Religare Enterprises Limited

Q4FY12 Earnings Conference Call

Tuesday, May 29, 2012 at 3:30 pm IST

Kishore Belai : Good afternoon everyone and thank you for joining us on our fourth quarter and full year FY12 results conference call. I am Kishore Belai, Head of Investor Relations at Religare. We are joined on this call today by Mr. Shachindra Nath, our Group CEO, Mr. Anil Saxena, our Group CFO, and members of our senior management.

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 invitation for this call. On this call, Mr. Nath will first give you an update on the Company's performance for the quarter and the year and 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. Our results presentation has been uploaded on our website and emailed to you all. I hope you have studied the numbers already. I will start by talking a bit about the environment within which our businesses operate and thereafter walk you through our quarterly and yearly performance. As seen on slide 2 and 3 of our results presentation, FY12 has been a mixed year at best for the markets. Trading volumes on the Stock Exchanges came back a little bit in FY12. However, the share of Options in the overall turnover came to constitute roughly 2/3rd of the total market volume, and this has had a direct bearing on the revenues of the broking industry. After rising for most of the year, interest rates peaked out towards the end of the year, and in fact, we saw a larger-than-expected reduction on 50 basis points in the repo rate in the third week of FY13.

However, there was also a situation of tight liquidity in the second half of FY12, resulting in an inverted yield curve at the end of the year. No. of retail folios in mutual fund industry have declined by over 1.5 million. Overall AUM at the end of FY12 is stagnant as compared to previous year with decline observed in equity AUM. In the Life Insurance industry, New Business Premium was lower in FY12 as compared to FY11 in all but two months of the year. For the year as a whole, new business premium was 9% lower than the earlier year. Net Investment by FIIs in Indian equities during the financial year was lower by 36% versus FY11. As we went through this year, Religare decided to take the challenges head-on and take appropriate action on several fronts to ensure that our business becomes more resilient and better positioned to win in the longer term.

I have talked to you about these initiatives in the past, but let me recap these and tell you how these steps have strengthened our model. Firstly, we restructured our retail broking business starting Q2FY12 to make the model asset-light and to reduce fixed costs. I am happy to report that we have reduced our structural costs by around 15% and consequently, the business has become profitable on an operational basis. Secondly, we centralised our Corporate Functions in a new entity called Religare Corporate Services Limited effective 1st October 2011. This has significantly enhanced operating efficiencies and reduced the cost of common services for the operating businesses and provided transparency on allocated cost for each business. Thirdly, our Capital Markets business was restructured to focus on India and Asia, given the more profitable opportunity in this part of the world. Again, there has been a substantial reduction in the structural cost of operating this business and the revenue risk has been reduced significantly. Finally, we entered into a long-term financing arrangement for the Capital Markets business whereby the incremental operating gap in this business will be funded by the Promoter Group by way of Preference Shares. Thus, while the business has secured a stable, long-term, external source of funding, the equity upside remains with Religare Enterprises.

Another key achievement in FY12 was the induction of debt and equity investors in Religare Finvest Limited, our NBFC, We had a very successful retail issue of Non-Convertible Debentures in September 2011. The issue closed before schedule and raised a total of ₹ 7.54 billion as against a basic issue size of ₹4 billion. Two private equity funds, namely Avigo Capital Partners and Jacob Ballas, have invested a total of ₹3.5 billion in RFL. Besides providing a cushion for growth, the additional capital is a testament to our focus on the under-served SME sector, which is really the backbone of the Indian economy.

Let me now give you an overview of our consolidated financials which are on slides 4 to 6. Consolidated revenue for Q4 rose 16% QOQ to ₹9,004 million. For the year, the revenue increase was 31%. We reported a PBT-level profit of ₹817 million for Q4 as against ₹534 million in Q3FY12 representing an increase of 53%. For the year, PBT level loss before exceptional items stands at ₹1,423 million which is an improvement of ₹567 million over FY11. At the PAT level, we reported a profit of ₹403 million for the quarter as against ₹342 million in Q3FY12, an increase of 18%. For the year PAT level loss before exceptional items stands at ₹2,586 million. Exceptional items include provision against REL's investments in RCML Equity and Preference shares, and the impact of deconsolidation of RCML. The net impact of these exceptional items is positive ₹458 million in this quarter and full year FY12 – that is, profit after exceptional items is higher by ₹458 million. Also, I wanted to mention that FY12 financials are not truly comparable with FY11 financials as RCML was consolidated in REL's financials for all of FY11 but in FY12, RCML has been consolidated only for the first half of the year.

