



## Religare Enterprises Limited

### Q2 FY14 earnings conference call

Friday, November 01, 2013 at 03:30pm IST

**Kishore Belai** : Good afternoon everyone and welcome to our Q2 FY14 Earnings Conference Call. We have with us on this call today :

- Mr. Shachindra Nath – Group CEO,
- Mr. Anil Saxena – Group CFO,
- Mr. Sunil Garg – Head of Group Treasury,
- Mr. Kavi Arora – MD & CEO, Religare Finvest,
- Mr. Basab Mitra – CEO, Capital Markets and Wealth Management,
- Mr. Saurabh Nanavati – MD & CEO, Religare Invesco Asset Management and
- Mr. Anuj Gulati – MD & CEO, Religare Health Insurance.

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 invitation for this call. 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 the Q&A. I now turn the call over to Mr. Nath.

**Shachindra Nath** : Thank you, Kishore. Good afternoon, everyone, 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 start by giving you an update on some key events that have taken place at Religare since our last conference call. I have described in the past our Insurance JV structure on our call. Religare's capital is fully protected with the minimum floor return of 12% up to ₹440 crores of our investment in our Insurance venture and at 15% above the ₹440 crores of capital with an equity upside option available to us, and AEGON has provided a bank guarantee for this capital protection to Religare. I had mentioned in the past that given the nature of this arrangement we will be working towards

making it self-funding to a large extent and in the process free up some of our capital from the venture.

I am happy to report that during Q2 FY14 Religare Enterprises Limited has successfully issued bonds aggregating ₹6.25 billion that are backed by the receivables under this bank guarantee.

One of Religare Enterprises' primary function is to optimally allocate capital to its various portfolio companies. This innovative issue of bond is another step towards fulfilling our objective. While this bond will get reflected as a liability in the balance sheet of Religare Enterprises Limited from an accounting perspective, both the principal and interest cost will ultimately be paid out of the proceeds to be received from our capital protection which is protected through the bank guarantee unless Religare opts to continue in the Insurance joint venture, which would be decided by our Board in July 2017 only if the equity value is higher than the floor return.

The second event of interest is that India Ratings and Research, a member of the Fitch Group has reviewed the long-term issue rating of 'IND AA-' for Religare Enterprises Limited and our NBFC, Religare Finvest Limited and has changed the outlook for both to 'Stable.'

You would recall that in our previous quarterly interactions we have informed you that our Board has requested our promoter group to reduce their stake in Religare Enterprises Limited to 49% to meet the eligibility criteria for promoting a bank under the RBI guidelines for licensing of new banks in the private sector if and when the in-principal approval is given to Religare Enterprises Limited.

During the quarter our promoter group has reduced its holding by nearly 10% on a fully diluted basis. Our shareholding is now well diversified wherein on a fully diluted basis the promoter group's holding is at 56.1%, Customers Bancorp Inc. of the US holds 2.6%, the interest of International Financial Corporation is 7.9%, and now our FII holding is just under 10%. This combination of shareholding coupled with a strong independent board would go a long way in achieving our goals of building Religare as an integrated financial service business in India.

Let me now turn to our financial performance for Q2 FY14. An overview of the consolidated financial of Religare Enterprises is on slides 6 to 8.

- Revenues for Q2 FY14 are up 5%, quarter-on-quarter to ₹8,390 million; for Q1 FY14 revenue was ₹7,986 million.

- Profit before tax for the quarter was ₹408 million. In Q1 FY14 normalized PBT, i.e., PBT before excluding exceptional and one-off items was ₹142 million.
- Normalized profit after tax for Q2 FY14 was a negative ₹122 million as against negative ₹270 million in the earlier quarter.

Let me now give you a brief update on each of our portfolio companies which is presented on slides 9 to 36 of our presentation.

**Religare Finvest Limited** which houses our lending business has been exercising some caution given the current macro conditions. Consequently, the loan book size was largely unchanged from the previous quarter and stood at ₹97.6 billion as at September 30, 2013. Core NIM was at 3.96% during the quarter which is a marginal improvement quarter-on-quarter and within our target band. Opex to ANR ratio for the quarter stood at 2.33%. Owing to tough conditions in some pockets, the reported gross NPA on 90-day basis is up to 2.14%. On a 180-day basis which is the norm prescribed by the RBI gross NPA was within 1.5% and net NPA was around 0.5%.

