Religare Enterprises Limited

Q4 & FY14 results conference call

Tuesday, June 03, 2014 at 3:30 p.m. IST

Kishore Belai: Good afternoon everyone and welcome to our fourth quarter and full year FY14 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 developments in the company and the company's performance for the quarter and the year. We will subsequently open the lines for Q&A. I now turn the call over to Mr. Nath.

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.

Let me start with a recap of Religare Enterprises' structure for the benefit of those who may be joining new on this call. This is laid out on Slide 2 of our presentation.

Religare Enterprises Limited is the Investment Holding Company for an integrated financial services business that predominately operates in India. We are present across four segments of the financial services industry:

- Lending – through Religare Finvest Limited
- Retail Broking and Capital Markets – through Religare Securities Limited and Religare Capital Markets Limited

- Asset Management – through Religare Invesco Asset Management which manages a mutual fund in India, and Religare Global Asset Management which is an Alternative Investment Management platform; and
- Health and Life Insurance – through Religare Health Insurance Company Limited and AEGON Religare Life Insurance Company Limited, respectively

Today we service around 1.35 million customers from over 1,600 locations through more than 5,500 employees. Our lending business book stands at ₹103 billion; our asset management businesses manages approximately USD 16.5 billion of investors fund both in India and overseas. Our Life Insurance Business has a total fund size of ₹12.5 billion. On a consolidated basis our net worth as of March 31, 2014 was nearly ₹32 billion and we generated consolidated revenue of ₹34.7 billion in FY14.

Turning to Slide 3, the portfolio companies all operate in distinct sub-sectors within financial services and are managed by their respective boards, CEOs, and management teams on a day-to-day basis. REL's role consists 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 portfolio companies create equity values and to that end REL will ensure that subsidiaries are well capitalized provided with appropriate inputs and given the correct direction to achieve this objective.

Slide 4 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 or for some businesses inorganically where the strategy so demands, such as in our Global Asset Management business.

To summarize, REL operates as an investment holding company for various financial services business and aims to create equity value in each of its portfolio companies. I hope this gives you a good idea of REL's structure and REL's objective.

Let me now turn to the year and the quarter that has gone by:

One of the key themes at Religare during FY14 was that of strengthening governance. There are two major initiatives we have undertaken towards this in the last fifteen months:

- First, the Board of Directors of Religare Enterprises has been considerably strengthened so as to provide better oversight to the company's management. In Q4 FY13 Mr. A. C. Mahajan who had served as Chairman & Managing Director of two large public sector banks was inducted on the REL board as an independent non-executive director. In FY14 two Independent Non-Executive Directors joined REL board. Mr. Arun Ramanathan the former Union Finance Secretary joined in the first quarter and Mrs. Sangeeta Talwar a highly accomplished business leader with a background in marketing and rural development in third quarter thereby adding to the diversity and experience of REL board. We believe that we now have a formidable board with rich experience that is able to provide extensive counsel control and guidance to the management team in various aspects of running the business. Across Religare Enterprises and its subsidiaries in India and overseas we have now a total of 18 Independent Directors.
- Second, as committed by REL's promoter group, REL shareholder base has been diversified consequent to various actions that have been taken in this direction since start of FY14; the shareholding of the promoter group has been brought down from 72% as of March 31st, 2013 to around 50% today. Besides being a necessary condition for entering certain regulated business such as Banking, our diversified shareholder base provide REL access to a larger pool of capitals to fund its future growth.

Let me now turn to our financial performance:

An overview of the consolidated financials of Religare Enterprises is on slide 6 to 8. Let me take you through some of the highlights of the results for Q4FY14.

- Revenue for Q4FY14 was up 5% from the previous quarter at ₹9,406 million with both the Life and Health Insurance Business contributing to the growth
- Normalized Profit Before Tax – i.e. PBT excluding exceptional and non-recurring items was ₹837 million for Q4FY14 as against ₹958 million for Q3FY14.
- Correspondingly, the Normalized Profit After Tax – i.e. PAT excluding exceptional and non-recurring item and the related tax impact for Q4FY14 was ₹ 225 million as against ₹266 million in Q3FY14.

