# Religare Enterprises Limited

# Q3 FY15 results conference call

## Tuesday, February 3, 2015 at 4:30 p.m. IST

**Kishore Belai:** Good afternoon everyone and thank you for joining us on our Third Quarter 2015 results conference call.

We are joined on this call today by Mr. Shachindra Nath, our Group CEO, 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 maybe 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 apprise you of recent developments in the company and then give you an update on the Company's performance for the quarter thereafter we will 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 about our result presentation, which has been uploaded on our website.

Before I delve into details of this quarter's results I would like to update you on certain senior level organizational changes that have taken place within Religare with effect from January 1, 2015:

- Our Retail Broking business is now led by Mr. Nitin Jain, who has been appointed as Managing Director and CEO of Religare Securities Limited consequent to the earlier CEO moving on from Religare. Nitin has an overall experience of more than 15 years and has been with Religare since 2004. Nitin has vast experience in financial markets particularly in distribution, alliances and marketing. In the past, Nitin has headed Religare's Personal Financial Services business and the Portfolio Management Services business. He was most recently the Chief Operating Officer of Religare Health Insurance Company Limited. In Nitin the retail broking business has got a dynamic and result oriented leader.

- Our multi-boutique alternative asset management platform, which is known as **Religare Global Asset Management** or RGAM, has now attained significant scale with assets of nearly 20 billion US dollars under management. It has become imperative that RGAM has the right leadership that can take the business through the next phase of its growth. With this in mind we have appointed Mr. Nalin Nayyar as the CEO of RGAM India. Nalin has over 25 years of experience in investment banking and undertaking large strategic transactions. Nalin joined Religare in 2010 and as the head of investment banking at Religare Capital Markets Limited and has laterally been working on corporate advisory for our strategic clients. Nalin's experience will be of immense value to RGAM as it builds out its platform further.

I had announced on the last call that we have elevated Mr. Gautam Trivedi as CEO of Religare Capital Markets' India Operations to lead both Institutional Equities and Investment Banking in India. Gautam joined Religare Capital Markets in 2011 and was the Head of Institutional Equities prior to his elevation as CEO.

As you would see, all three CEO positions have been filled from within Religare, reflecting the deep leadership bench that the organisation has built. While on the subject let me take a moment to reiterate our organisational structure: Religare Enterprises Limited as you know is an investment holding company with Portfolio Company is operating across four verticals in the financial services space. Each of our operating companies has an independent management team with vast experience in the respective verticals.

- Our **Lending Business** is led by **Kavi Arora**;
- In the **Capital Markets** space, as I have just mentioned, **Nitin Jain** leads the **Retail Broking** business while institutional equities and investment banking is led by **Gautam Trivedi** in India and **Sutha Kandiah** in Asia;
- In Asset Management, **Saurabh Nanavati** is CEO of **Religare Invesco Asset Management Company Private Limited**, which manages our domestic mutual fund and **Nalin Nayyar** has just been appointed as CEO of **RGAM India**, which is our alternative investment management platform;
- Finally, **Religare Health Insurance** operates under the leadership of **Anuj Gulati**. All these gentlemen are present on this call and will interact with you as needed.

With that I will turn to our consolidated financial performance for Q3 FY2015, which is presented on slides 6 to 8 of the presentation. I would like you to note that our consolidated numbers for the quarter have received a significant boost from booking of "catch-up fees" in RGAM. As you know, in the alternative asset management business, the fund raising process for every new fund runs for an extended period of time and only upon final closing of subscription are the fees for the period recognized as revenues. These catch-up fees are by their very nature lumpy and as such there will be moderation from these numbers in the next quarter.

- The reported revenue for Q3FY15 was ₹11,332 million, representing a quarter-on-quarter increase of 18% and year-on-year increase of 27%. Consequently, the share of RGAM in our overall revenue has gone up from 16% in Q2 FY 2015 to 26% in Q3FY15.
- We have generated a profit before tax of ₹2,107 million and a profit after tax of ₹933 million in Q3FY15.
- If we exclude the impact of the catch-up fees, consolidated financial performance for Q3FY15 has been in line with the performance of Q2 FY 2015 with Health Insurance delivering significantly better performance and the Lending business firmly moving along its trajectory, partially offset by some weakness in the Retail Broking business.