For the quarter, RFL achieved revenue of ₹5,065 million and PBT of ₹787 million, 4% and 36% higher than the previous quarter, respectively. RFL has consciously increased direct sourcing and distribution enhancing its relationship with the clients and creating a process of better credit management even in a weak environment. We continue to watch in the evolving environment and the primary focus is on safeguarding the balance sheet.

In **Religare Securities and Religare Commodities Limited** – our Retail Broking business we continue to execute diligently. During the quarter there have been some regulatory changes that have an impact on the industry as a whole.

- Firstly, commodity transaction tax was levied on exchange base trading of commodities futures effective July 1, 2013. Furthermore, in the first week of September 2013, the margins to be deposited by clients for trading in non-agricultural commodities were raised to at least twice the earlier levels. These measures have significantly increased the cost of doing business for our clients, and consequently, market wide volumes in commodities have declined 43% quarter-on-quarter.
- Secondly, for currencies – the regulator has imposed client- and member level limits on exposures and this has capped the overall volume of the business that Religare could do.

On the Equities front – retail participation remains at an all-time low and we see no meaningful improvement in the overall sentiment.

These challenging market conditions notwithstanding, our Retail Broking business continues to diligently work at improving productivity and providing better offering to our clients. Our Retail Broking business reported revenue of ₹881 million in Q2 FY14, 2% lower than the previous quarter and PBT of ₹42 million during the quarter compared to ₹5 million in the previous quarter.

**Religare Capital Markets Limited** continues to focus on creating a sustainable platform for the business. As at September 30, 2013, the business was empanelled with more than 620 institutional investors globally with an active coverage of 240 stocks within the region. RCM is experiencing good momentum in Investment Banking in Asia. RCM acted as sole placement agent for US\$38.2 million secondary share offering for a reputable Indonesian real estate developer in Greater Jakarta, and also successfully listed \$501 million IPO of Real Estate Investment Trust investing in Singapore.

As you know we do not consolidate the financial statement of RCML since October 1, 2011 in Religare Enterprises Limited, but the business continues to remain operationally integrated with the rest of the Religare.

In **Religare Macquarie Wealth Management**, our wealth management joint venture, assets under management stood at ₹28.9 billion as of September 30, 2013 with year-on-year improvement in relationship manager productivity by 14%. Macquarie has decided to exit the wealth management business across Asia, and accordingly Religare will buy out Macquarie's stake in the joint venture subject to certain regulatory approvals. The company will be re-named as Religare Wealth Management Limited once the acquisition of Macquarie's interest is complete.

The Mutual Fund industry saw a quarter-on-quarter decline in asset under management primarily on the rate actions taken by Reserve Bank of India led to a tight liquidity condition during the quarter. Our India Asset Management Business, **Religare Invesco Asset Management** similarly saw its AUM decline; however, unwavering focus on the business on running a tight ship continues and it continues to remain an operationally profitable business.

In **Religare Global Asset Management** which is our multi-boutique alternative asset management arm after doing the acquisitions of Landmark and Northgate, we have embarked on organic initiatives under this platform and completed the listing of Religare Health Trust in FY13. During the quarter, we

successfully completed Quadria's first launch, a healthcare focused fund in Asia and the commitment for the first close was US\$107 million.

**Religare Health Insurance Company Limited** – our health insurance venture which commenced operations in July 2012 continues to roll out as per plan. It has generated gross written premium of ₹268 million in Q2 FY14 and a cumulative GWP of ₹782 million for the first two quarters of the financial year. It now provides health cover close to 570,000 lives as of 30<sup>th</sup> September 2013. The company has rapidly expanded the hospital network and increased to 2,401 as at September 30, 2013. Total paid up share capital is at ₹2 billion with a comfortable solvency position at 226%. We will continue to roll this business out as per the plans throughout the current year.