For FY14 as a whole:

- Revenue was flattish year-on-year at ₹34.7 billion. The growth reported by our insurance and alternative asset management businesses was offset by lower revenues in other businesses primarily in our lending business as we conserved our balance sheet and our retail broking business as the conditions in the capital market were unfavorable.
- Normalized PBT was ₹2,725 million a growth of 4% over the earlier year and Normalized PAT stood at ₹480 million versus ₹974 million.

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:

- Religare Finvest Limited, which houses our Lending Business, reported revenue of ₹5,215 million in Q4FY14 a growth of 4% over the previous quarter with a PAT of ₹710 million a growth of 6% over the previous quarter. For FY14 revenue was ₹20.1 billion with a PBT of ₹3.4 billion, a growth of 23% over previous year and a PAT of ₹ 2.2 billion as against ₹ 1.9 billion in FY13.

  FY14 has been a period of controlled growth for RFL and the business has utilized this time to improve its net interest margin which has steadily inched up through the year and stood at 4.7% for Q4FY14. Margin improvement for RFL has been achieved by actively working on reducing the spread on borrowings and optimizing the mix of liabilities. NPA has moved through the year in tandem with the conditions in the economy but are in control. Gross and net NPAs on a 90 day basis stood at 1.62% and 1.12% respectively as at March 31, 2014. There has been some quarterly variation in opex but on the whole it remains in a healthy zone.
- Religare Securities Limited and Religare Commodities Limited, our retail broking business, reported combined revenue of ₹1,008 million in Q4FY14; a growth of 12% over the previous quarter and a PAT excluding exceptional item of ₹56 million compared to ₹92 million in the previous quarter. For FY14 as a whole, revenue was ₹3.69 billion as against ₹4.30 billion in the earlier year while PAT excluding exceptional items stood at ₹209 million compared to the loss of ₹488 million in FY13. As I mentioned earlier, the topline was affected by market conditions but we have taken various actions to restore the business to profitability and the initiatives have borne fruit. Equity market activity during FY14 was concentrated in the institutional segment and this has had some impact on RSL's market share. However, in the

Commodities space, there has been some disruption in the market since the imposition of the Commodities Transaction Tax and the crisis that broke out in one segment of the market. Notwithstanding the disruptions, our Retail Broking business has strengthened its position and significantly improved its commodities market share during the year, which stood at 3.2% for the Q4FY14.

- Religare Capital Markets Limited continues to focus on creating sustainable platform for the business. As at March 31, 2014, the business was empanelled with over 480 institutional investors globally with active coverage of 250 stocks globally. In Q4FY14, we have seen pick up in FII activity which continues into Q1FY15 and gives us confidence that FY15 will be a significantly better year for the business.
- Religare Wealth Management Limited, which is now a subsidiary of Religare Securities Limited, reported revenue of ₹53 million a growth 23% over the previous quarter driven by an increase of AUM. For FY14, revenue was ₹216 million as against ₹254 million in FY13 and PAT was negative ₹110 million compared to negative ₹111 million in FY13. AUM for the business stood at ₹30.1 billion as at March 31, 2014 and there has been a meaningful improvement in relationship manager productivity which was a core focus area for the year. As I had mentioned on our previous call we had acquired Macquarie's 50% stake in this business and the transaction was completed on 27th November 2013. Religare Wealth Management Limited is, as I said earlier, now a subsidiary of Religare Securities Limited.
- In Religare Invesco Asset Management Company Private Limited, our India Asset Management business, we reported revenues of ₹192 million in Q4FY14 which is marginally up from ₹189 million reported in Q3FY14. The PAT was negative to ₹11 million in Q4FY14 due to additional spend towards marketing and distribution of new schemes. FY14 revenue has increased by 23% to ₹861 million and PAT was negative ₹86 million as against ₹50 million in FY13. Average Asset under Management for Q4 FY14 was ₹ 14.5 billion.
- In Religare Global Asset Management, our Multi-Boutique Asset Management platform we have embarked on organic initiatives under the platform and after successfully managing global alternative investment funds, we will be incubating four new alternative investment funds across different strategies focused on India and Asia.
- Religare Health Insurance Company Limited, our health insurance venture, is delivering on its committed business plans. The business is in the growth phase and added over 2.3 million covered lives during the year. The gross written premium for Q4FY14 was ₹422 million with

