

# Religare Enterprises Limited

## Q2 & H1 FY2011 Investors/Analysts Conference Call

Friday, October 22 2010 at 11:30 am IST

**Kishore Belai:** Good morning everyone and thank you for joining us on our second quarter and first half FY11 results conference call. I am Kishore Belai head of Investor Relations at Religare.

We are joined on this call today by members of our senior management. We have with us:

- Mr. Shachindra Nath, Group CEO and member of the Board of Directors of REL
- Mr. Anil Saxena, Group CFO and member of the Board of Directors of REL
- Ms. Rashmi Mohanty, Director - Treasury
- Mr. Basab Mitra, Chief Strategy Officer
- Mr. Paresh Thakker, Group Head of M&A and Managing Director, Global Asset Management
- Mr. Kavi Arora, CEO - Religare Finvest, our NBFC
- Mr. Saurabh Nanavati, CEO - Religare Asset Management; and
- Mr. Anuj Gulati, CEO, Religare Health Insurance

Before we start the proceedings, I would like to mention that certain statements that may be made on this call may be forward-looking statements and we do not undertake to publicly update them. A statement in this regard has been included with the invitation for this conference call.

Mr. Shachindra Nath will first update you on the progress made in executing the Company's strategy and also review the operational and financial performance of the business. Thereafter, we will open the lines for Q&A.

I now turn the call over to Mr. Nath.

**Shachindra Nath:** Good morning everybody and thank you for joining us on Religare's quarterly conference call. I am sure you would have already gone through the results presentations and analyzed the numbers.

On last quarter's conference call, I had spelt out our strategy in detail. Before we discuss this quarter's performance, I would like to first reiterate our strategy and then update

you on how we are executing on our vision of becoming a leading global financial services player from the emerging markets.

Let me walk you through few key slides from the presentation we have circulated to you:

Let us turn to slide 2. There are three opportunities in financial market that we are capitalizing on, which constitutes the three broad engines of growth for Religare.

First, the Indian economy continues to grow at a fast pace leading to the deepening of financial services and a rapid growth of profit pools. We have created a 360-degree financial services platform in India to maximize our share of this profit pool.

Second, as the other emerging market experience high rates of growth and their importance in the global order increases, there is a unique opportunity for us to create a Pan-Emerging Markets Investment Bank drawing on our experience of operating in the developing world and exploiting the linkages between various emerging markets.

The third opportunity is that of creating a global multi-boutique asset management platform of scale by bringing together multiple asset managers in the western world and providing them investment ideas and corporate access in emerging markets to enable them to generate alpha, alongside providing a distribution platform that provides access to capital.

While the three pillars of our business model seek to capitalize on three distinct opportunities, the three plays do not operate in isolation. In fact, there are very significant synergies among them as we will see on slide 3.

Firstly, our integrated model in India by itself provides cross selling and cost saving opportunities across all our retail businesses. By way of synergies between Retail Businesses and the Investment Banking business, our retail platform provides distribution capabilities for ECM deals and opportunities for providing advisory services to our larger retail clients, particularly, the large number of corporate clients we have in the promoter funding business, and our Investment Banking business will start manufacturing structured investment products for our wealth management customers.

Secondly, the interplay between the Investment Banking business and the Global Asset Management business provides opportunities for cross-selling Investment Banking services to Global Asset Management investees. Also, the Investment Bank generates investment ideas for Global Asset Management, both in the private and public space, and provides an institutional distribution platform and local market knowledge for Global Asset Management affiliates.

Thirdly, our global asset management platform will allow us to provide our high net-worth customers in India, avenues for investment in overseas markets.

We are living in times that are truly exciting for India, with the prospect of high economic growth rates continuing for many years. We are often asked why we are building businesses outside India when such a significant opportunity exists in our home market. I would like to say that early in Religare journey even, as we positioned our integrated financial services offering to derive maximum mileage from the growth opportunity here, we have consciously decided not to remain inward looking. Our view has always been that India is a fulcrum to the emerging markets and provides a much more amplified opportunity when the whole of the emerging markets is addressed. Many of you may have read the recent paper by Goldman Sachs economists on the changing landscape in emerging market equities. This paper bears testimony to our belief that emerging markets provide a secular opportunity for a financial services company that is willing to think and act differently.

As the charts on slide 4 shows there will be a shift in composition of global GDP and global market capitalization over the next 20 years with emerging markets collectively accounting to around 60% of global GDP and 55% of global market cap from around 40% and 31% today. Consequently, developed market funds will increase their investment in emerging market financial assets from USD 1.3 trillion currently to USD 10.6 trillion in 2030 implying a net inflow of USD 9.3 trillion from developed to emerging markets. This massive flow of capital could create new revenue opportunities of USD 420 billion over 20 years for the primary and secondary equity markets alone. Our belief is that advising this capital will require a set of skills and capabilities that does not exist today. The ability to provide investment strategies and execution across emerging markets, a single view across emerging market rather than looking at each market in isolation will be the key to success. Religare is building into the core of its Pan-Emerging Markets Investment Banking platform, the capability to provide investment strategies and execution taking a holistic view across emerging markets. We believe that we will be best positioned to make the most of this unprecedented opportunity.

Let me now give you an update on how we are tracking against our strategy in each of these plays. As you will see from slide 5, our integrated Indian financial services platform continues to grow and deliver.