Let me now share the good news: our Health Insurance venture has received R3 approval from the Insurance Regulatory and Development Authority and we shall be launching commercial operations shortly. The Health Insurance market in India has been growing at a rapid pace with a CAGR of 35% over the past 8 years. It is expected to grow at a rapid pace since there is a large healthcare funding gap in India which needs to be bridged. We have a unique proposition in this space given the linkages that we have across the healthcare space within the extended Group.

Let me now give you a brief update on each business which is summarised on slides 7 to 9 of the presentation. RFL has shown strong operational performance during the quarter. Total lending portfolio increased by ₹5.3 billion to ₹107.2 billiion. In addition NIMs expanded by 35 bps to 5.37%. During the year, our Asset Finance book grew 45% YOY to ₹84 bn. Growth in Capital Market Lending book has been consciously moderated. As on 31st Mar, 2012 the book stands at ₹23.2 bn. versus ₹21.4 bn a year earlier. NIM improved steadily with an increase of 107 bps to 5.37% in Q4FY12. The capital adequacy ratio for RFL has improved to 19.65% as on 31st March, 2012 as against 16.16% as on 31st March, 2011, reflecting a good cushion for growth. We are progressing well on restructuring our retail broking business while maintaining our distribution footprint. Total number of owned branches has been brought down further to 240 as on 31st March 2012 with steady increase in our client base to approximately 0.82 million. Our efforts of client segmentation and focus have started paying off with increase of 20 bps in market share to 1.9% in the fourth quarter, along with improvement in brokerage yield to 3.66 bps. Further, the business is progressing well on its path to profitability. Excluding restructuring related expenses of ₹57.1 million, the retail broking business structurally made a profit of ₹50.1 million in Q4FY12.

The Retail broking business was also honoured with two awards during the quarter at the Bloomberg-UTV Financial Leadership Awards 2012 – 'Best Commodity Broker' and 'Best Investor Education & Category Enhancement Currency Broker'.

The India Asset Management business has attained profitability in Q4FY12, and has achieved breakeven for the full year FY12, within three years of operations under the Religare banner. Religare AMC continues to focus on high-margin, differentiated offerings.

In the Wealth Management business, AUM stands at ₹26.1 bn. as at 31-Mar-2012, up 21% YOY. The size and scale of the business has been aligned to market opportunity with structural reduction of over 25% in cost base between Q1FY12 and Q4FY12. We continue to focus on improving operational efficiency as AUM per relationship manager has doubled to ₹269 million in last twelve months. In the Insurance business, we continue to build our franchise with 41% increase in the customer base in FY12 while ensuring that we use our capital efficiently. This is a business which is a fantastic value creator over a long period, and as I have explained before, our structure allows us to participate in the upside with full downside protection. Our Global Asset Management Platform is bringing together best-of-breed asset managers in the alternates space. Our existing affiliates, namely Northgate and Landmark, continue to develop new products and increase their AUM, and at the same time, we are continuing to assess opportunities for complementary acquisitions in the alternate space.

Moving now to our EM Capital Markets Platform, although RCML's consolidated financial statements have been excluded from REL's consolidated financial statements w.e.f. 01-Oct- 2011, operationally the business continues to remain integrated with the rest of Religare and execute to its plan. As I had mentioned on the last call, we will continue to share with you progress in this business. In the Institutional Equities business, we were empanelled with 36 new clients during the quarter, taking the total number to 548 globally. In the Cash Equities business in India, we had a market-share of around 1.6% during Q4FY12. We have seen reasonable traction in Investment Banking and Equity Capital Markets given the current environment. Some concluded IBD transactions include- Closed the first QIP in India in FY2012, Dewan Housing, which was also the first QIP with issue size > ₹1 bn. since August'11. Sole book runner on the USD 51 mn. block trade for Swiber Holdings on SGX. Acted as senior book runner for US$ 19 mn. Kreuz block trade which took place after the completion of Q4. Distributed the $100 mn. SGX IPO for Global Premium Hotels; brought in 4 out of the 6 anchor orders. This transaction closed in April 2012. The restructuring effort is still in process and is progressing satisfactorily. A few important steps undertaken during restructuring include shifting of the headquarters of the business from London to Singapore given the Asia focus, structural reduction of nearly 40% in employee costs and around 20% in non-employee costs. Overall progress on this front has been as per plan. Given these efforts, our overall headcount in the business has further reduced to 225 in Q4FY12.

