Religare Enterprises Limited

Q4 FY13 Earnings Conference Call

Tuesday, May 28, 2013 at 03:30 pm IST

Kishore Belai : Good afternoon everyone and welcome to our Q4 FY13 earnings conference call. We have with us on this call today Mr. Shachindra Nath – Our Group CEO, Mr. Anil Saxena – Our Group CFO, Mr. Sunil Garg – Head of Group Treasury, Mr. Kavi Arora – CEO of Religare Finvest, Mr. Basab Mitra – CEO of the Capital Markets and Wealth Management Businesses, Mr. Ketan Ugrankar – CFO & COO of Religare Invesco Asset Management company and Mr. Pankaj Gupta – CFO of Religare Health Insurance company.

Before we start the proceedings, I'd 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.

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.

Given that this call is at the beginning of new financial year, I would like to reinforce and dwell upon the operating structure of Religare Enterprises Limited and some of the medium and long term objectives of the company.

Let me turn to Slide 2. Religare Enterprises Limited is a Non-Operative Financial Holding Company setup with the objective of building an integrated financial services platform through its portfolio companies engaged in various financial services businesses. For the past few years, we have built our presence across India and abroad. We now service 1.3 million clients from over 1,750 locations through 5,300 employees. We have a consolidated net worth of nearly ₹32 billion as of March 31, 2013. We achieved consolidated revenue of ₹34.9 billion in FY13.

Slide 3 gives you a good idea of the Leadership Team at REL and its portfolio companies. We are managed by professionals with a formidable pedigree and track record.

If you turn to Slide 4, you will see that REL's businesses are operated out of its portfolio companies which are structured as subsidiaries or joint ventures. Portfolio companies are managed by their respective CEOs and management teams on a day-to-day basis and REL's role comprises of :

- Providing capital to the portfolio companies
- Ensuring that the Brand and Group ethos are safeguarded
- Determining the Governance Structures, Risk Management and Control mechanisms for the portfolio companies and,
- Undertaking performance management

REL's primary objective is to ensure that the portfolio companies create equity value and REL will ensure that the subsidiaries are provided with the appropriate inputs and given the correct direction to achieve this objective.

Slide 5 shows you the build-up of the REL portfolio over the years; we have consistently grown our portfolio of businesses by investing in adjacencies organically and also for some business inorganically, where the strategy so demands, such as in our Global Asset Management business.

On Slide 6, we have discussed the current corporate and shareholding structure of REL and its portfolio companies. REL management has been given nearly 20% economic interest in equity on a fully diluted basis, to align their interests with that of shareholders; management gets to realize the value of its equity only if there is a liquidity event or when value is crystallized.

REL capital deployment and financial profile is presented on slide 7. REL's investments in its portfolio companies have a net book value of ₹33 billion and the consolidated revenue profile closely tracks its capital deployment.

An overview of the consolidated financials of Religare Enterprises is on slides 9 to 11:

Revenue for FY13 was up 8% YOY to ₹ 34,872 million; for Q4FY13 revenue was steady at ₹ 8,487 million

Profit before Tax excluding exceptional and one-off items stood at ₹ 2,616 million for FY13, an increase of ₹ 4,039 million over previous year. For Q4FY13, PBT excluding exceptional and one-off items stood at ₹ 188 million against ₹ 568 million in Q3FY13

Profit after Tax excluding exceptional and one off items for FY13 was ₹ 876 million, an increase of ₹ 3,462 million over previous year. For Q4FY13, PAT excluding exceptional and one off items stood at negative ₹ 222 million against ₹195 million in Q3FY13

You would have noticed that there is a large exceptional item in Q4 – let me give you some background about this. As you are aware, Religare Capital Markets has been deconsolidated from Religare Enterprises' financials in view of the long term restrictions imposed by the funding arrangement that the company has entered into with RHC Holding Pvt. Ltd., a promoter group company, with effect from October 1, 2011. However, the outstanding borrowings at that point of time, amounting to ₹ 11.2 billion continued to be REL's responsibility. REL had accordingly consented to fund this liability in the eventuality of a liquidity requirement by RCML and its subsidiaries to discharge its outstanding borrowings as of September 30, 2011. This capital commitment has been disclosed as a contingent liability in the financial statements of the Company as at 31 March 2012.

