

# Religare Enterprises Limited

**Q3 & 9M FY2011 Investors/Analysts Conference Call**

**Tuesday, February 15, 2011 at 3:30 pm IST**

**Kishore Belai:** Good afternoon everyone and thank you for joining us on our 3Q 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
- Mr. Sunil Garg, Head Group Treasury
- Mr. Basab Mitra, Chief Strategy Officer
- Mr. Kavi Arora, CEO, Religare Finvest, our NBFC
- Mr. Saurabh Nanavati, CEO, Religare Asset Management
- Mr. Martin Newson, Global CEO, Religare Capital Markets
- Mr. Tarun Kataria, India CEO, Religare Capital Markets
- Mr. Gagan Randev, CEO, Religare Securities
- 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 in the invitation for this conference call.

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

I now turn over the call to Mr. Nath.

**Shachindra Nath:** Good afternoon everybody and thank you for joining on Religare's quarterly conference call. Our results presentation has been uploaded on our website and emailed to you all, so I am sure you would have studied the numbers already.

On the last few quarterly conference calls, I have spelt out our strategy in great detail. For the benefit of those joining us for the first time, I will briefly discuss our strategy and then provide an update on how we are executing against our plans.

Our vision is "to be the leading emerging markets financial services group driven by innovation, delivering superior value for all stakeholders globally" and our strategy to deliver on this vision comprises of three key elements:

- The first is our Integrated Indian Financial Services Platform through which we intend to capitalise on the growing profit pools in the financial services space in India and which is underpinned by the robust Indian growth story
- The second is our Global Asset Management Platform through which we seek to unlock value in western asset managers by creating a multi-boutique platform providing access to alpha and capital in emerging markets
- The third is our Emerging Markets Investment Banking Platform which capitalises on the increasing weight and growing integration of emerging markets as drivers of global economic growth

There is a very strong inter-play between the three legs of the strategy, which lends greater strength to the businesses collectively than would have been possible individually. Our home market scale and experience allow us to profitably tap into opportunities in other emerging markets and across emerging markets.

Let me give you an update on how we are tracking on implementation of our strategy:

- First, on the Integrated Indian Financial Services Platform, the Indian market has presented multiple challenges in the last few months:
  - Starting with the **Lending Business**, Interest rates have been steadily rising since April 2010, with six increases of 25 basis points each in the policy rates within a span of ten months. As a result, the cost of borrowing has increased – the maximum impact is seen in short and medium term rates – in the maturity buckets within which we typically operate.

Our overall lending book grew 13% QOQ and 134% YOY to ₹81.8 billion as of December 31, 2010. While this rate of growth is quite respectable, we have consciously calibrated disbursements in light of the shifting interest rate environment – we disbursed a total of ₹9.2 billion in Q3 as against ₹11.1 billion in Q2. Because of the softness in the equity markets, we scaled our Capital Markets Book down from ₹27.3 billion as of September 30, 2010 to ₹22.7 billion as on December 31, 2010. Our Asset Finance book, however, continues to grow strongly: the book grew 14% QOQ from ₹38.6 billion as on September 30, 2010 to ₹44.2 billion as on December 31, 2010. We have already achieved 88% of our baseline target for the year: at the start of the year, we had articulated our target of growing the Asset Finance book to a size between ₹50 billion and ₹60 billion. We will certainly end the year within this range.

We continue to do well on all operational parameters including credit quality and the Opex/ANR ratio, which stood at 0.18% for Q3 and has been steadily improving quarter after quarter as a result of the scale we have built. Going forward, efficiencies will improve further as the book size increases.

- Turning now to **Retail Broking**, on the face of it, there has been an increase in overall equity market turnover in the quarter gone by, but the growth has been concentrated in the Derivatives Segment, more particularly in Options. In Q3, F&O accounted for 86% of the total turnover on the exchanges, and Options alone was 57% of the overall market turnover. Consequently, the Cash Equities segment has been reduced to 14% of the market, of which, Intra-Day volumes account for 10% and Delivery just 4%. Retail participation in the Cash segment declined from 59% in Q2 to 55% in Q3. This has had a telling effect on market-share and brokerage yields across all players in the industry. For our retail

equity broking business, the overall market-share declined from 3.6% in Q2 to 2.8% in Q3 and brokerage yield dipped to 3.93 basis points.

In the Commodities Broking space, volumes have been dispersed across brokerage houses and therefore Religare's market-share has declined to 3.9%, but we continue to remain among the largest commodities brokers in India. Brokerage yield has come off a bit and stood at 1.53 bps in Q3.

We expect that some of this softness will continue into the next couple of quarters. The leadership team for this business therefore is working with single-minded focus on improving cost productivity and tweaking the operating model.

- Two other major segments in the financial service space – namely, **Asset Management** and **Life Insurance** – have been facing headwinds from far-reaching changes to the regulatory framework, which you are all aware of. While greater transparency introduced by regulators will work to everyone's benefit in the medium to long term, it entails many immediate adjustments to be made, which the industry has been grappling with over the past several months.