a PBT level loss of ₹243 million for the quarter. For FY14 GWP crossed ₹ 1.5 billion while the PBT was negative ₹796 million.

- AEGON Religare Life Insurance Company, our life insurance joint venture, continues to build its franchise with an increase in the customer base to over 325,000 customers and year on year increase in the first year premium of 46%. During Q4FY14 total income was ₹2.4 billion, a growth of 71% over the corresponding quarter of the previous year. For FY14, the total income was ₹5.7 billion as against ₹4.9 billion in FY13. The net loss reported by the business is marginally down to ₹ 1.1 billion in FY14 as against ₹ 1.3 billion in FY13.

Looking back at FY14, it has been a year of consolidation for Religare Enterprises and its portfolio of businesses:

- Our Lending Business delivered better profitability than the earlier year
- Our Retail Broking Business has achieved break-even as a result of the efforts put in for more than two years
- The Asset Management business continues to break-even operationally.
- Health insurance is a sunrise business and has created the right platform for sustained multi-year growth although currently it's in the investment phase

Our consolidated financials also include the impact of the financing cost for debt outstanding at the holding company level; while in line with the requirement of the accounting standard, the corresponding incomes are not recognized. Specifically, our investment in our Life Insurance business along with the defined return guaranteed and backed by a bank guarantee. While we recognize the interest expense incurred on the financing line against this bank guarantee, we do not accrue the income represented by the guarantee on our investments during the year.

When we look ahead at FY15, we are encouraged by the inherent strength of each of our major businesses and overall improvement in the environment which will provide tailwinds across our entire portfolio.

- Our Lending business is well poised to grow its book and benefit from operating leverage thereby improving its profitability
- We are seeing an improvement in sentiment in the capital markets during the current quarter and there some signs that retail volume is picking up – this will provide an upside to our Retail Broking business

- In the Domestic Asset Management business, we are targeting substantial growth in AUM given the buoyancy seen in the market
- However, our Health Insurance business continues to remain in the investment phase and while the premium income will improve meaningfully, there still is some time till it breaks even
- Our Life Insurance business continues to focus on growing business while increasing efficiencies. As I have mentioned before, the loss incurred by the Life Insurance business is not consolidated with REL as REL is guaranteed returns on its investment in the business

In light of the above, we feel confident that we will deliver better performance on a consolidated basis and we will be meaningfully profitable in FY15.

With that I come to an end of my opening remarks. The senior management of Religare Enterprises along with the management team of our portfolio companies and I would be glad to address any queries that you may have.

Moderator: We will now begin the question and answer session. The first question is from the line of Arvind Subramanian from IDFC Mutual Fund. Please go ahead.

Arvind Subramanian: Firstly just wanted to understand how much dividend has Religare Finvest paid out in the whole of FY14?

Shachindra Nath: You want to know the percentage of the profitability or the exact amount?

Arvind Subramanian: The full quantum including taxes if I can get that?

Bipin Kabra: The dividend declaration is about 30% that is ₹3 per share.

Arvind Subramanian: What will be the quantum?

Bipin Kabra: It would be in the range of about ₹55 crore.

Arvind Subramanian: What would be the stated dividend policy for the NBFC given that going forward the NBFC itself would need capital for growth?

Shachindra Nath: I think we are still very substantially capitalized and we have a substantial cushion. However the board of Religare Finvest has adopted a guidance policy of distributing one-third of its profitability as dividend.

Arvind Subramanian: So what would be the Tier-1 and capital adequacy at Religare Finvest as on year end?