During the year ended March 31, 2013, RCML was required to repay its obligations and REL discharged this liability to the tune of ₹ 8.1 billion. Due to the severe long term restrictions imposed on RCML and acting with prudence, REL has made provision against this investment of ₹8.1 billion. In our view, with this treatment, our balance sheet position is depicted in a very conservative manner. As and when we realize value on this investment, the provision would be reversed. REL continues to carry an unpaid contingent liability of ₹ 3.1 billion out of the overall liability of ₹ 11.2 billion. This has been represented as unpaid and uncalled preference shares in our balance sheet.

Let me now give you a brief update on each of our portfolio companies, which is presented on slides 13 to 33 of the presentation:

- **Religare Finvest Limited**, which houses our **Lending Business**, is following a cautious approach and conserving Balance Sheet. This strategy supplemented by book assignment resulted in lower loan book size versus previous quarter at ₹ 94.8 billion as at March 31, 2013. Core NIM was at 4.02% during the quarter which is a marginal improvement QOQ and within our target band. Opex to ANR ratio for the quarter stood at 2.01%. Portfolio quality is stable: reported net NPAs on 90 days basis stood at 0.87%, lower QOQ by 10 basis points. On a 180-day basis, which is the norm prescribed by RBI, both Gross and Net NPAs were significantly lower. RFL's CRAR stood at 19.84% at the end of the year, reflecting a good capital cushion for the expansion of business.

On a full-year basis, RFL achieved revenue of ₹ 22,617 million and PBT of ₹ 2,782 million, 22% and 42% higher than previous year, respectively.

RFL has adopted a risk-averse approach and consolidated the business during FY13. As the environment eases, we expect to return to expansion mode.

Our objective is to achieve ROE of 15 to 16% in this business within next 3 years, at par with our peers.

- In **Religare Securities Limited** and **Religare Commodities Limited,** our **Retail Broking business,** we continue to focus on productivity and improving the quality of business. Brokerage yields are steady in both equities and commodities. Commodities market share is steady while equity market share was slightly lower. We are focusing on improving our distribution productivity while maintaining the footprint. Equities client base stood at around 843,000 and commodities client base stood at around 172,000 as on 31st March 2013.

  Our retail broking business reported steady revenue quarter-on-quarter at ₹1,063 million and negative PBT before exceptional items of ₹164 million. On a full year basis, the business has clocked revenue of ₹ 4,298 million and negative PBT before exceptional items of ₹ 211 million.

  We hold equity in our domestic asset management business through RSL. During the quarter, the sale of equity to Invesco was concluded and we have reported a profit of ₹ 3.04 billion on the transaction. On a reported basis, therefore, we had a PAT of ₹ 1.87 billion in the Retail Broking business.

- **Religare Capital Markets Limited** continues to focus on creating a sustainable platform for the business. As at March 31, 2013, the business was empanelled with 613 institutional investors globally with active coverage of 250 stocks within the region. We continue to see strong growth driven by traction in ECM in Asia. The result of our restructuring efforts is now visible in the run rate performance of business in the form of significantly lower opex. Our focus is to keep a tight control on the costs in this business and our target for FY14 is to restrict the operating loss in the range of US$5-8 million assuming the market behavior does not change from here. As explained earlier, this operating gap is not funded by REL.

  As you know, we do not consolidate the financial statements of RCML with REL since 1st October 2011, but the business continues to remain operationally integrated with the rest of Religare.

- In **Religare Macquarie Wealth Management Limited**, our **Wealth Management Joint Venture**, AUM stood at ₹28.3 billion as at March 31, 2013, with year-on-year improvement in Relationship Manager productivity by 72%. New initiatives are underway to expand the product proposition of the platform and drive future revenue. Focus is on nurturing and retaining the high quality wealth advisor base. The business continues to hold costs at sustainable levels.

  We have operationally brought the retail broking, capital markets and wealth management businesses under one CEO to ensure that we generate maximum synergies across the platform. Accordingly, we will move the shareholding in RMWM, which is currently directly held by REL, under RSL

- **Religare Invesco Asset Management Company Limited,** which operates our **India Asset Management** business, recorded a 35% YOY increase in AUM which is better than industry growth of 22.8% YOY. The business witnessed shift of AUM to long duration funds from money market funds / FMPs on softening of interest rate outlook.

