

Religare Enterprises Limited

Q1 FY15 results conference call

Monday, August 04, 2014 at 4:00 p.m. IST

Kishore Belai: Good afternoon everyone, and thank you for joining us on our 1st Quarter FY15 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, 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: 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. This being the first quarterly call of FY15, it is an opportune time for me to once again explain Religare's structure and operating architecture and let me take a minute to do that:

Religare Enterprises Limited is a core investment company or CIC duly registered with Reserve Bank of India. REL itself does not have an operating business, but seeds, nurtures, and helps build businesses across the Financial Service sector with the objective of creating equity value for REL. The individual businesses within the Religare portfolio are operated out of subsidiaries or joint ventures. REL has handpicked the most distinguish professionals to manage day-to-day operations and gives the management teams complete independence in running the businesses while REL provides oversight through robust governance and control framework.

Our portfolio companies operate across four verticals, namely: Lending, Capital Markets & Wealth Management, Asset Management and Insurance – Health as well as Life. Let me give you a brief overview of each of these verticals:

- Our **Lending** business operates through **Religare Finvest Limited** a Non-Banking Finance Company that focuses on Small and Medium Enterprises sector which is the backbone of the India's economy. RFL subsidiary, **Religare Housing Development Finance Corporation Limited** is a Housing Finance Company engaged in business of providing home loans with a focus on the affordable housing segment.
- Our **Capital Markets and Wealth Management** business vertical does retail broking which operates through **Religare Securities Limited** and **Religare Commodities Limited** and is one of India's largest retail broking networks. Institutional Equity Broking & Investment Banking is operated through **Religare Capital Markets Limited** and Wealth Management through **Religare Wealth Management Limited**, an advisory-led open architecture wealth management platform, which is a subsidiary of Religare Securities Limited.
- Under the **Asset Management** vertical, we manage Religare Invesco Mutual Fund through **Religare Invesco Asset Management Company Pvt. Ltd.** and are developing a boutique Alternative Asset Management platform through **Religare Global Asset Management** or RGAM.
- In Insurance, we have a presence in the Health segment through **Religare Health Insurance Company Limited** and in the Life segment through AEGON Religare Life Insurance Company Limited, our joint venture with AEGON N.V.

The integrated financial services platform provides services across customers segments - institutional, corporate, SME, HNI, mass affluent, retail and social/rural and on multiple revenue models - fee based, balance sheet-led, and fiduciary. REL holds a diverse portfolio which provides balance, reduces volatility, and helps minimize risk.

I hope this gives you a good idea about Religare's structure. Let me now turn to our performance in Q1 FY15:

An overview of the consolidated financial of Religare Enterprises is on slides 6 to 8:

- Revenue for Q1FY15 is ₹9,144 million, representing a year-on-year increase of 14%. On a quarter-on-quarter basis, revenue declined ₹262 million or 3%, largely on account of the seasonality in the life insurance business where revenue is skewed towards the fourth quarter of the financial

year, due to which we accounted revenue that was lower by ₹282 million quarter-on-quarter, and a decline of ₹229 million in our lending business on account of reversals and forgone income, partially offset by quarter-on-quarter increase of ₹151 million in Global Asset Management business and ₹102 million in Health Insurance as those businesses grew.

- Profit before Tax for Q1FY15 was ₹684 million as against a PBT before exceptional and one-time items of ₹309 million in Q1FY14, representing a year-on-year increase of 122%. On a sequential basis PBT before exceptional and one-time items was lower by ₹153 million.
- Normalized Profit after Tax for Q1FY15 was ₹109 million as against loss of ₹103 million in the year ago quarter and profit of ₹225 million in the previous quarter.

Let me now give you a brief update on each of the 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 carefully growing the SME lending book: Our SME Loan against Property book has grown by ₹6 billion QOQ. The total lending book stood at ₹111.2 billion as at June 30, 2014. Core NIM was at 4.72% during the quarter, marginally increasing from 4.70% during the previous quarter which is driven by a better mix between short term and long term borrowing. Opex to ANR ratio for the quarter stood at 2.36%, an improvement of 20 basis points QOQ which is as per plan and continues to be in a healthy zone. There has been a temporary increase in the gross NPA on 90-day basis which stood at 2.27% at the end of the Q1FY15, 65 basis points higher than the earlier quarter. However, resolution efforts are underway and in fact we have already seen some improvement. On 180-day basis, which is the norm prescribed by RBI, Gross NPA was 0.93% and Net NPA was 0.63%. For accounting purposes though, we follow a 90-day norm, and therefore the increase in the reported NPA has resulted in decline in revenue as well as profits. Revenue for the quarter was ₹4,986 million and Profit After Tax was ₹559 million.
- In our **Retail Broking business**, we are enhancing capabilities to strengthen client proposition in the improved market environment. During the quarter, retail participation improved and FII inflow accelerated. Commodity and Currency segments continue to be under pressure but we have maintained our market share in these segments. Our Retail Broking business reported revenues of ₹1,060 million in Q1FY15, a growth of 16% from the year ago quarter and 2% higher on sequential basis. Profit after tax for the quarter was ₹20 million during the quarter compared to ₹4 million in Q1FY14 and ₹72 million in Q4FY14.