Going forward, the markets will likely continue to remain challenged in the foreseeable future and therefore as a holding company, we have taken suitable actions in the form of recalibrating operating models and building greater flexibility and resilience in each of our portfolio companies. Structurally, we are on a path to profitability in each of the businesses and at a consolidated level, we hope to improve upon our current profitability run rate. We are maintaining a sharp focus on performance of each of our portfolio companies and are benchmarking their performance to the peer group. In Lending, our focus is to achieve benchmark ROE while maintaining asset quality. In Retail Broking, as we complete our transition to an asset-light model, our immediate focus is on attaining absolute profitability and to generate superior ROE in the next year. In Asset Management, the effort is for our funds to outperform the market, and grow both domestic and offshore AUM. In Health Insurance, we plan to commence pan-India commercial operations shortly with very low opex by leveraging the Religare ecosystem.

With that, I conclude the opening remarks. The senior management team and I would be glad to address any queries that you may have.

Kishore Belai : Operator we can now open the line for questions.

Moderator : Ladies and Gentlemen we will now begin the question and answers session. The First question is from Elizabeth John from Crisil. Please go ahead.

Elizabeth John : If I go to Slide 6 on the consolidated income statement, can you tell me the key drivers for the growth in the other operating income and what are the constituents of other operating income, In Q4 if you see on a QOQ basis it has increased by 792%?

Pervez Bajan : Q4 to Q3 the main movement has been due to re-grouping with the implementation of revised schedule VI as of the end of the year. It was operationally very difficult to go back and re-group the Q3 numbers and Q2 numbers, so though the total income was like to like the other operating income includes some reclassification effect.

Elizabeth John : So that is not like to like right because Q3 is not same?

Pervez Bajan : On that line yes, that is right. On the total income basis it is fine.

Elizabeth John : Where do we classify the corporate center cost, is it a part of operating or admin?

Shachindra Nath : As we have explained we have Religare Corporate Services as a separate company. Most of the corporate services cost is shared in form of revenue share from all our operating subsidiaries. And here it is shown as a part of operating and admin expenses.

Elizabeth John : Is it a part of operating or a part of admin because there are certain classifications where it is different?

Pervez Bajan : Admin Expenses.

Elizabeth John : SME book has declined sequentially, SME CE and SME CV book? If we look at Slide 11 on SME CE and SME CV finance that has declined sequentially what are our growth areas on the entire mix and also if you could clarify that too?

Kanchan Jain : One of the reasons you see a decline QOQ on that book is the part of the conscious strategy to some extent. We were looking at draft guidelines on the assignment transactions as well as certain guidelines that RBI came up with on the PSL side and these are the big drivers of the commercial asset business**.** Given the uncertainty we had consciously brought that volume down for the year.

Elizabeth John : This AUM excludes the corporate lending book, can you just give me the figure on how much would be the corporate lending book for the full year FY12?

Pervez Bajan : ₹1,853 million.

Elizabeth John : If I go segment wise in terms of Religare Finvest these operating expenses and admin expenses have increased by 30% and personnel expenses declined by 22% sequentially, so can you just explain me the rationale for that, that would be Slide 12?

Basab Mitra : The personnel expenses have declined because we did not have provision for bonuses last quarter so that is the structural reason why the personnel expenses came down so that we like to like comparison. Operating expenses went up mainly due to higher credit costs. Basically we changed our provisioning policy and it is showing up in operating expenses. As you can see on the previous slide, on Slide 11 if you look at the bottom left corner chart you can see that the provisioning has gone up and structurally provisioning has come to full effect in quarter 4.

Elizabeth John : Okay thanks. I'll come back for more questions.

Moderator : The next question is from Vikrant Khadilkar from J P Morgan. Please go ahead.

Vikrant Khadilkar : If you can come to Slide 11 and the graph on the top left hand side can you elaborate on SME loans against property and what exactly is that and secondly what is the loan to value ratio of this book and collateral and what kind of NPAs we have seen in this particular book?

Shachindra Nath : The way we do our business in NBFC is all our portfolios are geared to finance SME as the industry which we look at. Now we are moving under cash flow underwriting and we collateralize by multiple asset classes. So this being one of the asset class.