  We successfully consummated the Joint Venture with Invesco in Q4FY13 on receipt of regulatory approvals and Invesco is now a 49% partner in the company. This transaction is a very good example of value creation in our portfolio.

- In **Religare Global Asset Management**, we are building a multi-boutique Alternative Asset Manager. After doing acquisitions of Landmark and Northgate, we have embarked on organic initiatives under this platform. As part of this initiative, Religare Health Trust was successfully launched and listed on SGX during FY13. We are also working towards the launch of Quadria, a healthcare-focussed fund under this platform and we are expecting the first close to be completed in Q2 of the current financial year.

- **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 (GWP) of ₹ 190.1 million in Q4FY13 and cumulative GWP of ₹ 388 million in the nine-month period ended March 31, 2013. It now provides three health insurance products and provides health cover to nearly 200,000 lives as of 31st March 2013. Systems and processes have stabilised and over 5,000 claims have been managed in-house. Total Paid-up Share Capital is at ₹ 1.75 billion with a comfortable solvency position at 245%. We will continue to roll this business out as per plan through next year.

- **AEGON Religare Life Insurance Company Limited**, our **Life Insurance JV**, continues to build its franchise with an increase in the customer base to 273,000 customers from 251,000 with around 23,800 policies issued in this quarter. We continue our efforts on repeat sales and use of non-conventional distribution channels. The business launched Assured Returns Plan in in Q4 FY13 that delivered good value to customers and was well received.

  We have recently re-negotiated our investment terms for ARLIC with our partner AEGON. As part of the new investment terms, we will receive 15% per annum guaranteed returns on our investment above ₹ 4.4 billion of initially committed capital in ARLIC. The first ₹ 4.4 billion of capital we have infused continues to enjoy 12% guaranteed returns. We continue to work towards making sure that over and above our guaranteed returns, there is an equity value creation in the business.

In conclusion, I'd like to say that REL is focused on generating equity value by providing capital and direction to its portfolio of operating companies. We have been reporting the performance of the portfolio companies so that you can make an assessment of the underlying operations and strength of the 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 you can now open the lines for Q&A.

Moderator : Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from Ritesh Nambiar of UTI Asset Management Company. Please go ahead.

Ritesh Nambiar : Just some clarity on your investment write-off which you have done - in Q4 last year you had an exceptional gain on account of deconsolidation which was around ₹ 46 crore and there the total losses which were declared of that entity was somewhere around ₹ 680 crore. The liabilities of ₹ 810 crore which you are assuming means that the entity had further leveraged ₹ 150 odd crore and you have converted your debt to pseudo equity and in fact the loss funding agreement which you have done does not hold through because you have taken the whole loss, right from the accumulation of the loss till date. So does the [funding] agreement actually work?

Shachindra Nath: So Ritesh before Sunil and Anil explain you in detail - one that agreement is to fund the operating gap of the entity and it continues to do that. That agreement does not contemplate as of the date of deconsolidation to fund the previous liability. On the date of deconsolidation, the liability which is stood in Religare Capital Markets' books was to the tune of ₹ 11.2 billion and that was shown as a contingent liability on REL's balance sheet because REL has committed that in case there is a call for that repayment, Religare would fund that obligation. So we have only funded the obligation which was prior to the date of new agreement coming into the place.

Ritesh Nambiar : But that could have been done on-book as well because that off-book would have come on-book and you would not have taken the hit which you have taken. In the process you have converted your debt to contingent liability to equity and then taken a 100% write-off.

Shachindra Nath : Yes.

Ritesh Nambiar : So the similar ₹ 310 crore figure we could expect the same actually to come in the subsequent quarter?

Shachindra Nath : Yes.

Ritesh Nambiar : The second question is on the NBFC business. Just a sense on that: the dividend pay-out which has happened in this quarter specifically. Would there be a defined dividend policy between Religare Finvest and Religare Enterprises? That every year there would be a dividend pay-out kind of thing?

Shachindra Nath : Religare Enterprises defines the dividend policy for all its underlying subsidiaries and we are trying to come to a consistent policy in terms of out flowing the dividend. But that will also be dependent upon what is the growth and capital need of the underlying businesses, especially if the business is in the nature of lending like Religare Finvest Limited. As you would have seen at this time we have only distributed 1/3rd of the distributable profit to Religare Enterprises and we would try to follow that consistent approach but in case of there is surplus liquidity available then we would see at that time if situation demands, we may draw higher dividends as well. But otherwise the range which we are seeing now is the range we would like to maintain.