We are now present at 2163 locations in 566 cities across the length and breadth of India. Looking at the major businesses within India:

Lending – We have been diligently scaling up our lending business - it is now the largest contributor to our revenue. The total book size as of 30<sup>th</sup> September, 2010, was ₹ 72.5 billion, a growth of 35% quarter-on-quarter and 166% year-on-year. I would like to mention here that while we have grown at a fast clip, we have also improved the quality of our book. Our asset finance book stood at ₹ 38.6 billion and is now 87% secured as compared to 83% a quarter ago. Delinquencies are well in control. Our capital market financing book stood at ₹ 27.3 billion. On our Q4 FY10 conference call, we had said that we will grow the asset financing book to between ₹ 50-60 billion and the capital market book to ₹ 25 to 30 billion. As you can see we have already achieved the FY11 target for the capital market book in the first half itself and are well on our way of achieving the asset finance growth target as well.

Retail broking – We continue to maintain our leading position in retail equity and commodity broking. Our share of retail cash equity is broking through the first half of this fiscal year stands at nearly 8%. While we have done very well on the retail segment; this is not showing up in the stated market share as the institutional segment has grown significantly. As our institutional businesses scales up, this will result in a growth of market share towards the last quarter of this fiscal.

Asset management – The entire asset management industry has faced severe headwinds in the last one year. On the one hand, distribution was hit because of regulatory changes and on the other hand there were valuation losses arising partly from the liquidity crunch in May and partly from the shift to the MTM regime from 1<sup>st</sup> August. We have fully booked the MTM losses in the last quarter.

Life insurance – This industry also faced rapid changes in regulation. We are somewhat fortunate because as a young company, we didn't have to deal much with legacy issues. While there has been a shift towards traditional product since 1<sup>st</sup> of September, 2010, our assessment is that our total capital requirement will not change significantly under the new regime.

Turning to slide 6, the build out of our pan-Emerging Markets Investment Bank is progressing well. Our key leadership team globally is now in place and we are in the process of hiring product and coverage heads for India and other markets. Our institutional equity platform in India has come in shape and research in India is now covering around 150 stocks and has over 150 empanelments. We have also announced some bolt-on acquisitions – Aviate Global in Hong Kong and Bartleet in Sri Lanka – which will accelerate the build-out. We are waiting for regulatory approvals for Aviate and post consolidation of Aviate business into us would be a major fillip to our Institutional equities business.

As for the Global Multi-Boutique Asset Management platform, we have completed all due processes on the Northgate transaction announced earlier and are awaiting regulatory approval. While this has moved slower than we anticipated due to the regulatory processes, the learning will stand us in good stead as we make progress on the targets we are currently evaluating.

Turning to slide 7, I am happy to report that we have made steady progress in growing our footprint in a controlled and diligent manner. I would like to draw your attention to the headcount numbers. While our overall numbers have remained steady, the quality and depth of our leadership and talent has improved significantly. We believe this is a primary and essential investment - a building block that will deliver results in the coming quarters. The increase in pay roll cost is also reflective of senior hires globally and includes a portion of guaranteed bonuses towards these hires.

Turning now to our key financial indicators from slide 8, revenues for Q2 grew 40% quarter-on-quarter, 51% year-on-year to ₹ 6.27 billion. What I would like to highlight is that over the last one year the revenue contribution from our NBFC has increased to 45% from 27% from a year ago, while that from our retail broking business, both

equities and commodities have come down to 31% from 43% a year ago. Many people carry the perception that Religare is basically a retail broking house. But as you can see we have built a diversified financial services business that is not dependant just on one business segment. As our newer businesses start to deliver we will see further diversification of our revenue composition.

Reported profit before tax was ₹ 150 million on Q2 as against a loss before tax of ₹ 247 million in quarter one of this year. At the net level, however, we have reported a loss of ₹ 242 million for the quarter. Our consolidated tax provision was larger than our PBT because our businesses are housed in separate legal entities and we cannot set off losses from some of the subsidiaries against the profit from other for tax purposes.

The investments we are making in building out our pan-Emerging Investment Banking platform are causing to us to show losses on a reported basis as the costs towards building out the businesses are treated as revenue expenditure rather than capital expenditure. We reported loss before tax of ₹ 88 million for the first half of FY11. If we adjust this for a valuation loss of ₹ 242 million that have to be absorbed by AMC and an incremental loss of ₹ 1,187 million reported by our Investment Banking business overseas, we arrive at an adjusted PBT of ₹ 1341 million which is 45% higher than the PBT of ₹ 922 million we have reported in the first half of FY10. The underlying performance of the established businesses therefore continues to improve.

Turning to the balance sheet on slide 10, we have a very strong capital base. Our net worth as of 30<sup>th</sup> September, 2010, is ₹ 28.6 billion. Our consolidated debt-equity ratio is 3.26 giving us cushion.

On slide 11, while we are growing rapidly we ensure that our governance structure always keeps pace with our increasing scale and rapidly evolving business environment. Each of our businesses is led by a professional CEO who is fully empowered and accountable. Religare Enterprise provides oversight to each businesses by means of cross functional executive committee that guides and overseas the CEO and his team. At Religare enterprises level, oversight is provided by the board of directors, which comprises 10 directors of whom 6 are independent, including 2 directors from overseas.

Let me also briefly touch upon the operational and financial performance of the major subsidiaries.

On slide 13, Religare Finvest, our NBFC reported quarterly revenues of ₹ 2.81 billion, 37% higher than the last quarter and 150% higher than a year ago. I must mention that out of this, ₹ 150 million was contributed by ₹ 4.5 billion mortgage portfolio that we acquired from Citigroup in July. PAT was up 52% quarter-on-quarter to ₹ 488 million.

One day after we announced our results, ICRA has increased the amount covered by the top short-term rating of A1+ provided to Religare Finvest from ₹ 60 billion to ₹ 75 billion, thus providing us further headroom for growth.

On slide 14, our asset finance book has grown strongly. Margin compression has occurred over the last few quarters and we have taken corrective action by raising the rates by 50 bps in September.