Kanchan Jain : So essentially these are loans to a diversified base of customers across various industries, all kinds of manufacturing services and infrastructure companies. Loans are essentially for business use - it could be for working capital, it could be for expansion, and the loans are secured by some kind of property, so quite often it tends to be residential property of the promoters or self-occupied commercial property. That's the loan against property book. The LTVs tend to be in the range of 45 to 50%. The loan against property book we are looking at 0.8% as net NPA. It is about ₹48 crore with a 90 day provision. Earlier also we touched upon this that we were on a 180 day recognition policy but in line with the draft guidelines which are expected to be finalized in June, we moved to a 90 day recognition for all our NPAs.

Vikrant Khadilkar : In comparison to other NBFC where their general collateral is the equity of the company which can be liquidated very easily vis-à-vis property where the liquidity is very low, so how Religare ensures that this risk is mitigated?

Shachindra Nath : If you look at NBFC’s market, NBFC which are only focused on capital market financing are very few and obviously they cannot attain the size and scale of non-banking financing business which we operate. If you compare us with other large non-banking financing business you will find the nature of the security would be similar to ours, we believe the nature of our security is far superior and you have a hard real asset. While only from the liquidity perspective Loan against share business may be much more liquid but also has volatility and that's why it is one of the product which we also do in our capital market financing business. But on overall book basis we have restricted that business on an absolute size basis and we don't go over ₹3,000 crore for our capital market finance.

Vikrant Khadilkar : My concern of your loan against property business is that if the collateral is shared and after every correction you ensure that collateral remains at 2.50 to 1, but in case of property which is generally very difficult to re-evaluate. If we see turbulant time in the market then you may not go to borrower and ask the borrower for more top up to ensure that 2.5 times of collateral remains. So how that particular risk is mitigated?

Kanchan Jain : Starting LTV on all these loans is in the region of 45 to 50%, these loans are all amortizing loans - when you go down the loan tenor, the loan balance is actually coming down, so without even assuming any appreciation the property you're looking at the LTV progressively coming down over a period of time that's number one. Number two, the entire underwriting on origination is based on the financial health of the customer. We are looking at a productive use backing the repayment of the loan rather than the collateral. The collateral for us becomes very important, which you could say is a collection lever and as a backup we know that the loan is secured but fundamentally we are looking at the financial health of the customer. In fact when the customer goes into some kind of delinquency that's the time we actually do a review of the property which becomes one of the input into how you are going to manage that account going forward.

Basab Mitra : This is the key product category in most NBFCs. This is fundamentally the mainstay of most of the NBFCs. In fact we would say we are more diversified with our book across multiple categories, but this is a very common category, the mortgage industry is the size it is, the real estate market is the size it is, this is a natural logical collateral that most NBFCs have done so far.

Shachindra Nath : And we have chosen this as a model choice. If you notice, prior to 2008 we were predominantly only a capital market finance business and as a model choice we have diversified that to a large asset finance business. As you said you compare to other NBFCs but I don't think that there is any non-banking finance company which has the opportunity to operate this size of lending business purely in capital market finance and I can assure you that if somebody tries to do with this size in capital market finance business irrespective of the liquidity in hand that would be a riskier model to execute at this point of time in the marketplace.

Kanchan Jain : Yes and basically given that the backup is listed share, there is limited exposure you can take in that and I think you are talking about a narrow promoter funding kind of business which is one of the segments of our portfolio.

Vikrant Khadilkar : In the past because of non-repayment, have you sold off any property or did any distress selling?

Kanchan Jain : In some of the cases we have used that very efficiently to make collection, Our resolution rate on our loan against property deals are very high and the kind of rigorous follow-up that we have, the use of legal tools that we have, we have not gotten into a distress sale but we almost have resolution on the account. You're fundamentally looking at a SME customer where the person lives or conducts the business out of so there's a lot of traction in the collection of the property as collateral.

Vikrant Khadilkar : What is the leverage of this particular line of business, this entire lending credit book?

Shachindra Nath : We measure our leverage at the entity level of 5.5 times.

Vikrant Khadilkar : What is the average loan size?

Kanchan Jain : The average loan size in the loan against property book is about ₹2 crore. It is obviously much smaller in the other product lines.

Vikrant Khadilkar : What is the tenure of that loan size?

Kanchan Jain : 10 year amortizing loans.

Vikrant Khadilkar : What is the capital adequacy ratio in this particular line of business?

Shachindra Nath : You are asking regulatory Capital adequacy or you are asking our capital adequacy?

Vikrant Khadilkar : Religare Finvest's capital adequacy ratio.