Ritesh Nambiar : Lastly, within Religare Finvest just wanted to know this ₹ 45 crore write-off which has happened: is it of a past account which was classified as NPA?

Kavi Arora : Yes that is right. It is largely on account of one large account.

Moderator : Thank you very much. We have a question from Nilesh Karani of Magnum Equity Broking Ltd. Please go ahead.

Nilesh Karani : Just wanted to understand the outlook for your insurance business in 2014 and broking business in 2014?

Shachindra Nath : We have two insurance ventures; one is health insurance and another is life insurance. Which one you are interested?

Nilesh Karani : Both.

Shachindra Nath : As far as the life insurance business is concerned, we are following a prudent philosophy of conserving capital, rebalancing the architecture of the business and realigning it to the current market reality and making sure that the capital which Religare has committed to the business comes to breakeven as quickly as possible. But as you know this is a joint venture with AEGON and we have to balance our approach with long term aspiration of AEGON and the other share-holders.

Nilesh Karani : That is what I wanted to understand, when we will breakeven from this thing?

Shachindra Nath : So we expect this business to break-even in 3.5 years to 4 years from now. That is our expectation. But as you would know that our current structure is our capital with the floor return is protected and equity upside over and above that whenever it is realized in 10 years' timeframe comes back to us. So while the business, even if it does not get to a break-even, its operating loss does not get consolidated in to us because of the capital protection provided by AEGON.

Basab Mitra : For Broking, genuinely speaking, we do not expect markets to really rally this year. Our operating philosophy is that we need to make money through the cycle, so even if markets do not rally and markets continue to remain at current levels we want to be significantly more profitable and I think you would have seen in the last quarter numbers aside from the exceptional items, we are now in positive territory and we expect that trajectory to continue to next year. But in terms of broking volumes, we do not see increase in broking volumes. We are anticipating no growth in broking volumes for us.

Shachindra Nath : In terms of the health insurance license, we are just into the first 9 months of our operations and we continue to roll out the business. We are making sure that the quality of business which we onboard maintain a healthy claims ratio. We continue to conserve capital and while we will continue to achieve a top-line growth in terms of the gross written premium but that we do not want to do at the cost of consuming too much of capital. As you would have seen our initial roll out of health insurance business has been on a very prudent and conservative basis, we have not spent money in terms of brand advertising and we have relied upon existing Religare infrastructure and overlaid our distribution on top of that and we have been fairly successful in doing that and this year we would continue to follow that strategy.

Nilesh Karani : What type of top-line do you see in Health Insurance?

Shachindra Nath : Normally we refrain from projecting the next year numbers and it is too early because we are just in the first nine month of the operations. It is too early to give you an indication of what kind of a gross written premium we would go because it is still not stabilized or not an old business wherein you can really do a projection but obviously you will see a very healthy growth from what you have seen in first 9 months.

Moderator : Thank you very much. We have a follow up question from Ritesh Nambiar of UTI Asset Management Company. Please go ahead.

Ritesh Nambiar : On Religare Finvest within the NBFC business is any change in mix which has actually led to better realization and non-security base lending?

Kavi Arora : There is a rebalancing of the assets that is a continuous process. It is better throughput down to the bottom line you are right. Our top-line has grown by about 22% year-on-year and our core expenses are down by about 12% resulting in to a better throughput which is PBT growth by about 42%. So while the balance sheet has not grown the reason because there is a securitization that has happened in Q4 as well. So there are many transactions that have happened in March and thus the balance sheet has not grown. We will continue to work on rebalancing the assets and looking at better throughput and better profitability.

Shachindra Nath : Just to add on I do not think so that the rebalancing has happened from secured to unsecured per se.

Kavi Arora : We have said that the cornerstone of our whole strategy lending is SME. And when I mean rebalancing, we have continued to increase our SME assets both on secured and unsecured. By and large, and the secured-unsecured mix in the portfolio has not changed.

Ritesh Nambiar : Lastly the tax impact was purely dividend distribution on Religare Finvest?

Kavi Arora : That is right.