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 - This will give you a good sense of the underlying performances.

- Our **Lending Business**, which is housed in **Religare Finvest Limited**, is firmly back on the growth path. We had made a conscious decision to consolidate the business in 2012 and 2013, and at that time we actually de-grew our asset base. As the environment showed signs of becoming more benign in 2014, we set out to grow the book and have registered a 22% year-on-year growth in assets during the year. Core NIM has stabilized at a little over 4.9% during the last two quarters and there is an improvement of more than 25 basis points during the last one year. Our Opex to ANR ratio is healthy and in the normal band. There has been an increase of 12 basis point in our 90-day Gross NPAs during the quarter. You will recall that we had explained in our call last quarter that while sentiment has improved, there are some challenges on the ground which will take two or three quarters to clear, and to that extent, the NPA numbers are an outcome that we are prepared for and are continuing to actively resolve. RFL's revenue for the quarter was ₹5,451 billion, or QOQ growth of 3%, resulting from a combination of higher book size, and a 30-basis point improvement in the realized yield and a 13-basis point reduction in the blended cost of borrowings over the previous quarter. Profit before Tax increased by 5% QOQ as the increase in revenue has flown through to the PBT and Profit after Tax was ₹682 million for this quarter.

- In the **Retail Broking** Business, while the overall market turnover has increased during the quarter, the growth in the turnover has been concentrated in the Options segment; turnover in both cash and the futures segment actually declined sequentially, in large part due to five fewer trading days during the quarter compared to the previous quarter. In the commodity and currency segment, there has been no respite from the weakness we have seen in the last few quarters and the sluggishness continues. Our retail broking business reported revenue of ₹1,157 million in Q3FY15, a sequential decline of 5% and a growth of 23% over the year-ago quarter. We incurred a post-tax loss of ₹17 million for the quarter as against profit of ₹131 million Q2 FY 2015 and Rs.109 million in the year-ago quarter.
- Turning now to Wealth Management Business: In Religare Wealth Management Limited, which is a subsidiary of Religare Securities Ltd., our AUM stood at ₹34.6 trillion billion as at December 31, 2014 an improvement of Rs.1.3 billion over the previous quarter. During the quarter, we experienced significant traction in the core products such as equity mutual funds, PMS and alternative investments.
- **Religare Capital Markets Limited**, which operates our Institutional Equities and Investment Banking platform, concluded some noteworthy transaction during the quarter, including as the Book Running Lead Manager for the IPO of Monte Carlo Fashions Limited - which was among the first few IPOs to hit the market in the current upswing. In fact, RCML had originally arranged the private equity investment into Monte Carlo Fashions in 2012 and has now helped the company in taking the next logical step as advisor on its public float - this is a fine example of the partnership model RCML has built and how it is winning the trust of the clients. In the region, RCML continues to employ partnership model to expand its reach and access. It has executed an MOU with FSG Capital to gain access to Philippines market and continue to look out for other opportunities.
- Moving on to **Religare Invesco Assets Management Company Limited**, our Indian Asset Management Platform, in Q3FY15 the average AUM increased by 12% quarter-on-quarter and stood at ₹198 billion, as shift to long duration products continued during Q3FY15, which was further bolstered by the cut in the policy rate in January 2015. We are also experiencing traction in equity fund supported by buoyancy in the equity market. For RIAMC, equity schemes accounted for 9% of the total AUM for the quarter.