Kanchan Jain : 19.65%.

Vikrant Khadilkar : This is both, tier 1 as well as tier 2?

Kanchan Jain : Yes. Both.

Vikrant Khadilkar : Okay, thank you.

Moderator : The next question is from Nishant Singh from Axis Bank. Please go ahead.

Nishant Singh : On slide 5, regarding this deconsolidation impact of ₹681 crore in the FY12, could you just throw a bit more light on this although we have this written here in the notes that there is excess of liabilities over assets but if you could just clarify?

Pervez Bajan : When you deconsolidate a balance sheet, you take off your assets and liabilities and then what is left is effectively your accumulated surplus and this effectively is reversal of accumulated surplus.

Nishant Singh : So is this being credited to the P&L account in a reversal accounting method?

Pervez Bajan : Yes.

Nishant Singh : The RCML investment write-off which is of ₹635 crore is again the investments that would have been REL's investment in RCML which have been provided for, is that the provisioning?

Pervez Bajan : Yes. We have just been conservative as we have decided to provide for it.

Moderator : Our next question is from Kiratpal Singh from Axis Bank. Please go ahead.

Kiratpal Singh : We are all knowing that this is a very challenging environment and NPA levels are comfortable but still they are edging up coupled with pressures on the NIM and the profitability margin has been declining over the last three years. If you see in FY10 it was 22%, in FY11 it was around 11% and this year it is around 7.5%. So what is the visibility for FY13?

Basab Mitra : I don't think first of all you should be looking at PAT margins of the businesses like RFL which is growing. There are couple of reasons why the PAT margin is normalizing one is that we were largely equity funded when we started off this business. What is more important is obviously a key metric in this business which is return on equity not PAT and because our business is largely equity funded, it is now reflected itself in the PAT margins. I think more important metric for you to track is ROE and this business is still very much in buildout phase and we are in year three of the business, we have structural ROEs of about 9 to 10% now. We think it will go up to 13 to 14% next fiscal. Structurally we should be at about 18% by FY15 that is the path that this business is taking.

Kiratpal Singh : But with slight edging up of NPAs and the possibility of increase provisioning requirements in FY13 there may be some challenge on that front also?

Kanchan Jain : The increase in NPAs that you see here is predominantly because of the change of provisioning policy from 180 days to 90 days. If you look at our NPAs today we are comfortable, all our exposures are across diversified industry sectors and we also track our portfolios and we did that analysis we can see that vintage-on-vintage the portfolios are tracking up pretty well. On top of that as Mr. Shachindra Nath mentioned we recently have done an overall underwriting framework and strengthened it further. As we are going into the third and the fourth and fifth year, the growth also tapers down and that gives us a chance to do our underwriting even further selectively than the year gone by. We don't see any issue on that count.

Kiratpal Singh : Right, Thank you.

Moderator : Our next question is from Anurag Mittal from Axis Mutual Fund. Please go ahead.

Anurag Mittal : What is your average ticket size, in LAP is it ₹1 crore ?

Shachindra Nath : It’s ₹2 crore.

Anurag Mittal : What is the average yield there?

Kanchan Jain : The average yield is about 15.2% or so.

Anurag Mittal : So given that your LTV is about 45%, so the average property that you are lending against is it about Rs. 4 to 4.5 crore?

Kanchan Jain : Yes.

Anurag Mittal : So given that your peers are giving you much higher LTV at 60 to 65%, why would a customer come to you, given that yields are about 15% on the higher side and your LTV’s are on the lower side, so why will a customer come to Religare?

Shachindra Nath : Predominantly efficiency for them to choose who they would restrict the lending from. Our underwriting just being distributed and we are probably much more efficient in terms of delivering on TAT basis, vis-à-vis the competitors. And you should presume we are a smarter than lot many other people, because the customer keeps coming and we keep growing our book.

Anurag Mittal : What is the average yield on your SME book?

Kanchan Jain : It is about 17.8%.

Anurag Mittal : Okay, thank you.

Moderator : Our next question is from Ritesh Nambiar from UTI Mutual Fund. Please go ahead.

Ritesh Nambiar : My question pertains to the notes to account especially on the tri-partite agreement which mentions there is a contingent liability clause, could you just give clarity on this maximum limit as to how much is utilized within this contingent liability clause?