Moderator : Thank you very much. We have a question from Devesh Dokwal of Reliance Capital Asset Management. Please go ahead.

Devesh Dokwal : Just on the Religare consol level there is a profit of ₹ 320 crore on share of subsidiary. What is this?

Anil Saxena : Yes, this is the gross capital gain number which is on sale of 49% of Religare Asset Management Company to Invesco.

Devesh Dokwal : On the Religare Finvest we were just looking at the number, operating expenses have grown QoQ, anything specific here?

Kavi Arora : Yes, the numbers has really gone up is the write-off number which I gave for a specific large account.

Moderator : Thank you. We have a question from Nikhil Paranjape of ICICI Prudential Asset Management Co. Ltd. Please go ahead.

Nikhil Paranjape : On Religare Finvest wanted your sense on the asset quality going forward. Basically on a 180 day basis jump has been sharp from 0.47% in December to 0.93%.

Kavi Arora : I think the jump in 180 days is largely on one account as I just mentioned that earlier as well. On a broader sense we see that the portfolio performance remains consistent. We are confident of maintaining at the steady level that we have been managing in the past.

Nikhil Paranjape : So that account essentially turned 180 in this quarter?

Kavi Arora : Yes, that is right.

Moderator : Our next question is from Praveen Agarwal of Axis Capital. Please go ahead.

Praveen Agarwal : I wanted to understand the management's thought process and the preparedness for new banking licenses?

Shachindra Nath : So Praveen as you know that time lines of the banking license is not changed. We have to file our application by 30th of June. So we are fully prepared to file within the given time line. And banking continues to be a focus area because it throws up an immense opportunity to increase our portfolio penetration and dip into the larger revenue pool of Indian financial services industry.

Given the broader experience of Religare across every asset class in managing both fiduciary and non-fiduciary businesses, there is very strong management team and our capital position. I think we feel very excited that given the opportunity we will be able to build a new generation innovative banking business model in India. So we continue to work towards that but nothing of as such which we can disclose in public domain. But within the timeline we would surely apply.

Praveen Agarwal : Is there anything we have sort a clarification from the central banks regarding this?

Shachindra Nath : There are certain queries which we have asked but we have a very good sense of what the guideline provides for. And besides what is provided for in the language we have also looked at what is the intent behind each of those parameters in the guidelines and we would try to follow the intent behind the guideline and just not the language over there.

Moderator : Thank you very much. We have a question from Kajal Gandhi of ICICI Securities Limited. Please go ahead.

Kajal Gandhi : Wanted to just understand what is there in your Global Asset Management books and your Domestic Asset Management book and why is the profitability so different in both these P&Ls?

Shachindra Nath : So Domestic Asset Management business is mutual fund business and as you know our mutual fund business is where in we collect retail money and manage them and structurally domestic asset management business unless and until you are in a very sizeable size and scale, is not that profitable and also the large chunk of our asset under management is in the nature of the fixed income portfolio not equity portfolio. The margin into those kind of area is also low. Having said that our local asset management business has been growing significantly and it has grown at least 3-fold since we acquired Lotus**.** And vis-à-vis its peer market, it has been able to maintain a healthy mix of asset under management growth and balancing it out against a break-even cost and that is why it is valued very highly when we recently did the transaction with Invesco. With respect to our Global Asset Management business, that is entirely of different nature and segment of the business. There we are largely in alternative asset management business which is in the nature of private equity and our affiliate which is Northgate and Landmark they raise funds to invest into other private equities fund for a very long tenure. So normally they have raised that money for a period of 8 to 12 years and they generate fees on such long durations and the margins in those businesses across global private equity world would always be very high. So this always remains in the range of 40% to 50%.

Kajal Gandhi : Do you have any profitability share in that or just the management fee right now? Is it the 2:20 kind of structure?

Shachindra Nath : Yes, one of them is a fund of fund structure, second is also a fund of fund structure. So we actually do not work on 2:20 structure, the fees vary but normally it would be 1: 10. But for certain managed accounts, there is different fee structure and we get to share. So there is a carry and that carry is shared as per our equity share holdings for all new funds.

Moderator : Thank you very much. As there are no further questions from the participants, would you like to add a few closing comments?

Shachindra Nath : Yes. Thank you very much for attending this call. 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 ahead.

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