On slide 15, as you will notice growth has not come at the cost of portfolio quality and our portfolio performance has steadily improved and remained under tight control. A similar story is being played out in our cost productivity.

Capital Market Finance and promoter funding has been an area of strategic focus for us and we have delivered strongly in this area. As I mentioned before, this business presents a further monetisation opportunity, by leveraging the privileged relationships we have through the Investment Banking business via ECM and advisory mandates.

On slide 17, Religare Securities – the retail equity broking business experienced a slight improvement in brokerage yields from 4.08 bps to 4.16 bps. The total revenue for the quarter was ₹ 1.7 billion, 6% higher than the quarter ago. However, the PAT declined from ₹ 95 million quarter-on-quarter to ₹ 45 million because there was a reversal of ₹ 69 million in provisions last quarter which was booked as other income and also because we have made a provision ₹ 38 million for bonuses and a standard provision for bad debt for ₹ 43 million. We continue to see a steady growth in our client number.

On slide 20, retail commodities maintained market share of 4.5%. Revenue for the quarter was ₹ 224 million translating to quarter-on-quarter growth of 10% and PAT declined by ₹ 10 million to ₹ 19 million partly because of the provision of ₹ 6 million towards bonuses.

On slide 21, Religare Insurance Broking is being restructured - we are right sizing the organization. Consequently our revenue declined 13% quarter-on-quarter and 30% year-on-year to ₹ 39 million. At the same time the loss came down to ₹ 28 million from ₹ 145 million a year ago as we rationalized our cost base.

On slide 23, Religare Asset Management – As I mentioned earlier the entire asset management industry has gone through a difficult patch. Revenue for the quarter dipped 21% quarter-on-quarter to ₹ 82 million and net loss was ₹ 221 million of which ₹ 100 million was on account of valuation loss and ₹ 47 million was on account of upfront brokerage that had to be borne by the AMC. On a brighter note, we believe that the worst is behind us and we are now focusing on bringing in higher fee products.

Religare Capital Market houses our Institutional Equities and Investment Banking business – We have been reporting our India business separately from overseas business to enable you to carry out a more fine grained analysis.

RCML India successfully completed some investment banking mandates during the quarter and consequently revenue grew 250% Q-on-Q to ₹ 582 million and we had a PAT of ₹ 162 million against the net loss of ₹ 9 million last quarter. Investment-banking revenues by their very nature a lumpy and the result should be seen in that light. As you know we have made some senior hires to rebuild our institutional equity business. I am happy to report that this initiative is beginning to bear fruit and we have been gaining

some traction with the financial institutions. Over time, the institutional equities business will provide an annuity stream which will increase the predictability of the financials. As you know we have completely overhauled our research product and research staff as we believe that an excellent product is key to winning market share. However, as you well know it will take a little time for our revamped product to gain traction with fund managers.

RCML Overseas encapsulates our investment bank in institutional equities business overseas. As we know this business is in build-out mode and consequently we have reported a quarterly loss of ₹ 589 million on a revenue of ₹ 272 million.

Finally, although we do want to add a few more sales people we note that we are waiting for regulatory approvals for our acquisition of Central Joint Enterprises which trades as Aviate Asia. This will add a distribution strength of some 30 people split evenly between Hong Kong and Singapore. Once the integration is complete and the product has had time to gain traction we are confident that our market share will improve.

On slide 28, Religare Macquarie Wealth Management business, we had a leadership change in this business and a senior Macquarie executive has taken charge of this business. We have reported revenue of ₹ 82 million, quarter-on-quarter growth of 19% and the net loss came down to ₹ 15 million from ₹ 107 million.

On slide 30, AEGON Religare Life Insurance – despite the regulatory headwinds we had been consistently adding customers on focusing on building our distribution capabilities. For the quarter, new business premium was ₹ 749 million up 146% year-on-year and 74% Q-on-Q. The Company reported total revenue of ₹ 985 million and a net loss of ₹ 787 million. As you are aware, the capital we have invested in this business has been guaranteed by AEGON with an assured IRR of at least 12%. The losses from this business therefore do not affect our consolidated profitability.

To sum up, the underlying performance of the established businesses continues to improve and at the same time we continue to make investment in our emerging lines of businesses. We are confident that with these investments we will realize our vision of becoming the leading emerging markets financial services group.

With this I wind up the opening remarks. The senior management team and I would be glad to address any queries that you may have. Thank you.

**Kishore Belai:** We can now open the lines for Q&A.

**Moderator:** First in line we have question from Mr. Nischint Chawathe from Kotak Securities, you can go ahead.

**Nischint Chawathe:** Thank you for taking my question. My question pertains to Religare Securities. It seems that the cost has shot up quite sharply on a quarter-on-quarter basis and the EBITDA margins has come down so basically just trying to understand what has happened out there.

**Anil Saxena:** Yeah, I will take this question. You see this end of quarter we have added the sales team, if you see the number of sales team has gone up. At the same time there is some restructuring that we have done, bringing some key managerial personnel in the team. So that is one of the reasons but at the same time the top line has also increased. We are making provisions so, as you heard in the Shachindra's remarks, we have made some standard provisions for probable doubtful debts because obviously in this volatile market one can expect some kind of volatility. As a standard process we have created certain provisions for that.

**Nischint Chawathe:** Can you may be share the amount or the policy or the way you are doing it or something so that it helps us more from a modelling perspective.

**Anil Saxena:** Yes, typically what we are doing is, we are keeping roughly 5% of the net brokerage amount as provisions and at the end of the year in case there is nothing wrong with it we will just see the requirement and add it back.

