

Religare Enterprises Limited

Q2 FY16 results conference call

Thursday, November 5, 2015 at 3:30 p.m. IST

Kishore Belai: Good afternoon everyone and welcome to our fourth quarter and full-year FY15 earnings 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 the Company's performance for the quarter and the year, will thereafter share the vision for the future. 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.

Before I get to the details of the financial results, let me take a moment to highlight some of the recognition that Religare has received in the quarter gone by, which has been presented on slide 2:

- **Brand Religare** was ranked among the **Top-10 in the list of 'Hot 50 Brands-2015'** from Delhi-NCR, at the Delhi Brand Summit organised by Paul Writer and adjudged by a jury comprising prominent figures from the marketing profession in India
- **Religare Health Insurance** received the **'FICCI Healthcare Excellence Award-2015'** which is given to organizations that foster excellence in, and contribute to the improvement of healthcare delivery. Of course, this is one more in a series of awards that Religare Health Insurance has received over the last three years since it commenced operations

The awards bestowed upon the Religare brand and our businesses reflect the dedication and hard work put in by our teams, and are a testament to the quality of the organisation we have built over the last one-and-a-half decade.

Let me now turn to the financial results for Q2FY16. Our consolidated financial performance for the quarter is presented on slides 5 to 7:

- Revenue for Q2FY16 is ₹11,542 million compared to ₹10,614 million during the previous quarter, an increase of 9% QOQ, with all verticals demonstrating growth. We saw quarter-on-quarter revenue increase of ₹211 million in the Lending business, driven by underlying growth in the core SME-Secure loan book; ₹161 million in Retail Broking on the back of increase in volumes in the cash segment and higher arbitrage income; and ₹176 million in Global Asset Management, driven by a combination of higher AUM, the low-base effect of a cyclical revenue dip in the previous quarter and a gain on sale of some fund-related investments. Both health and life insurance have also reported growth during the quarter: in health insurance, higher earned premium resulted in revenue growth of ₹105 million quarter-on-quarter, and in life insurance, the business delivered a sequential revenue increase of ₹232 million, coming off a low base formed by a seasonally weak Q1.

On a year-on-year basis, we reported a healthy 20% increase in consolidated revenue, backed by underlying growth across businesses.

- Profit Before Tax for Q2FY16 was ₹1,396 million as against ₹1,232 in the previous quarter, an increase of ₹164 million or 13%. On a year-on-year basis, PBT was up 86% from the level of ₹751 million in Q2FY15
- Profit After Tax for Q2FY16 was ₹633 million as against PAT of ₹371 million in the previous quarter, with Retail Broking and Global Asset Management mainly contributing to the increase in profits. Furthermore, as mentioned during the previous quarterly call, an amount of ₹146 million, being tax on the dividend distributed by our subsidiary Religare Finvest Limited, had been charged to the Consolidated P&L during Q1, and to that extent, there is a low base effect in operation. In the year-ago quarter, PAT was reported at ₹110 million. Religare Enterprises has now been consistently profitable on a consolidated basis for six quarters running.

Let me now give you an update on our portfolio companies, which is presented on slides 8 to 30 of the presentation:

- In **Religare Finvest Limited**, which houses our **Lending Business**, the SME-Secured book continues to grow at a healthy pace. The SME-Secured book has grown by ₹8.5 billion quarter-on-quarter and this has driven the increase in overall book size. The total lending book stood at ₹146.3 billion as at September 30, 2015 as against ₹138.9 billion as at June 30, 2015. Core NIM was 4.54% during the quarter which is within our target band. Our Opex to ANR ratio for the quarter stood at 2.37%. Gross NPAs on 90-day basis stood at 2.95% at the end of Q2FY16 marginally higher by 9 basis points from the previous quarter – the increase in the NPAs is minimal and given the current macro environment, asset quality has held up well. I would like to highlight that we have been recognising NPAs at 90 days for the last four years and have been substantially more conservative than the NBFC prudential norms. Revenue for the quarter was ₹6,204 million, an increase of ₹211 million or 4% over the previous quarter due to the growth in the overall book size. Profit After Tax declined to ₹637 million in Q2FY16 from ₹751 million during Q1FY16, as several items that are individually smaller added up, namely: higher operating expenses due to higher volumes, higher credit costs and some one-off expenses.
- Our **Retail Broking business** has improved its performance during the quarter in the face of muted market conditions. The business reported revenue of ₹1,294 million in Q2FY16, an increase of 14% over the previous quarter as a result of increase in volumes in the cash equities segment and higher arbitrage income. On a year-on-year basis, revenue was up 6%. In addition to the improved revenue performance, the business gained from the levelling of certain expenditure items, resulting in Profit After Tax of ₹116 million during the quarter compared to a net loss of ₹33 million in Q1FY16, and similar to the year-ago PAT of ₹131 million. The business has been investing in creating a pipeline of business for the future – there has been an acute focus on stepping up new customer acquisition and consequently, the business has added over 14,500 new clients during the quarter.
- In **Religare Wealth Management Limited**, which is a subsidiary to Religare Securities, our AUM stood at ₹40.3 billion as at September 30, 2015 an improvement of ₹7 billion over the year-ago quarter and a marginal increase from the previous quarter. During the quarter, the business has seen notable traction in equity PMS and continues to identify best-in-class

solutions for its clients. The business continues to maintain a sharp focus on client-centricity and has taken multiple steps during the quarter towards easing execution for clients.

- Our Institutional Equities and Investment Banking arm, **Religare Capital Markets Limited**, successfully completed several transactions in both the equity and the debt capital markets space during the quarter. RCML continues to focus on gaining mind-share and market-share with mid-market corporates and all its actions seek to reinforce its positioning with its clients.
- In **Religare Invesco Asset Management Company Pvt. Limited**, our **India Asset Management business**, in Q2FY16, average AUM increased by 22% year-on-year and 11% sequentially, with a slight improvement in the share of equities in the overall AUM, helped by the continuing retail interest in equity schemes. Revenue for the quarter was ₹253 million, 3% growth over the revenue of ₹245 million in Q1FY16 and growth of 38% over the year-ago quarter's revenue of ₹183 million. Net loss for the quarter was ₹2 million compared to PAT of ₹5 million during the previous quarter. I had mentioned on the last call that the company has been emphasising growth of equity AUM: these efforts are bearing fruit and will continue.
- In **Religare Global Asset Management**, our multi-boutique Alternative Asset Management platform, the total Assets Under Management of the affiliates as at September 30, 2015 stood at USD 20.54 billion. During the quarter, we closed subscriptions to the Religare Credit Opportunities Fund, a SEBI-registered Alternative Investment Fund set up to invest in structured debt providing high risk-adjusted returns. The Fund has received total commitments in excess of ₹5 billion and is nearly fully deployed using our proprietary origination pipeline.

The next product that we have launched in the alternative assets space is the Cerestra Edu-Infra Fund, which is a SEBI-registered AIF focussed on building a portfolio of education-related assets to generate rental yields and capital appreciation for investors. Cerestra has recently commenced its fund-raising domestically and has received an encouraging response from investors. Cerestra has received significant commitments and plans to have the first-close shortly. On the deployment side, Cerestra has already built a pipeline of assets that

covers the entire planned fund-raise. In the coming months, we plan to take this fund to overseas investors as well.

We believe that the Alternative Assets space is still very young in India and we have crafted our strategy to benefit from the enormous opportunities that will emerge in the alternatives space in the medium- to long-term.

For the quarter, RGAM Inc. reported revenue of ₹1,924 million compared to ₹1,748 million in Q1FY16, an increase of 10% quarter-on-quarter, while PAT After Minority Interests and Share of Associates was ₹253 million compared to ₹193 million in Q1FY16, an increase of 31% quarter-on-quarter. As I had mentioned before, a part of the quarter-on-quarter increase in profitability is from the gain on sale of a fund-related investments.