**AEGON Religare Life Insurance Company**, our life insurance joint venture, continues to build its franchise with an increase in the customer base to 290,000 customers. In July, the Life Insurance JV completed first five years of operations. During this period significant regulatory changes have impacted the industry but we have had an advantage of learning from others and continue to realign ourselves with the market reality. AEGON Religare has established leadership in the use of technology and continues to reinforce its position. During the quarter the company has introduced another online only plan with enhancement to the online only term and unit- linked plans.

In conclusion, I would like to say that during the last quarter the environment has been quite challenging given the broad deterioration in economic conditions. However REL's operating businesses have been taking measures to ensure that they are able to weather the storm. 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. Thank you.

**Kishore Belai** : Operator, we shall now open the line for questions.

**Moderator** : Thank you. Ladies and Gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Bikram Mahajan from Bay Capital. Please go ahead.

**Bikram Mahajan** : Given rapid advances in the Indian Financial Services industry I would rather like this opportunity to take a step back and discuss Religare's overall strategy and long-term vision, i.e. my questions are primarily related to slides 3, 4 and 5 of the presentation. My first question is which are the businesses you are most excited about in your overall portfolio i.e. key businesses in your portfolio which are expected to spearhead growth of the overall business?

**Shachindra Nath** : As we have always mentioned, Religare has positioned itself to build an integrated financial services platform. Our view is that the segregated pool of financial services industry is not deep enough wherein you can focus on just one segment of the marketplace and the benefit of combining and playing the entire financial services segment and cross-pollination of each of our businesses and working together generates a superior return for all of our shareholders, and we have been in that journey for almost 15 years or so now, and each of our business has performed differently in different cycles, but you will appreciate that we are still young as a financial services organization and not all of our businesses have reached a level of maturity but we continue to remain very focused on the entire financial services marketplace in India. Obviously, the lending business is the leading business for Religare Enterprises. It contributes roughly around 60% of our total top-line and also in a similar proportion to the consolidated profit before tax of Religare Enterprises. Having said that the other places or other market segment in which we operate including businesses like Health Insurance, Capital Markets, Retail Distribution and Broking businesses, each one of them at different point of time and different cycles would generate very high quality of return. Ultimately, our end focus is to make sure that REL as a consolidated entity is able to generate very significant consolidated ROE for all its shareholders and it should be able to deliver its customers the best quality service irrespective of from where the customer is coming in which segment and pool of the market and we should be able to provide him with comprehensive suite of services.

**Bikram Mahajan** : My next question would be if Religare is awarded a new bank license, then how will its business strategy change, how will it change the growth prospects of the company and your overall portfolio mix?

**Shachindra Nath** : Firstly, you would appreciate that Banking as a market segment in financial services industry is the largest pie which is available in India today, and once you become a bank the size of the wallet share of the customer which can come to a financial services player increases multi-fold and not only the pure lending business whether it is in a form of a bank or an NBFC that multiplies but the ensuing benefit across other businesses also are very, very significant. If we ever happen to get a banking license I do not see any change happening within the businesses of Religare because we have gone and applied for conversion of our non-banking finance company to the Banking business, but obviously it would have a definite multiplier effect on the overall businesses of Religare but our shareholders have to remain patient because it would also change the nature, color, profitability and capital requirement for the business. Having said that, I think what needs to be appreciated is that each of our businesses is on a very, very strong growth momentum. So with bank or without bank still our targeted return to our investors and our

shareholders would be achieved. As an integrated financial services player without being a bank also we are very attractive.

**Bikram Mahajan :** If you could share some insights into how do you intend to grow the Banking business in case you are awarded a new bank license?

**Shachindra Nath :** Sorry, Bikram, I think that is the information which we still like to first discuss with RBI before we discuss with anybody else.

**Bikram Mahajan :** In Religare Finvest which segment do you think is expected to be the key growth driver of the lending book going forward?

**Kavi Arora :** Hi, Bikram, this is Kavi here. We have stated in our strategy that we will focus on SME as a customer segment and our growth driver in our NBFC platform will continue to be the SME segment.

**Bikram Mahajan :** Within SME segment, you would rather segment it further into specific growth segments?

**Kavi Arora :** It changes from time to time depending upon the sector performance and we obviously at a risk policy level keep assessing what is an attractive opportunity. Broadly, the customer segment will remain that and therefore our last few quarters have already shown that how our composition has changed in the book.