**Nischint Chawathe:** This was the policy that we got implemented from this quarter?

**Anil Saxena:** Yes.

**Nischint Chawathe:** Okay, so is it something that for both the quarters have affected in this quarter and that is the reason.

**Anil Saxena:** No this is starting from this quarter only.

**Nischint Chawathe:** Okay, do you really envisage any kind of losses or anything any reason for this kind of provisioning?

**Anil Saxena:** No this is just to keep in mind that we are in a highly volatile market and therefore to be on a safer side. Likewise if you have read through our results, in case of Religare Finvest also we are keeping provisions on the standard assets. Whereas the delinquencies ratio, Kavi can take it further, it is pretty low but just because the portfolio is young we are keeping cushion to carry through and after maybe a period of time we will analyze the impact and if there is no need we can reverse it back.

**Nischint Chawathe:** And any kind of a guidance if you could give on normalized EBITDA margin for the business?

**Anil Saxena:** I think the current quarter represents a normal quarter, so we don't expect any more changes as far as the EBITDA margins are concerned. It should continue to remain at same levels subject to the top line growing further.

**Nischint Chawathe:** Okay so EBITDA margins should remain in the range that we have looked at it in this quarter. My other question pertains to Religare Capital Markets. I just wanted to clarify that this includes both Investment Banking and Institutional Equities, and may be if you could give some share in terms of the breaking up of revenue of how much is coming from Investment Banking and how much is Institutional Equities?

**Anil Saxena:** As Shachindra mentioned we closed a couple of deals this quarter. So that has added to the top line in investment banking side. Major one was ₹ 150 million from SRL takeover and approximately for ₹ 470 million from the Parkway deal for Fortis. So those are the major deals in case of Investment Banking transactions, rest all is institutional broking.

**Nischint Chawathe:** Okay and any sense on the breakup - very broadly how much could be the institutional equities or are or investment banking in terms of revenue breakup or something?

**Anil Saxena:** So that was what I gave you. I have given you the top-line of major Investment Banking deals, balance all is institutional broking.

**Nischint Chawathe:** Okay got it. And again on the financing business, I was trying to kind of get some sense on what is the incremental borrowing cost in the quarter and what will be the overall borrowing cost on the balance sheet as on date?

**Anil Saxena:** I think that question Kavi can answer, but just to give you some sense, yes the borrowing cost has increased slightly because of the overall tightening in liquidity in this quarter. So there was a slight increase in our overall borrowing cost but we have tried to incorporate the same in our lending thing also. Kavi you can elaborate.

**Kavi Arora:** Yes just overall increase of about 70 bps in the borrowing cost quarter-on-quarter. That is the function of two things; overall you know cost increase in the market and the composition that we have gone long in terms of our borrowing to keep the asset liability management in place and there is more long-term fund that we borrowed, so the total composition got 70 bps.

**Shachindra Nath:** Our focus continues to be to lock in the cost of capital on a long-term side more than on the short-term side because one, it helps us in managing the predictability of the business and how we underwrite the book in the markets, plus we manage the ALM more prudently.

**Nischint Chawathe:** Okay. Is it possible to give some colour on ALM in terms of how it looks like over the next one year or maybe some weighted averages or something so that just we get a sense of how things are changing?

**Rashmi Mohanty:** To give you a sense in terms of how the borrowing mix has changed in the last couple of months for Religare Finvest and I am going to be specific to Finvest right now as RFL constitutes the bulk of the borrowing for REL as well. At the end of June, the long-term borrowings were just about 25% of our total borrowing pool.

**Nischint Chawathe:** And I guess long term means you are saying one year plus?

**Rashmi Mohanty:** No, I am talking about 3 years or plus. That was just about 20- 25% of a total borrowing pool, that today stands at about 45% and as Kavi mentioned that we have gone for a big change in the borrowing mix, I mean we have borrowed lot of

long-term money in the last 2-3 months and that has resulted obviously in a higher cost as well but that has also helped us to get our ALM in shape.

**Nischint Chawathe:** Okay and the ALM over the next one or two year you are seeing considerable positive mismatch or negative mismatch...some sense on how that has changed?

**Rashmi Mohanty:** I think we would like to keep the ALM matched, I don't think I would like to comment here whether it is going to be negative or a big positive. I think we would like to keep the ALM matched and as the business grows, disburses assets, we are looking at the tenures of the assets and we are trying to keep pace with the business disbursement.

**Nischint Chawathe:** Okay, the colour that I was trying to get is that this has moved from 25% to 45%, so over some time is there intention to move it further from 45 or are we at a normalized range, that was what I was actually trying to get.

**Rashmi Mohanty:** Today, we are at a normalized range, there is some more scope for improvement and we are working on that but I guess as I said at any point in time the assets mix will definitely determine what the liability mix is going to be.

**Shachindra Nath:** Also we should consider the nature of portfolio which we are building. Broadly, we have three kinds of portfolio, one we keep our retail margin finance business which is liquid in nature, we have the wholesale capital market finance business which is slightly longer in tenure, medium-to-long term and then you have our mortgage portfolio which is long-term. So depending upon that and some of this is very market dependent as well. So if the market continues the way they are, you will see a higher growth on our capital market financing business and if that happens then accordingly we will keep our borrowing plan so it is very difficult to give you a view whether we would go 100% long-term or short-term. It would be in line with the way our portfolios are building out.

**Nischint Chawathe:** Okay got it. Anyway, thank you very much, thanks a lot.

**Moderator:** Thank you sir. Next question comes from Apurva Shah from Prabhudas Lilladher. You can go ahead.

**Apurva Shah:** I just wanted to know the revenues from investment banking for the quarter and if possibly even for the Q1?