- **Religare Capital Markets Limited** continues to focus on creating a sustainable platform for the business. As of June 30, 2014, the business was empanelled with 425 institutional investors globally with an active coverage of 250 stocks.
As investor sentiments recover and FII flows improved, the institutional equity business in India performed strongly during the quarter.
- In **Religare Wealth Management Limited**, our assets under management stood at ₹31.8 billion as on June 30, 2014, an improvement of ₹1.7 billion over the previous quarter. Client confidence in our advice was reinforced as clients who increased equity allocation as per our advice over the last two quarters saw a significant portfolio appreciation.
- In **Religare Invesco Asset Management Company Private Limited**, our India Asset Management Business, in Q1FY 15, average AUM increase by 11% QOQ primarily due to increased inflow in liquid funds. The business is also witnessing increased appetite for equity funds amongst retail investors after declaration of the general election results.
- In **Religare Global Asset Management**, our multi-boutique alternative asset management platform, Landmark Partners, our Private Equity and Real Estate Secondaries fund, in its ongoing fund-raising initiative has received significant commitments during the quarter. The total AUM across all our RGAM affiliates is now approximately \$16.8 billion. For the quarter RGAM Inc. reported revenue of ₹1,552 million and PAT after Minority Interest of ₹211 million.
- **Religare Health Insurance Company Limited**, our **Health Insurance** venture, continues to perform as per plan and is rapidly achieving scale with 3,610 hospitals in the provider network. Three new products – Explore, Secure and Enhance – were added to Religare Health’s product portfolio during Q1FY15. Religare Health products are finding good acceptance in the market and premium collection is on a good trajectory with Gross Written Premium of ₹533 million generated during the quarter.
- **AEGON Religare Life Insurance Company Limited**, our **Life Insurance** JV, continues to build its franchise with an increase in the customer base with approximately 336,000 customers and year-on-year increase in the First Year Premium of 46%. During the quarter, the company was adjudged as ‘E-Business Leader’ for the second year in a row at the Indian Insurance Awards reinforcing its position as a leader in the use of technology.

In conclusion, I would like to say that during Q1FY15, while we have seen an improvement in the sentiment, this has not yet been fully transmitted into the operating performance and the financials. As improved sentiment sustains – and we are quite confident it will – we should see a sustained improvement in the business and the financials. With that, I come to the end of my opening remarks.

The senior management of Religare Enterprises and 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: We have the first question from the line of Chandan Gehlot from Deutsche Bank Asset Management.

Chandan Gehlot: Just wanted to get some more color in terms of asset quality at Religare Finvest. We have seen the gross NPA, net NPA increase, I think it is the highest in the last five quarters so just wanted to get an update what has really driven this increase in the delinquencies.

Kavi Arora: As per the trend for last three years, in the first quarter we do see a spike in the NPA numbers; however from earlier times when it was largely commercial assets, commercial vehicle and construction equipment that were driving delinquency, this time is on account of loan against property where we have few customers who have moved into 90 day plus bucket and that is where we have seen the increase in delinquency. As mentioned in Shachin's opening remarks, we are actively into resolution with those accounts and some have already been resolved post the quarter end. And we see this coming in line in the second quarter.

Chandan Gehlot: And with regards to growth, what kind of growth you are seeing for the NBFC portfolio in FY15?

Kavi Arora: Our focus remains on our SME portfolio, we are looking at broadly growth of between 18% to 20% in our book this year and it will be driven largely by growth in our SME portfolio.

Chandan Gehlot: And my other question is regarding the Religare Securities Limited. Just wanted to know get more color post the result of the recent general elections, the sentiment has improved but do you see that you are going to increase your market share in the coming quarters

Shachindra Nath: Generally, we are seeing an uptick in terms of the retail participation but it is not in direct proportion to what you see in the markets, most of this has been driven by foreign flow, but what we have seen in the last 45 days to 60 days is an increased uptick in the market momentum in terms of the retail participation as well. Our view is that if the markets sustain in this way, we will start seeing increase in retail participation, which is also what happens conventionally. It would also be driven by how the primary markets perform. The real retail market participation will come back

on the back of a large primary market offering and also to some extent government divestments which typically come in at a healthy price.

Chandan Gehlot: And can you also elaborate your strategy in terms of Religare Housing company, what kind of growth and what kind of customer segment and the portfolio you are targeting.

Kavi Arora: The Religare Housing Development Finance Corporation is primarily focusing on low cost housing business, and the distribution is rapidly building. We are already at nine locations fully operational and looking at opening five more locations within this quarter and healthy acquisition month-on-month which is increasing in that segment. As you would understand the ticket sizes are ₹10 lakh to ₹12 lakh in that segment, thus the growth in the book in that sense will be more stable and very steady.

Moderator: Next question is from Nikunj Doshi of Bay Capital. Please go ahead.

Nikunj Doshi: I just wanted to understand your capital requirement for insurance business general and life both, will you be requiring any funds in the near term.

Shachindra Nath: As you know we run a health insurance company, which is in its second year of operations and it has been growing very well so we would need capital for that business. On a rough estimate basis, this year would be around ₹100 crore and there are two external shareholders, Corporation Bank and Union Bank of India, who also contribute 10% of that. On the life side we had a committed capital in the venture, we have fulfilled our commitment and we would see how this business shapes up. At the moment it is very difficult for the management to estimate whether we would need to put in more capital or not.

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