- **Religare Health Insurance Company Limited**, our **Health Insurance** venture, continues to perform as per plan, with GWP, distribution and the provider network, all scaling up nicely. Gross Written Premium for the quarter was ₹1,065 million compared to ₹1,240 million during the previous quarter as a result of the high base created by concentration of group business in Q1. On a year-on-year basis, GWP increased by 105%. The hospital network has now expanded to 4,630 hospitals and RHICL now offers 10 products covering health, personal accident, critical illness and travel insurance. The products of the company continue to be well-recognized in the market: during the quarter FICCI awarded the 'Healthcare Excellence Award' under the category 'Innovations in Insurance Products' to RHICL.
- As I had updated you on the last call, we have entered into a definitive agreement to divest our equity in **AEGON Religare Life Insurance**, our **Life Insurance** JV, in favour of Bennett, Coleman and Company Limited, an existing shareholder in the JV. We have already received approvals for the transaction from the Competition Commission of India and FIPB. We are now awaiting approval from IRDA and expect that within this calendar year, we will transfer our shareholding and cease to be a partner in the venture.

In conclusion, I would like to say that during Q2FY16, while the overall macro environment was subdued, Religare's consolidated performance has improved compared to the previous quarter, largely on the back of revenue growth across the operating subsidiaries. We have firmly

established a trajectory of profitability and continue to make all efforts to maximise value-creation across all our businesses.

With that, I come to the end of my opening remarks. The senior management of REL, our portfolio companies and I 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. The first question is from the line of Chandan Gehlot of Deutsche Asset Management, please proceed.

Chandan Gehlot: Just wanted to know on the RFL there has been a decline QOQ and YOY on the profit so can you elaborate on what are the one-time expenses and why the Opex has been high this time around?

Kavi Arora: See basically the increase on Opex is on two fronts – (a) there is higher volume compared to last year and last quarter as well and as I have stated earlier we take the entire cost of acquisition of new business in the same month. We do not amortize any of those expenses so with increase in volume during the quarter there is increase in acquisition cost which is charged to the amount. The other is that we have built capacity for acquisition volumes going up in the fourth quarter this year and for next year and thus there is higher personnel cost and higher operating cost on account of that. It is in line with our strategy that we look to continue to grow our SME secured book for which we are building capacity.

Chandan Gehlot: And on the asset quality front, though asset quality has been stable on QOQ largely but generally Q1 delinquency has been higher but in the Q2 we see some improvement. Do you think this asset quality is going to see more uptick from here?

Kavi Arora: You are right, Q1 typically we see a trend for the industry as well, it goes up and then you start seeing Q3 and Q4 giving better results and delinquencies. So we expect that we will be stable around the levels of absolute amount where we are and we will be able to contain any further NPAs.

Chandan Gehlot: And what is the target for FY16 loan growth and FY17, any numbers to put?

Shachindra Nath: We tend to not give any forward-looking statements in terms of the loan growth but I think you should look at the growth rate which we are chasing and we are very confident and comfortable that we will continue to maintain that for at least next 5 to 6 quarters.

Moderator: We have the next question from the line of Vinay Shah of Reliance Mutual Fund, please go ahead.

Vinay Shah: This is extension of the previous question. As you mentioned that volume has increased in this quarter, so if you can help us with the disbursement number for this quarter, last quarter and the corresponding quarter of previous year?

Kavi Arora: The disbursal in Q2FY16 is ₹21.67 billion versus ₹18.29 billion in Q1. I do not have the off-hand number for last year Quarter 2, but I will tell you it is significantly lower.

Vinay Shah: And this operating income expenses would also include your provision here, right?

Kavi Arora: Operating expenses would include everything yes.

Vinay Shah: So what would have been the provision number for this quarter and last quarter and probably if possible corresponding quarter of previous year?

Kavi Arora: I do not have those numbers offline but we can put in a request to Kishore, we can send those numbers to you.

Shachindra Nath: Thank you very much for participating in this call. Before we conclude, I'd like to wish you all a very Happy Diwali and a joyful festive season.

If you have any further queries, please get in touch with Kishore Belai our Head of Investor Relations. Thank you very much and have a good day.

Note: This transcript has been edited to improve readability