**Anil Saxena:** The Q2 revenues I have in front of me which is primarily there were these deals which were: from the SRL acquisition, we did a revenue of ₹150 million, the Parkway deal is ₹ 467 million.

**Apurva Shah:** So that is about ₹ 61 odd crore from these two deals?

**Anil Saxena:** Yes.

**Apurva Shah:** The other question that I had was related to the acquisition strategy, how do you see the acquisitions that you have done till now and do you think that is working for you all because at least in the case of the Asset Management business and the U.K. based Investment Bank that you acquired, the losses have expanded and the companies do not seem to be doing any much better in your hands than compared to what they were in the earlier owner's hand. How do you see and read this whole strategy of yours on acquisition?

**Shachindra Nath:** There are two ways to look at it. One I will first take you through our overall acquisition strategy. There are two places where the acquisitions are being undertaken; one is on our entire global multi-boutique assets management platform, the whole premise of that business build out is on acquisitions itself. We are trying to acquire boutique asset management, enrolling them in a hold-co and then trying to enhance the value and the size of those businesses by adding distribution, giving them access to newer markets. So that is one and the first transaction in that has been signed and closed, we are waiting for regulatory approvals. Time would tell whether how successful we would be in that, but in our view that it is the model which is very-very attractive and would yield very high results to Religare.

With respect to the Investment Bank which we acquired has expanded its business, we acquired what was called Hichens Harrison at the beginning of 2008 and what we wanted to build is an Investment Bank which is not country specific rather expanded. Our belief at that point and today was that country specific Investment Bank would not succeed and survive. We saw a larger opportunity of building an emerging market Investment Bank. For us to go out from that point of time given the size of the capital which we had, we were looking for an opportunity which is smaller in size which gives us the experience and build out the platform. Hichens was largely an AIM broker platform. So, it used to work for the AIM market. Post year 2008, you very probably would know the entire AIM market till today is largely in a shut mode. So the business profile which Hichens used to do, no longer exists, but we have used that as a platform to build an absolutely new business. So that has given us the base platform to what we call the entire the emerging market Investment Banking platform. We have gone out and hired the entire new management team. This has made new business plans. We have structured which markets we have to go to, started building and hiring the key management team building the process, building such in various markets. This business would go into that mode and shape where we will invest, hire people in new market, licensing costs, all of that would get and then we will see revenue build up start happening. We would try to match up that revenues keep coming in, but that is the nature of the business. We have expanded from one platform that we acquired and have gone to new markets, the DIFC license has come in place. South Africa which was closed, we are reinitiating that. We are looking at Indonesia and Malaysia now which were Rep office as full license offices and now the strategy on the whole Investment Banking is largely inorganic build out but where we will find opportunities to do a smaller acquisition and bolt them on to fasten our growth and which is in alignment with our strategy, we would do that.

**Apurva Shah :** So when do you think this business will remain in an investment mode?

**Shachindra Nath:** Two to three factors are there, as you know these businesses are based upon plan and how we want to go ahead, I think the business would be in investment mode in for next 2 years or so, but it will be very dependent upon how the market, the way the capital markets have been showing very strong growth not only in India but across various markets. Our key hires are better than what we had expected. The integration is coming in a far superior manner than what we had expected. We have been able to get to in a very high quality, small acquisition called Aviate Global which will build the platform significantly. So you may see better performance in terms of top-line, bottom-line growth for Religare Capital Markets, but you may like to presume that for the next 2 years, it will be in the investment mode.

**Apurva Shah :** Thanks a lot sir.

**Moderator:** Thank you sir. Next question comes from Kajal Gandhi from ICICI Securities. You can go ahead.

**Kajal Gandhi:** Good afternoon sir. I just wanted to know broadly on one thing, you have increased your market share as well as yields in the quarter. So what are the reasons for your yields rising because couple of players have reported a dip in yield?

**Shachindra Nath:** You would recall Kajal, what we have said and probably what we have made a promise to ourselves that also to all of you is that our constant focus is on our retail brokerage business and our belief is that is the right strategy to follow is to focus on reactivating our client base and improve our relationship management also employee productivity and that has now started to show results. It is a very painful process to go through, but we are trying to build. We are trying to integrate our client acquisition strategy, realigning the entire tranche content, how we can do more cross sales, so that has improved our yield into the business.

As far as market share is concerned, I think probably around three quarters ago we had said that for Religare Securities or the retail brokerage operation, we think that we have significant size and scale and we would need to focus on improving our market share because that is the only way we can gain more profitability into business, so then I would not like to go into specific strategy how we are doing that, but the result is there for you to see.

**Kajal Gandhi:** Your average daily turnover for the quarter is around ₹ 4,350 odd crore?

**Anil Saxena:** I have to just refer to the numbers; I think it is there in the presentation.

**Kajal Gandhi:** It is given as percentage only, the number is not given.

**Basab Mitra:** You have the overall number.

**Kajal Gandhi:** Yes, I have in that sense I can, that is why I was just confirming I have removed that in that manner.

**Anil Saxena:** Your percentage calculation from the overall market is right

**Kajal Gandhi:** Okay, and sir second thing, is this volume includes anything on the institutional?

**Anil Saxena:** No.

**Kajal Gandhi:** This is more so retail.

**Anil Saxena:** The percentage which you are seeing here is we have calculated on the total market volume, but this volume which is being shown is largely retail brokerage volume.

**Kajal Gandhi:** And your book of LAS has grown from ₹1,574 to 2,730 crore.

**Anil Saxena:** That is capital market lending.

**Kajal Gandhi:** So can you just tell me is it this book this lending is there on the book till now ₹ 2,730 crore or is because we had a good IPO session this year this quarter.