Shachindra Nath : No, it is just contingent. Pre-deconsolidation, the debt which was at our Religare Capital Market level was consolidated on the overall balance sheet of Religare Enterprises. But post deconsolidation this debt is outside Religare Enterprises' consolidated balance sheet. Given the nature of this debt and the arrangement of facilities from lenders was at Religare Enterprises and if for some reason it has to fall back on Religare Enterprises. That's why we thought it will be prudent and to provide complete transparency and we have taken this as a contingent liability on our balance sheet. It used to come under consolidated liability has now moved to contingent liability.

Ritesh Nambiar : So this limit is fully utilized and there is no further upside to this limit?

Shachindra Nath : This is a liability, it is as on the date of the deconsolidation. Whatever was the liability standing on the books of Religare Capital Market is now appearing as a contingent liability on the Religare Enterprises balance sheet.

Pervez Bajan : To answer your question it is capped at ₹1,119 crore.

Ritesh Nambiar : And whole servicing is done by RHC currently or it is within the companies RCML's P&L is it being availed?

Shachindra Nath : As you see the arrangement is future operational gap of Religare Capital Market is funded by RHC holding company and the operational gap constitutes of OPEX of the business or any other interest servicing which would come over there.

Ritesh Nambiar : Thanks a lot.

Moderator : The next question is from Arvind Subramanyam from IDFC Mutual Fund. Please go ahead.

Arvind Subramanyam : I still could not understand this deconsolidation impact, could you just simplify it for me, I mean I've tried reading it from the notes but I still could not get how you are showing a profit on it?

Pervez Bajan : When you look at the consolidated balance sheet as on 30th of September of REL, what you will see is there is a surplus amount which is basically the accumulated losses. When you deconsolidate or when you take off the RCML's assets and liabilities out of the REL's balance sheet, what will remain is this amount. And I am forced to reverse it out and this is the only way I can reverse it out.

Arvind Subramanyam : But wouldn't some of those accumulated losses be funded either through equity or debt in the erstwhile balance sheet before it was taken out, if I just look at the balance sheet, weren't those losses funded by either debt or equity?

Pervez Bajan : No, these losses would be the net of the assets of RCML,the liabilities of RCML, and the equity injected in RCML. In the consolidated balance sheet the equity injected by RCML nets out to 0. Then what is left is asset liability under its accumulated loss.

Arvind Subramanyam : In effect it is just the accumulated losses which were previously getting deducted from net worth when you were consolidating it Now that is not being consolidated your net worth should not be deducted to that amount. Am I right?

Pervez Bajan : Yes.

Arvind Subramanyam : But is there no cash impact on this?

Pervez Bajan : No.

Arvind Subramanyam : Are you are still liable for the debt of RCML?

Shachindra Nath : This is contingent to us, if RCML through its own sources is unable to pay then in the last circumstance it would fall on REL and that's why it is contingent to us. But that would be net because RCML has its own assets. What is coming in as contingent over here would also be after RCML's assets, which is standing on RCML's book.

Arvind Subramanyam : How much is the amount debt?

Shachindra Nath : This is the amount.

Arvind Subramanyam : Thank you. That's it from my side.

Moderator : The next question is from Nishant Singh from Axis Bank. Please go ahead.

Nishant Singh : I had a question on Religare Finvest. When we are looking at the balance sheet for FY11 regarding ALM position there was a cumulative gap of about ₹685 crore up to one year bracket, has there been an improvement in this position as on 31st of March, 2012?

Shachindra Nath What are you referring to?

Nishant Singh : Actually it is not there in the slides, it was there in the balance sheet for FY11. if you could just give me a broad idea about the ALM position up to one year as of 31st March 2012, if you would have the information handy?

Rashmi Mohanty : I don't have the information handy but I can get back to you with the numbers. However, what I would like to add here is that as in previous year this year also we have focused on raising long term money for the company. Borrowed long term funds from the banking system, we have done our retail bond issue, we have done couple of other subordinated debt issues in the market and continue to grow our long-term debt portfolio.

Nishant Singh : So it would be a safe to assume that this would have improved as on the 31 March 2012?

Rashmi Mohanty : Yes.

Nishant Singh : Okay ma'am, Thank you.

Moderator : The next question is from Kumaresh Ramakrishnan from Deutsche Mutual Fund. Please go ahead.

Kumaresh Ramakrishnan : One query on Slide 11, if you look at the vertical for SME working capital, and if you can just throw some light? We have seen that the segment has remained more or less flat in the last two quarters. Am not sure if this is the one which refers to the unsecured portion of the book and if you can just throw some light on what kind of yields you are doing plus what kind of delinquencies that you are seeing on this book?

