium for RHICL during the quarter was ₹521 million. The total paid up capital of RHICL stood at ₹2.75 billion, making it one of the most efficient health insurance start-ups in the country.
- **AEGON Religare Life Insurance Company Limited**, our **Life Insurance JV**, continues to build its franchise. It had premium income of ₹1.21 billion in Q2 and its customer base is approaching 350,000. While adding new businesses – First Year Premium was ₹393 million, year-on-year increase of 17% – the business is also working on improving persistency at the channel level and these efforts are bearing fruit as renewal premium increased by 22% year-over-year.

In conclusion – I would like to say that during Q2FY15, the improvement in sentiment has sustained, and slowly but surely, tailwinds from the environment are translating into improved operating and financial performance. We are very confident that this positive sentiment, coupled with the actions that we at Religare are taking to make structural improvements to the REL balance sheet as well as our businesses will help us deliver improved performance over the coming quarters.

With that I come to an end of my opening remarks. The senior management of Religare Enterprises Limited and my fellow colleagues from our portfolio companies would be very 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. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from Ritesh Nambiar of UTI Mutual Fund. Please go ahead.

Ritesh Nambiar: I wanted to know about the tie-up on the life insurance side and AEGON's intent of exiting the business?

Shachindra Nath: Sorry Ritesh it is Religare's intent of exiting the business.

Ritesh Nambiar: Okay. So if you just help me out which way you are going to exit?

Shachindra Nath: As I said in my opening remarks that we have done the review of this business. As a part of Religare Enterprises management philosophy one of our key responsibilities is to allocate our capital efficiently and prudently and to create shareholder value by putting capital resources where we think that there is long-term value creation opportunity. On that basis when we did the exercise, our view was that this capital is better utilized and allocable to other businesses and basis that as per our joint venture agreement we had indicated to AEGON that we would like to exit from the venture and we have agreed for a timeline for both of us to find a replacement shareholder. As we have always maintained and explained to our investor base that AEGON is contractually obligated to protect our principal with a floor return and we will realise that once the shares will get transferred to a suitable third party which is approved by IRDA.

Ritesh Nambiar: Just on that actually there was an agreement which was for 10 years or so actually and how much part of the profits have been up-fronted by Religare on the same?

Shachindra Nath: No, there is no profit which has been up-fronted.

Ritesh Nambiar: In the sense there has been a write-back periodically, I just wanted to know whether Religare was trying to in fact raise money via bond which is guaranteed by AEGON.

Shachindra Nath: No, so just to refresh your memory, Religare has raised money through a bond where underlying security was the bank guarantee given by AEGON. It was a paper issued by Religare

and it was on the Religare balance sheet but incidentally we have redeemed that one. Yes, Sunil is going to add to this.

Sunil Garg: Ritesh the write-back so that is coming is on account of the capital protection along with the minimum guaranteed return from AEGON on our investment. Right now, we are not accruing any income on account of this minimum guaranteed return. Since capital protection is there, all the losses which is suffered at the entity level we do consolidation line by line consolidate our income and expenditure and the net impact of this entity to Religare that is basically is written-back. So that is the entry which you are referring to, there is no income which we have accounted for this JV in our financials.

Ritesh Nambiar: And lastly, just on the NBFC arm, the last two quarters what exactly has gone wrong or it is more on account of economic slowdown just on rise in NPAs?

Kavi Arora: Yes, Ritesh you actually answered yourself that. No business is insulated from broader economic challenges that are there. We are in a business which as you know focusses on lending to the SME. Given that the cash flows in the market are stretched we see customer being stretched for their cash flow and thus there have been challenges in the repayment of the loan. We are very actively engaged with the customers and we are extremely confident of getting these into resolution over the next two quarters in this year.