**Anil Saxena:** Kajal, this book does not reflect the IPO funding which is over and above this; this is a normal lending book which we are carrying in the capital market segment. As Shachin mentioned earlier, we have focused on the promoter funding segment which is keeping in view our larger interest in the Investment Banking space also. So keeping that in mind, we have grown this book.

**Kajal Gandhi:** Sequentially actually this growth has come from retail funding and not from much on the corporate.

**Shachindra Nath:** The breakup is given there Kajal.

**Kajal Gandhi:** Yes correct, for the retail side I saw the growth has been slightly higher side.

**Anil Saxena:** That is the function of the market, at the same time the efforts being put to channelize this as a product.

**Kajal Gandhi:** Sir actually you know whether the future objective is moving more towards wholesale and reducing the retail or you want to grow both?

**Anil Saxena:** Ideally we would like to maintain our leadership position in the retail position. At the same time, focus more on the wholesale side.

**Shachindra Nath:** And Kajal as you would appreciate there is no simple answer to this question because the risk profile for retail margin financing business versus wholesale financing business are two very different things. So we have to keep an eye on in terms of when we build the wholesale financing book and whether it matches to our risk appetite and risk profile and also same for retail. Retail is largely consumption driven and it is very marked-to-market to the market itself. Whereas the wholesale finance is

very demand driven and it is relationship driven. So we are trying to grow our relationship with the corporates and the promoters. That is in our control and the retail is how we deploy the funds and how the markets move.

**Kajal Gandhi:** Okay and wanted to know if you hold any prop book as of now and if yes what is the amount?

**Anil Saxena:** We do not hold any prop book. The only thing is as part of treasury operations, we do run the arbitrage book. At the same time, we have a small exposure in the fixed income side. There is no prop book in equities.

**Kajal Gandhi:** What is the value of the total arbitrage book?

**Anil Saxena:** Total arbitrage book keeps on moving, but is in the range of ₹1000 odd crore.

**Kajal Gandhi:** And sir, this quarter we see a good rise in the employee cost what will be the reason? Is it because of increase in Sales Team?

**Shachindra Nath:** Kajal as I stated in my opening remarks itself, that increase is reflective of some of our new businesses wherein the cost which is largely our Investment Banking business where in the hiring has been globally and in India as well and as per the global markets now this hiring is done on the basis of the fixed cost and also on some kind of guaranteed bonuses. It also factors the guaranteed bonuses on a quarter-on-quarter basis, the way it reflects is that the management pool is widening and these cost is from those segment which we have now started building in this year.

**Kajal Gandhi:** Sir in this AMC business, the amount of ₹ 25 crore which you have reported as the provision, this is on liquid funds in MTM for over 90 days.

**Saurabh Nanavati:** Yes it is basically in the liquid plus short-term funds which are over 90 days.

**Kajal Gandhi:** Over 90 days so that majorly ₹ 25 crore is for that. Sir but generally this has to pass on to the customer in terms of NAV, so?

**Saurabh Nanavati:** That is a call which that the industry actually has taken rather than only Religare Asset Management. Effectively on the first of 1<sup>st</sup> of August, we did not see a single negative NAV across the whole industry. So the whole industry has borne the pain. If you just look at some basic calculations back of hand calculation, March end ended at close to ₹ 7 lakh crore in average AUM and by May, the average AUM had touched ₹ 8,25,000 crore. So close to ₹ 1,25,000 crore to 1,50,000 crore as on April, May and they were deployed actually at rates, at that point of time, the short-term rates were between 4-4.5%. The rates have currently risen to close to 7% and even if you assume 3 to 6 months duration on these assets, you are looking at a total industry loss of close to ₹ 1,000-1500 crores. Now you can bear these losses in many ways. One is we can borrow from the bank at a fund level and then we pay the interest cost on it we choose not to do that because keeping a bank overdraft borrowing, we would rather sell the

assets at the true price in the market and pay off the redemptions. So we have done that and we had a loss of ₹ 24 crore in the first 2 quarters that comes to an end in August of 2010. Going forward, now all the portfolios are already marked-to-market. So it will be the normal business from September onwards actually.

**Kajal Gandhi:** Sir but because Kotak has also taken the same action, so has is it across the industry or players will be showing this kind of loss in this quarter?

**Saurabh Nanavati:** Well we would not like to comment on the others' results, at least what we have done is we have transparently showed that and we have even given the breakup of what the losses are and what the upfront brokerage was. So I think we expect that level of transparency from us. I would not want to comment on the industry at this point of time.

**Kajal Gandhi:** Sir last question is if I can get the breakup of Religare Securities income topline?

**Anil Saxena:** I do not have the figures here.

**Shachindra Nath:** We will take it offline Kajal; we do not have it ready off hand.

**Anil Saxena:** Basically this is brokerage income.

**Kajal Gandhi:** It will contain some interest income also.

**Shachindra Nath:** Yeah some portion of the interest income is also there. So we can mail that across to you.

**Kajal Gandhi:** Okay sir, thank you very much.

**Moderator:** Thank you ma'm. Next in line, we have Hiren Dasani from Goldman Sachs. You can go ahead.

**Hiren Dasani:** Thank you. I was just referring to your disclosure on the RCML India revenues. If you add up two deal related revenue, it looks more than the total revenues reported for RCML India for the quarter? I am saying that Investment Banking deals related revenues which you kind of told on the call.

**Anil Saxena:** Let me just explain to you, this included actually the ₹ 135 million which had been booked. What I give the breakup between Investment Banking and Institutional Equity. So in Investment Banking, we have got ₹ 467million from the Parkway deal. Out of that, ₹ 135 million is booked in U.K. because that project was handled by U.K. team. So this is not only India, but India and U.K.