Kanchan Jain : This is unsecured loan portfolio. As on 31st March we have about thousand crore of this portfolio which is outstanding, these are unsecured loans given to customers with very good financial standing, typically the maturity is between 18 to 36 months and not longer than three years and these are amortizing loans. Our return on this is about 17.5 to 18%. That is the average, today we are booking slightly higher than that. The book is performing very well and the average ticket size here is about ₹20 odd lakhs. ₹1,000 crore is across 5,000 customers. It's a very granular book diversified across several industries and is performing very well.

Kumaresh Ramakrishnan : Is this a segment that you would probably be a little cautious right now given the kind of economic environment that you are seeing and what kind of average tenors do you have on this book, what is the normally the tenor for the loan?

Kanchan Jain : The tenor is about 24 months, it will be in fact less than that given it is a fast amortizing book. The maximum tenor that we do in this is about three years. And given the overall macroeconomic scenario there is a general caution that is built in everywhere between our underwriting and portfolio management we look at sectors where we are constantly feeding back our experience into underwriting. So, no specific worries on book. It is doing well.

Kumaresh Ramakrishnan : The customers that you have in this vertical are these the standalone customers for this vertical or is there any kind of overlap that you have for these customers across other verticals let's say against LAP, capital market lending or are these customers only in this vertical for you?

Kanchan Jain : It's a mix of both. We definitely have some overlap with customers that are there in the LAP book, given that we can cross-collateralize that exposure. But there are also standalone transactions typically with these customers - they tend to be customer where there is existing banking relationship for several years, we have a very good repayment track record to look at when you make these decisions. And those other customers that would be standalone where we would then try to do a larger loan against property exposurewith them.

Kumaresh Ramakrishnan : Okay thanks.

Moderator : The next question is from Abhinav Uppal from Avigo Capital. Please go ahead.

Abhinav Uppal : I would like to congratulate you in terms of grappling with the interest rates scenario and preserving the ROEs. Would want to really hear in terms of directionally where is the company moving and I'm talking specifically in terms of RFL as to the mix of the loan portfolios. We are clearly seeing scale buildups in terms of LAP mortgages dominating in terms of proportion of your asset book. Also on your liability side is essentially getting towards long-term and that augurs well with theincreased focus on the LAP mortgages side. Now going forward what would this proportion look like and what would be the concomitant impact on NIMs because LAP mortgage seems to be fairly competitive?

Kanchan Jain : In terms of the overall portfolio composition we expect it to largely remain at what it is. Today over 90% of our book is secured by one type of the collateral or the other so I think that would remain as it is. Loan against property will remain the mainstay of our business partly because that's how we would like to relate it and partly because the collateral is giving us a lot of comfort and this is a longer term book, it is a 10 year amortizing structure which can stay on the book a little bit longer. Although after taking into account the portfolio-level foreclosures, the average life tends to be shorter. The portfolio composition will largely remain the same. In line with the market we won't see an equivalent increase in the capital market finance book. We will see some adjustment there. That broadly is the expectation going forward.

Basab Mitra : In addition to the point which Kanchan made, what is also happening there is we are able to cherry pick loans far more at this point of time given the fact that now our distribution is totally built out and our ability to cherry pick loan is essentially creating yield expansion for us, we see that happening through the rest of the year. The benefits of three years of hard work will now begin to pay out this year.

Shachindra Nath : Our relationship with the customer has now taken different shape given that we have gradually shifted our underwriting structure which has become more cash flow structure and which allows us to go closer to our customers and understand their needs. We have rolled out multiple products and cross-collateralized that, thus improving overall return on our lending portfolio.

Abhinav Uppal : Sure Thanks.

Moderator : The next question is from Vikas Garg from Fidelity. Please go ahead.

Vikas Garg : In the corporate loan book which you were running at around ₹1,850 crore. Can you please give a broad composition of this loan book, to what kind of entities these loans have been given and what would be the average tenure and yield on this portfolio?

Shachindra Nath : Most of these loans are demand and call loans and these have been given to the entities where we have a long term standing relationship as a group. And we have been using this as a mechanism to deploy our liquidity and consciously we have been trying to reduce this. And instead deploy most of our portfolio into our asset finance business or the core business. Gradually on QOQ basis you will see this moving towards our core businesses and this would be going down.

Vikas Garg : Has there been a decline in absolute terms over the last quarter or it has remained at the same say ₹1,800-2,000 crore?