Bipin Kabra: The capital adequacy is at about 19.2% with Tier-1 being at a little over 16%.

Arvind Subramanian: On the standalone financials, there has been a very sharp increase in finance costs but if I then correlate it with the debt, the debt levels have remained the same. So how do I reconcile this for numbers for the full year there is almost ₹223 crore of finance costs in the standalone?

Pervez Bajan: The debt levels are more or less the same because at the end of last year in the last week of March there was a large amount of debt that was raised, slightly more than ₹500 crore and the impact of that interest cost had hit us through the current year.

Sunil Garg: And during this year also we have gone ahead and we borrowed on the basis of the bank guarantee which we have. So additional indebtedness has been there in the standalone balance sheet ₹625 crore which has come in September so there is an impact of six months borrowing cost in standalone for the current year.

Shachindra Nath: As I said in my opening remark that technically we have monetized our investment in our Life Insurance Business. So we have a created a debt against the bank guarantee on our investment in the life insurance company. So on one side we recognize the interest expense in our balance sheet but the guaranteed income we do not accrue in our balance sheet.

Moderator: The next question is from the line of Kaushal Patel from IndiaNivesh. Please go ahead.

Kaushal Patel: I have a question on Life Insurance Business. I would like to know your outlook on insurance business because just in the month of January I think all the products were re-launched due to new guidelines. So going forward what is your outlook for your insurance business and for the industry?

Shachindra Nath: Let me give you the view of our Life Insurance Business. I think we have consolidated our Life Insurance Business very significantly in last one-and-half year. We have been very prudent in terms of the total expense outlay and have cut cost very significantly. We have right-sized the business and made it more productive. The number of branches has been reduced and we are making sure that each of the branches over a period of next three to four years and overall the Company get to a breakeven much faster than what was previously envisaged. We are trying to be sharper on certain product lines. AEGON Religare Life Insurance Business is market leader in online products and we are focusing and growing that portfolio quite extensively.

Like everybody else, this insurance company was also hit by the product freeze or approval freeze but now that is a thing of past and now product approvals are all coming since the regulatory changes. Overall the insurance industry would continue to remain challenged for certain period of time because market has yet not adjusted to the new normal mean of distribution architecture. The costs of distribution in India continue to be extremely expensive and most of the insurance companies that do not have large bancassurance partner continue to struggle.

So the insurance company which came in the first round and who have the legacy of a large insurance pool, underwriting commission and the income which they generate out of lapsation are still okay. But the second generation insurance companies all struggle because they do not have sheer size of the market, and distribution has become very difficult. Hopefully if there is a change in the FDI regulation, we will see more movement because more capital would be injected in to the industry and that may propel the topline growth. I think it would still take some amount of time because you see real profitability out of the insurance companies. I hope that works.

Kaushal Patel: Do we have any plan to tie up with any financial institution for distribution going forward?

Shachindra Nath: So as you said in the insurance business, bancassurance continues to be a very significant agency and bancassurance continue to be a very significant pool from where insurance premium can be garnered. However there is a change expected in terms of the regulations for the banks. They used to work as corporate agents but now there is a discussion going on whether they have to become an insurance broker or not and pending that decision most of the banks have been waiting for deciding whether they have to continue with their bancassurance partner or not. Having said that, in the life insurance business if the banks convert into an insurance broker, for the new insurance companies there is a possibility that they may be able to get to more new banks as the bancassurance partner but otherwise in life insurance market there are not enough banks available who you can partner with for bancassurance.

For our Health Insurance Business banks continue to be a very significant channel of insurance premium. As you know that in our Health Insurance Company both Corporation and Union Bank are 5%shareholde₹ Union Bank has already started distribution and we have other banks that are also doing distribution and from a Health Insurance Company banks continue to be a very key focus area.

Moderator: Thank you. As there are no further questions I now hand the conference over to Mr. Shachindra Nath for his closing comments.

Shachindra Nath: Thank you very much for participating in this conference 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.

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