**Hiren Dasani:** Out of 467 million 13 crore were booked in U.K.

**Anil Saxena:** ₹ 13.5 crore worth of assignment was handled by the U.K. team that is why this income has been booked in U.K.

**Hiren Dasani:** And rest would be in India?

**Anil Saxena:** Yes, rest is in India which is ₹ 33 crore.

**Hiren Dasani:** Thank you.

**Moderator:** Thank you Mr. Hireen. Next in line, we have questions from Mudit Painuly from Macquarie, you can go ahead.

**Mudit Painuly:** I came late to the conference call so my questions could be a repeat. I have just a few questions. First, as far as your yields are concerned in the brokerage business, the increase in yields has been driven by the increase in retail yields or how it has been or has the institutional yields been a factor in this.

**Shachindra Nath:** Mudit what you have seen is purely retail volumes which we are showing. This is largely driven by the growth in the cash business and the yield which we have been able to improve on the cash equity trading business.

**Mudit Painuly:** So your cash business is basically purely retail or how does that work basically?

**Shachindra Nath:** We have two firms - Religare Capital Markets and Religare Securities are two firms which do businesses. Religare Securities does the retail brokerage business and Religare Capital Market does the institutional brokerage business.

**Mudit Painuly:** So this is purely retail. The other thing that I wanted to talk about is basically your insurance business, so how much would be the traditional policies and how much would be the ULIP etc.?

**Shachindra Nath:** I think last quarter there has been focus to shift the mix. The last quarter it has been roughly around 50%.

**Basab Mitra:** I think last quarter in September, the mix changed quite significantly, but on a blended basis was about 15 to 16%.

**Shachindra Nath:** Last month, that is for the month of September traditional was 44% traditional.

**Mudit Painuly:** 44% traditional. And universal life policies, what would be the proportion there?

**Shachindra Nath:** We do not have any.

**Mudit Painuly:** You do not have. So what are the plans, what is the NBAP margins at the moment and how do you foresee them playing up in the near term?

**Basab Mitra:** On a market-consistent basis, I think post the regulation per se NBAP margin is currently at about 20 odd percent. We have looked at all the regulations and modelled that and you know there is not going to be much of a capital impact, it is going to be in single digits and so the real focus really for us is now blending and changing the mix to a more balanced mix and doing very much more on the opex.

**Mudit Painuly:** So basically at the moment, what would be the margins 20% is post the..?

**Basab Mitra:** Post the regulatory change, we believe with the new products to be filed with the IRDA, we should be that on a market-consistent basis around 20% odd.

**Mudit Painuly:** And on a proportionate basis, let us on a percentage basis, how much you are looking at cutting your cost or how you are going to maintain your margins so and so forth?

**Basab Mitra:** I think as Shachindra mentioned in his opening remarks, we will have the benefit of not being a scale player. So, our real objective is not from cost cutting but growth. We are maintaining a tight ship, so the focus for us is really scaling up the business was maintaining proper opex. So opex productivity is important and that is when it comes through growth.

**Shachindra Nath:** And also the whole industry model is undergoing a change. Life insurance business largely was an agency driven model. People are trying to figure out what will be their future course of action. The advantage which we have is that we are not running huge costs either on agency model or direct agency or tied channel. So at the moment, we continue to grow and create the size and scale on the distribution side but we have the ability to move into the direction where the market would finally take.

**Mudit Painuly:** So at the moment, I believe 36% of your distribution is agency. So how would you expect that to change? Do you expect that to change?

**Basab Mitra:** The agency will remain a core element of our distribution, but we will continue to focus on the internal channels or the proprietary channels, so I do not think the blend of the channel mix is going to shift dramatically post the regulatory change. I think it will remain broadly the same. As you will see that our mix is very balanced. It is unlike many other players which have a predominance of one channel, our channel mix is balanced, you know has always been so.

**Mudit Painuly:** So in the medium term, how much do you think traditional would ultimately account for your total portfolio?

**Basab Mitra:** Difficult one really to predict and you know I would not like to comment, but I certainly feel traditional is going up. We do not know where it is going to end up. So I think we need at least 3 more months of industry time to make that judgment call.

**Shachindra Nath:** I think this is less of manufacturers and more of the distribution house would need to adjust itself to the new regulatory environment because the

pressure with distribution is suffering at this point of time, they are being able to realign themselves with the new margins they are getting, that would drive the product behaviour at the manufacturers level.

**Mudit Painuly:** So are you seeing a pushback at the distribution level, how is it going, how are they taking the changes so far?

**Shachindra Nath:** As we said that, our business is in the growth phase. So we are adding the distribution all the time and when you add new distributions, they already come with this new business book. So I do not think that we are in a pushback mode. This question is probably more relevant to the larger players who are to maintain their premium size and margins.

**Basab Mitra:** If at all there is a challenge, I think the challenge is more on the national distributors. So there is some definite challenge in the business model for national distributors, but we have to wait another 3 months before we can really comment. So I think the next call, we will be much clear about where we are and how we are going to take this.

**Mudit Painuly:** I just had one last question. In the mortgage business, what would be the LTV at the moment and who would be your customers be basically typically?

**Kavi Arora:** Our mortgage book constitutes largely home equity business, loans against property. At the book level, the loan to value ratio is about 47% and the customer is a self-employed business guy who is basically looking at money against the installed assets that he already has.

**Mudit Painuly:** Okay thanks, that is all.

**Moderator:** Thank you sir. Next in line, we have questions from Mr. Pankaj Agarwal from Ambit Capital. You can go ahead sir.

**Pankaj Agarwal:** Have you cut agent commissions in your insurance business since the new IRDA guidelines and to what extent?