Shachindra Nath : It would be declining.

Vikas Garg : Is there any mechanism in place which does the credit underwriting or the check on the underlying health of the company?

Shachindra Nath : Yes, it undergoes the same underwriting process which has been very different and is short term in nature, this is driven by overall relationship which we maintain with such corporates. It undergoes the same underwriting mechanism which is designed differently for this.

Vikas Garg : And this loan would be secured in nature or it will be unsecured?

Shachindra Nath : It will be unsecured in nature.

Vikas Garg : What's the yield on this portfolio?

Shachindra Nath : 14 to 15%.

Vikas Garg : Can you also give me the average cost of funding at RFL level?

Rashmi Mohanty : As of year end our cost of fund is about 11.25%.

Vikas Garg : And on incremental basis?

Rashmi Mohanty : I haven't done that calculation but I can get back to you on that.

Vikas Garg : But would it be close to 12% or much lower?

Rashmi Mohanty : Because last year if you look at the composition to date, our main funding sources in the last year have been long-term debentures and bank lines in all we have had around 12%.

Vikas Garg : Okay thank you very much.

Moderator : The next question is from Ritesh Nambiar from UTI Mutual Fund. Please go ahead.

Ritesh Nambiar : Want some clarity on the earlier question, does ₹1,855 odd crore which you have in ICD exposure, is it adjusted in the capital adequacy ratio, because I don't think it is matching up with my calculation, because that exposure doesn't come within the group exposure, how is it?

Kanchan Jain : Some part of the money is lent to the group companies to that extent we do subtract it from net worth calculation and capital adequacy calculation. The balance which is not lend to group companies and as Shachin earlier mentioned 3-4 years company where we have a relationship with their track record that is not adjusted.

Ritesh Nambiar : What is the risk weighted asset, it is mostly 100% for all?

Kanchan Jain : 100% yes**.**

Ritesh Nambiar : On a total book it was that 20.65% is just not coming. How do you compute the risk weighted assets?

Kanchan Jain : It is 100% of outstanding amount as on the balance sheet date.Capital adequacy is 19.65% as on March 31, 2012, some part of it is group which will be counted and the balance is not.

Ritesh Nambiar : The balance one is it the extended group or how is it, does that fall under Fortis?

Shachindra Nath : No it won't be, it would be independent corporate out of the group.

Ritesh Nambiar : Within the notes to accounts there is a special mention of the investment which is done in this quarter in RCM is ₹77 odd crore why is that for because I thought the equity participation would have stopped?

Pervez Bajan : I don't have the notes in front of me but I guess you are referring to an investment made by RCML India into RCML Mauritius. It's not about investment from REL into RCML. This is in a subsidiary of the subsidiary.

Ritesh Nambiar : Thanks.

Moderator : The next question is from Elizabeth John from Crisil. Please go ahead.

Elizabeth John : The deconsolidation impact that you have taken in Q4 FY 2012, we actually would deconsolidate at RCML level in October 2011, so shouldn't that impact come in Q3 FY 2012 and why we took it in Q4 FY 2012?

Pervez Bajan : This was a complex transaction. It's not happened before in India and we needed to take some accounting advice to understand and it took some deliberation with the auditors which we couldn't close up by the end of Q3 FY 2012and that is the reason we have taken it in Q4 FY 2012.

Elizabeth John : The RCML's investmentwritten off of ₹635 crore is equity investment right? Because I think there is a notes to account we have written that the preference shares of RCML are being transferred to promoter entity?

Pervez Bajan : No, there is ₹635 crore comprisies of equity and preference shares. And it is not a write-off I must clarify it's a provision, it's a provision for diminution in value of investments.

Elizabeth John : If I see FY11 then I have the investment of ₹385 crore and then I add to that the investment of ₹250 crore that is being made during the year in RCML I get ₹635 crore as the total equity investment only.

Pervez Bajan : ₹250 crore is preference and ₹385.5 crore is equity.

Elizabeth John : Thanks.

Moderator : Ladies and Gentlemen as there are no further questions I now hand the conference over to Mr. Shachindra Nath for closing Comments.

Shachindra Nath : Thank you every one for joining us on this call. Please feel free to contact Kishore, our Head of Investor Relations if you have any further questions. He will be very happy to assist you. Have a great day ahead. Thank you.

Moderator : Thank you very much. On behalf of Religare Enterprises Ltd that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

(Note: This transcript has been edited to improve readability)