**Bikram Mahajan :** And what is our overseas business plan and growth strategy in overseas markets?

**Shachindra Nath :** We have two distinct lines of overseas businesses, one is, Religare Capital Markets, which is our Institutional Broking and Corporate Finance & Investment Banking arm. A few years back we had a desire to build an emerging market-led Investment Banking business but we have re-oriented that business given the challenges which are being experienced worldwide in the capital markets and this is a very Asia-focused and Asia-led capital market or institutional trading platform. Just to make sure that Religare remains insulated with the volatility and the depression of the Capital Markets, this business is not consolidated in Religare Enterprises. The other business which we have is Religare Global Asset Management business wherein we now manage roughly around \$15 billion of alternative assets, wherein we have four distinct platforms which is Northgate, private equity and venture capital fund of funds business; Landmark, which is a very large \$10 billion secondary private equity business; we manage a

Health Trust out of Singapore; and then we have the recently seeded Asia Healthcare Fund called Quadria which has done its first close. Our initial objective was to go and acquire boutique asset managers in alternative asset management industry in US, combine them together and then create value by listing that platform and creating a common distribution pool. But given the growth momentum which we are getting in Indian marketplace and our capital getting allocated into these businesses, at this point of time we are not acquiring any businesses further; however, we are very focused to build organic platforms within India and adjoining region, as a part of that strategy we seeded Quadria as an Asia Healthcare Fund. There are a few more products which are work-in progress and hopefully probably by next quarter and quarter afterwards we will be able to tell you what developments are in that front.

**Bikram Mahajan :** In the overseas business plan the growth will be limited to these two segments or is there anything else in store?

**Shachindra Nath :** Only these two segments and we have no intention to diversify anything beyond that.

**Bikram Mahajan :** Given the constant employee turnover in the sector in terms of skill, what is our talent attraction and employee retention policy?

**Shachindra Nath :** Religare has been very fortunate to have a very strong senior management team retention and that predominantly is the architecture and philosophy behind our business. As you may have noticed that in each of our businesses, the management team holds a very strong equity position or equity option. It varies from business to business and between Religare Enterprises and each of our businesses, on a fully diluted basis the entire management team would be roughly around 20% odd of the equity and that works as a very strong retention tool for the senior management and that is why most of our CEOs and the senior management team are here on Religare platform to grow that platform and create an eventual value creation opportunity. Having said that, as you know that the bottom of the pyramid talent pool in financial services industry, because this is being a young industry, has remained very, very volatile, and you always witness some amount of turnover over there, but I think Religare as a brand is strong enough to not only retain its people but attract talent on its own and we do not see much of a challenge over there.

**Bikram Mahajan :** And lastly, can you please share the promoter's vision and commitment to the financial services business going forward?

**Shachindra Nath :** Religare is a business which is run, managed and controlled by the management team and is governed and supervised by its Board. Promoter for us has been our anchor-investor and has been a great supporter of this entire management team. Obviously, because they have invested such a large portion of their capital into financial services industry they have a view about financial services industry. And between Healthcare and Financial Services by desire they have chosen to remain in these two sectors of Healthcare and Financial Services and have deployed capital because they think these are the two sunrise sectors which will generate very superior equity value for themselves. So the vision of Religare in terms of the financial services business is driven by the management team and by its board and for our promoters I think that their objective is to generate high equity value for which this management team is very committed to.

**Moderator :** Thank you. The next question is from the line of Sagar Pandya from Citibank. Please go ahead.

**Sagar Pandya :** I had a question regarding Religare Finvest. I just wanted to ask that, what would be the total capitalization ratio for Religare Finvest as on September end?

**Kavi Arora :** We have capital adequacy ratio of 19.4% against the regulatory requirement of 15%.

**Moderator :** Thank you. As there are no further questions I would like to hand the floor over to Mr. Shachindra Nath for closing comments. Please go ahead sir.

**Shachindra Nath :** Thank you for attending this call. I would like to wish you all a very Happy Deepavali and I hope that the festive season bring good tidings for everyone. If you have any more queries please feel free to contact Kishore, our Head of Investor Relations, he will be happy to be of assistance. Have a great day. Thank you.

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