**Shachindra Nath:** Agent commission in the life insurance business is regulated and it is driven by that. So we follow the regulator guidelines whatever commissions we can give the follow that as well.

**Pankaj Agarwal:** But has there been any decline in commissions in terms of percentage terms?

**Shachindra Nath:** Absolutely.

**Pankaj Agarwal:** And in terms of retail participation in equities, have you seen increased retail interest in equities in last 2-3 months?

**Shachindra Nath:** Actually Pankaj, and you would have captured this from the industry, unfortunately this time the retail investor has not been able to catch the market's up movement. The retail participation is not in line with the market upswing.

**Pankaj Agarwal:** So in terms of number of demat accounts opened or the demand for margin funding, still you see not much interest from retail investors?

**Shachindra Nath:** Not in line with the market upswing.

**Pankaj Agarwal:** Thanks a lot.

**Moderator:** Thank you Mr. Pankaj. Next question comes from Mr. Ashish Mishra from HSBC. You can go ahead sir.

**Ashish Mishra:** Hello sir. First of all congratulations for your numbers. Wanted to ask couple of things. I am seeing 25% cost increase whereas the number of employee has increased actually 3% and the revenue growth increase is 10%. So is it that you are investing too much actually in paying extra bonuses or something to your existing set of employees? I am talking about the Religare Securities number.

**Anil Saxena:** So that includes as I said that we have made provisions for the bonuses not yet paid out, but apart from that there some key hires also which we have done. So that has reflected in the numbers.

**Ashish Mishra:** One more question I had because in respect to numbers piece, when we are seeing the gross market share moving up on the slide number 16 for Religare Securities, I wanted to understand this slide is for Religare Securities, that is for the retail arm only.

**Anil Saxena:** This is for retail only.

**Ashish Mishra:** While I am seeing good growth actually almost 2% growth into the yield, I am not seeing the growth in to the most basic thing which is number of trades are almost constant, we have increased the employee base, you have increased your market share, you have increased your yield?

**Anil Saxena:** Yeah because if you really see the trading F&O you will see that market-wide, it is the options that are traded the most, followed by the futures and then cash market. The traded volume, the lot size is more in case of option and futures and that is why the number of trades is not much this time, but the overall volume has gone up.

**Ashish Mishra:** Do you see it as a cause for concern, because what you are seeing is that during a whole hearted effort in activating your old customer base you have added to close to 25,000 customers in last quarter and your number of orders everyday has actually gone down vis-à-vis two quarters back. We have been doing 536,000 orders, now we are doing 519,000 orders?

**Anil Saxena:** So, as I said, you see these are not orders, these are number of trades per day and that actually reflects the major activity as future and options markets have increased, which is reflected by the market itself.

**Ashish Mishra:** One more aspect we are noticing was almost 113% increase into the financing charges. So I am sure this money would have been going to the Finvest because that is the group company which has been facilitating all the financing and investing.

**Anil Saxena:** No, actually Religare Securities uses the money for putting in the base capital for equity trading.

**Ashish Mishra:** That money is coming from a group company?

**Anil Saxena:** No, we borrow the money from the market. Religare Securities has got its own rated paper.

**Ashish Mishra:** I was trying to establish the correlation between Finvest number and this number.

**Anil Saxena:** No, there is no correlation.

**Shachindra Nath:** Rashmi, would you like to give the profile of the rating program at the securities level?

**Rashmi Mohanty:** We have ₹1,500 crore CP program for Religare Securities. This is rated P1+ by CRISIL and A1+ ICRA and we also have some bank limits available for this entity.

**Ashish Mishra:** So thanks a lot that was my question.

**Moderator:** Thank you Mr. Ashish. Next question comes from Amit Somani from Tata Mutual Fund. You can go ahead.

**Amit Somani:** Actually my question is relating to Religare Finvest Limited, just wanted to understand what your net current assets of ₹ 8,900 crore represent, I see ₹ 7250 crore in the lending book, just wanted to understand what is the cash and what are the other items there?

**Rashmi Mohanty:** Do you want the breakup between different asset classes as well?

**Amit Somani:** Sure that will be helpful.

**Rashmi Mohanty:** I will just give you some indicative numbers there then.

**Anil Saxena:** While Rashmi gives you the exact number, I can explain to you that basically the difference is the arbitrage book which we run in Religare Finvest and small exposure in the fixed income book which we carry.

**Amit Somani:** So I think your arbitrage book is what - about ₹1000 crore?

**Anil Saxena** Yes, ₹ 1000 odd crore.

**Amit Somani:** Okay and what is the cash level then?

**Anil Saxena:** Cash level, we do not maintain this except that if in case there is a borrowing, and especially in case of 30<sup>th</sup> September you know that, because of the tight liquidity, it is not much, but what we have is a comfortable rating position which we use as and when we require a short-term funding from market.

**Amit Somani:** What has been your tier I ratio capitalization?

**Anil Saxena:** We do not have any tier II capital so far and we are maintaining 21% CRAR.

**Amit Somani:** Do you have any set of target for your leverage, it has gone up.

**Anil Saxena:** I think Reserve Bank of India itself has given a good target that next year you have to be minimum 15% everybody. So we want to be comfortable about that only.

**Amit Somani:** So you will have a leverage gearing of more than 5x?

**Anil Saxena:** Because if we do not do that, we are not effectively using our capital.

**Amit Somani:** Thank you.

**Moderator:** Thank you Mr. Amit. At this time, I would like to hand the floor back to Religare management team for final remarks. Over to you sir.

**Shachindra Nath:** Thank you for attending this call. If you have more queries, please feel free to contact us. We will be very happy to be of assistance to you. Have a great day ahead. Thank you.

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