- In **Religare Global Asset Management**, our multi-boutique Alternative Asset Management platform, the total Assets Under Management of the affiliate stood at USD 19.6 billion or very close to USD 20 billion mark - as of December 31, 2014. For the quarter, RGAM Inc. reported revenue of ₹2,957 million and PAT after Minority Interests of ₹680 million. As I mentioned earlier, the financials include the impact of the catch-up fees which are lumpy in nature.
- **Religare Health Insurance Company Limited**, our **Health Insurance** venture, has been consistently delivering on its plans. RHICL has clocked Gross Written Premium of ₹673 million in Q3FY15 taking the cumulative GWP for the first nine months of the fiscal year to ₹1,727 million. One of the key success factors in this business is having a well spread out network of hospitals providing cashless treatment to customers and RHICL had been focused on expanding its hospital alliances which now number around 4,200. The total paid-up capital of RHICL stood at ₹3.25 billion, making it one of the most efficient health insurance start-ups in the country in terms of premium income generated for every rupee invested.
- **AEGON Religare Life Insurance Company**, our **Life Insurance** joint venture, continues to build its franchise. Total premium income for Q3FY15 was ₹1.25 billion and the customer base is approaching 360,000. Significantly, First Year Premium logged during the quarter was ₹469 million, a year-on-year increase of 41%. The business launched two new products in December 2014: an online unit-linked product known as 'iMaximize Insurance Plan' and an offline traditional participating product called 'Premier Endowment Insurance Plan' and thereby further consolidating its position as an innovator. I had mentioned to you in last quarter that Religare has expressed its desire to exit this venture and to that end the process of having to find a replacement shareholder for Religare is underway. Our investment in the venture remains protected and the guarantee extended by AEGON.

With that, I come to the end of the business updates. In conclusion, I would like to maintain as we mentioned in our last call, that the translation of the buoyancy in the environment into improvement in operating performance is a gradual process that is still under way. We have invested a lot of time and effort in building resilience into Religare's platform over the last couple of years and I am confident that this will stand us in good steady in times to come.

This brings me to the end of my opening remarks. The senior management of Religare Enterprises and our portfolio companies and I 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. The first question is from the line of Namesh Chhangani of Axis Capital. Please go ahead.

**Namesh Chhangani:** Good set of numbers. First question is on your Finvest business. In Finvest business we have seen some increase in NPA although the numbers are not too shocking but still if we calculate on a percentage wise on absolute terms then there is an increase of almost ₹31 to ₹32 crores. So primarily this is from which asset class and are we seeing any further stress in any of the asset class where you are funding because you are majorly into loan against property? So are we seeing anything, which is impacting that asset class?

**Kavi Arora:** You are right. The actual increase has come in loan against shares portfolio and in fact there has been a reduction in the loan against property in SME portfolio overall, and the increase I imagine is loan against shares where we have sufficient cover and again as a prudent measure we have declared this NPA and the collections are on. We have sufficient cover on shares on this line and we will see resolution in the months to come.

**Namesh Chhangani:** On this growth front, how we see the growth panning out in FY 2016 because you have not grown your balance sheet till recently, but now we are seeing some growth momentum happening in last two to three quarters. So, are we seeing similar kind of a growth like 25% YOY which you reported this quarter to be a trend in FY16?

**Kavi Arora:** I would like to add Mr. Shachindra Nath did mention that in 2012 we had taken a conscious call to take a little pause because the outlook on the general economy which clearly impacts our core customer that is the SMEs' in India so we had taken a cautious call to take a pause and slow down. We also rebalanced our portfolio during this time on the non-strategic assets and the assets like commercial assets we have exited during the time. Our secured SME assets continue to grow by the way if you look at just that as a category, over 20% during this time as well. In 2014 as we stand, the current FY 2015 when we look at the outlook it is very different from what it was two years ago. We believe that we are seeing the economy coming back on track, interest rates are beginning to look better also. Now we will see and we are confident of taking more credit exposure in this environment and you will see this growth rate above 20% being maintained in the next financial year.

**Namesh Chhangani:** On the net interest margin because the yields that we talk to various other base of the competitors, the loan against properties are coming off drastically due to increased competition from the PSU Banks. So what is your outlook on your net interest margin?