Shachindra Nath: In addition to that one of thing which we should always keep in mind when you look at Religare Finvest Limited is that the SME lending portfolio which we have vis-à-vis any other peers in the market which maybe into same product line or different product line, 90% or 87% of our book, if I remember correctly, is a secured book. Our collateral on security continues to be hard asset which is largely the prime real estate of the SME owner or entrepreneur, either would be his commercial property or his residential property and we have a first and exclusive charge. As Kavi rightly said, while the overall economic environment has improved, flows have come in, but it continues to remain challenging and we are not insulated, but we are still in a very good control and shape in terms of what is happening. We know where the stress is coming from and we are resolving that on day-to-day basis and we are confident of this improving in next three quarters.

Kavi Arora: Just to add a couple of points Ritesh for your benefit there. One, we had done check on all the NPA assets what our assets cover today. It is 2.4x the loan above outstanding on the NPA

assets and these are hard assets as Shachin just has pointed out so there is sufficient cover. And as I said, the businesses are very much existing and we are in active resolution on the accounts.

Ritesh Nambiar: So just one final thing before I conclude, in the earlier reply you mentioned the agreement which you had with AEGON. Does that capital protection plus 10% return which you are getting if you withdraw from that... suppose there is exit from this clause, does it mean any capital protection which you are getting would be a loss on future count? How will that work out on exiting from this venture?

Shachindra Nath: Whenever we will transfer the shares, I think to the extent that the value realized is capped at the principal plus protection rate, to that extent there will be a capital gain.

Sunil Garg: Ritesh as we have mentioned we have never booked any income on this investment made in AEGON transaction. So whatever when we exit it will be a transfer of shares and consequently capital gain we will book accordingly.

Moderator: Thank you. Our next question is from Vinay Shah of Reliance Capital Asset Management. Please go ahead.

Vinay Shah: I missed the opening remarks. My question pertains to the lending book that is Religare Finvest. So this quarter there is QOQ increase in the delinquencies be it on a 90 basis or 180 basis. So if you can throw some light on which segment or which product class would have seen this increase? And how do you see in the general macro operating environment for your lending business?

Kavi Arora: It is going to be repetition of what I said a little while earlier. A) the majority of contribution in the NPA assets today is from loan against property portfolio and there I just shared that on the NPA portfolio we are at 2.4x the cover on the hard asset, the property either residential or commercial properties owned by the promoter of the business. So as we just said that 1) There is no risk that we see in terms of NPA translation into real loss. It is an accounting NPA and we recognize NPAs at 90 days. Even if you look at net NPA number as of today at 180 days which is equivalent norm in the market we are at sub-1% and given that where the environment is and our portfolio maturing at six years vintage this is very-very good: a steady portfolio with under 1% of net NPA with adequate cover on that. And these customers have been performing over 23-24 months on an average. It is just that whenever there is a real challenge we have to actively work with these customers and resolve.

Vinay Shah: So one other thing that I just want to know is, are we seeing any segment of the market or any geographies?

Kavi Arora: It is largely loans against property contributing because our book texture has really changed. If you compare last year our majority contribution on NPA was coming from commercial assets where even after repossession of the assets and subsequent sale the company would have to book a loss on sale of assets given the value of those assets really drop. In this case it is exactly the opposite. The value of the assets are actually higher than at the time we have lent. Because of two year the average repayment on these assets our loan amount has gone down that is why we explain that if on average the book is at 2x to cover today, on NPA, assets are covered at 2.4x.

Shachindra Nath: Yes, Vinay just to add that you know when we do finance for SMEs this is across the sector and across geographies. We have specific approaches to the sector, then we exclude certain sectors when we look at the SMEs, when we think whether structurally there are weaknesses. At this point of time we do not think this is any sector-related specific NPA which we can target. These are client and business specific issues. Obviously there may be an underlying sector issue as well but largely this is a particular business which is not doing fairly well and we genuinely believe the some of those are temporary in nature and will get resolved as the cash flow would improve.

Moderator: That was the last question and I will now hand over the call to the management for closing remarks.

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