**Kavi Arora:** In fact if you look at it, the pressure has always been there. We have been maintaining NIMs in the range of 4.7% to about 5%. We are currently 4.92%. I expect the NIMs to be in the range of 5%, but what we are beginning to see, are the interest rates happening across the borrowings are also going down. So end of the day, yes the yields in the market will drop due to intense competitions so are the cost of borrowings going down. If you look at quarter-on-quarter we have had an overall cost of point borrowing down by nearly 17 to 18 basis points during this quarter and we are seeing this trend in our borrowings as we grow the asset book, we would see this NIM in the same range as between 4.7% to 5%.

**Shachindra Nath:** I would just add that beside our core product of SME which is secured product, Religare Finvest has also been doing lot of innovation around some new products, which is not reflected in the balance sheet and we do not show them as a separate line, but constantly for the last 12 months we have been working towards creating new line of activities which have much more healthier net interest margins and much faster rollover periods. So one of the reasons why we think so that while we will maintain the growth on an absolute asset base, but we will also have products which will now kick start in the next two quarters, which should have better margins for us.

**Namesh Chhangani:** Could you share the strategy of what kind of product we are entering into like would it be secured, unsecured or on the consumer side?

**Shachindra Nath:** Largely it would be secured. I would not like to give details. We would like to be an innovator and we do not like others to copy what we are trying to do there, but you should see our track record of being able to build sustainable long-term secured business model. Philosophically we do not delve into a lot of unsecured products, so it would be secured but may not be secured against properties.

**Namesh Chhangani:** The second question is on your health insurance business, so we are seeing the losses are there, but still the losses are relatively lower as compared to the other standalone health insurance players, so what is your outlook on the breakeven on this business?

**Anuj Gulati:** We started this business in July of 2012. Our view is when we had started out the total capital for business was about ₹575 crores of capital, sixth year onwards we should be self-sustaining, we are on track for that performance. So we are a little ahead of the plan, but in principal we are continuing to be tracking to that that in about ₹575 crores of overall capital and sixth year onwards we should be able to breakeven and be self-sustaining from there. The advantage we get is I think the ecosystem that the Religare Group has been able to provide us whether it is Religare Finvest, Religare Securities, the distribution that we get, whether the shared services that we have, which has helped us to reduce our cost and focus deeply as we mentioned in a cost efficient manner being able to leverage distribution to grow our franchise. So we are on track for that.

**Namesh Chhangani:** Thank you

**Moderator:** Thank you. Our next question is from the line of Chandan Gehlot from Deutsche Asset Management. Please go ahead.

**Chandan Gehlot:** This is regarding your retail broking business. Can you explain why your operating cost has gone up quarter-on-quarter and year-on-year despite your top line not growing in line with?

**Nitin Jain:** In terms of operating cost, this has gone up is largely on account of one doubtful debt, which we have written off in this quarter. That was the major one why the cost has gone up. There is a small provision we have done towards the employee benefits in terms of gratuity and superannuation. That is another part to it.

**Shachindra Nath:** So just to add on that if you offset or if you take off the one-off out and offset it by reduction of revenue, because lesser number of trading days otherwise financial performance is in line what would have been in last quarter.

**Anil Saxena:** Also to the expense which Nitin explained includes a small portion of un-booked income of arbitrage which is due to the quarter end could not be booked, unrealized gain, which in any case will come in the next quarter, but that is a small portion.

**Chandan Gehlot:** My next question is for Kavi. We have seen for the Religare Finvest that delinquency has been rising continuously from last four to five quarters. So do we have any sense of when this trend is going to stabilize or it is going to continue further?

**Kavi Arora:** We have seen in the various asset classes like loan against property the delinquencies are actually stabilizing in fact looking down from here. We have seen earlier, our portfolio of commercial assets that has worn wound down also the NPA assets going down and Shachindra also mentioned during his opening comment, we still see for at least couple of quarters the challenge continuing, till we see basically the cash flows catch-up is improves on the ground, which is clearly in our minds at least six to eight months away.

**Chandan Gehlot:** Thank you

**Moderator:** Thank you very much. As there are no further questions from the participants, I now like to hand the floor back to Mr. Shachindra Nath for closing comments.

**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. Have a great day ahead.

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