In the **Asset Management** business, industry-wide AUM declined by 5.3% QOQ. Religare AMC did better than industry – our AUM as on December 31, 2010 stood at ₹105 billion, which is 3% lower than ₹108 billion a quarter ago. While the Asset Management business in India is undergoing adjustments, during the current month, our Global Asset Management unit has secured for the Indian AMC, a mandate to advise a USD 100 million-plus dedicated India small- and mid-cap fund raised by a leading Japanese asset manager. This is a significant breakthrough in several ways:

- First, it demonstrates the marketing and distribution capabilities of our Global Asset Management unit
- Second, it is a validation of the investment processes we have established
- Third, it is a testament to the secular growth potential of the Indian economy

This mandate will help us establish a new annuity income stream. As we have been saying in the past, our investment team and infrastructure already have sufficient scale – this mandate will be executed by our existing team and therefore most of the revenue will directly add to the bottom line.

We are confident that as our Global Asset Management unit sets up distribution across various geographies, our efforts to get offshore mandates will gain further momentum.

Turning now to **Life Insurance**, while the new regulatory framework is now in place, the industry continues to make adjustments, particularly on the cost management front. As I had mentioned on last quarter's conference call, as a young company, we did not have to deal with any legacy of an inflated cost structure. In fact, during the nine months of this fiscal year, we have nearly doubled our branch network, which stands at 100 as of December 31, 2010. AEGON Religare Life Insurance has also been very innovative in product design. We were the first company to launch an online Term Policy, called iTerm, which offered term cover at more competitive premiums than any other insurer in the market. We have now launched iMaximize, which is India's first online ULIP.

This is again a very attractive product as it entails Zero Premium Allocation Charge. Our ability to provide competitive pricing on these products reflects our lean cost structure the high levels of technology adoption that we have undertaken.

We firmly believe that this business presents a very significant value creation opportunity over the next 6 to 7 years. For Religare, this opportunity comes with complete downside protection because, as I have explained in the past, we enjoy a capital guarantee with a minimum assured IRR of 12% and no upside cap on our investment in the joint venture.

I have talked to you in the past about our **Health Insurance** venture, which seeks to utilise the entire extended group ecosystem, namely

- Fortis Healthcare, which is the second largest hospital network in the country;
- Super Religare Laboratories, the largest path lab chain in India; and
- Religare Wellness, which is a well-established pharmacy retail chain

Since the last conference call, there have been two significant developments in this business:

- Religare Health Insurance received R1 approval and has filed its R2 application
- We have formalised the induction of Corporation Bank and Union Bank of India as equity partners in the venture, with a 5% stake each. As you would appreciate, bringing banks as partners into the company is of enormous strategic value

As you know, the Healthcare Insurance space is under-penetrated. We believe that our unique ecosystem and differentiated strategy will allow us to tap into this opportunity and realise a significant upside.

We are committed to reinforcing Religare's position as a respected financial services brand in India, and to that end, we launched our brand campaign during the quarter. There were two parts to the campaign – a broader corporate campaign outlining our complete suite of products and services, and specific campaigns for the Broking, Asset Management and Lending businesses. Our Life Insurance joint venture also launched a sequel to its Kam Insurance Leneki Bimari campaign. These campaigns were run on various business and general entertainment television channels, in cinema halls, as well as on outdoor media. I am sure all of you would have seen our advertisements several times. This campaign has been very effective in reinforcing our position as an Integrated Financial Services Provider.

Looking out over the next few months, we believe that the environment in India will remain somewhat soft for a couple of quarters. Our house view is that inflation for calendar year 2011 will average 7.5%, which is outside the Reserve Bank's comfort zone, and so we will see some more policy action on the interest rate front – perhaps as much as another 100 basis points. However, we expect that the environment will improve after June and the second half of the calendar year will certainly be better than the first half.

- Now let me turn to our Global Asset Management Platform, where there have been some positive developments since our last conference call:
  - We completed our first acquisition, Northgate Capital, which is a top-quartile PE/VC Fund of Funds with a 8-year track-record. Northgate has formally become a Religare affiliate with effect from December 1, 2010 and accordingly, the reported financials include one month's performance for Northgate. Northgate is the seventh largest equities Fund of Funds in the world, with assets of around USD 3 billion under management.
  - We also announced during Q3, the acquisition of Landmark Partners, subject to regulatory approvals. Landmark is the pioneer in the Secondary PE space, having itself created the Secondary category. As you would appreciate, getting regulatory approvals in multiple jurisdictions is a time-consuming exercise, and so it will be some time before we can complete the transaction and consolidate Landmark.

In the immediate future, our focus will be on building out the distribution platform for Religare Global Asset Management in all target geographies. Religare as an asset management platform has attracted a lot of interest from many standalone asset managers worldwide. We have had discussions with many of these firms and have a healthy deal pipeline. Over the next two years or so, we want to be present in all significant alternative asset classes and take our platform to a critical size.

- Coming now to our **Emerging Markets Investment Banking Platform**: Our strategy here has been to build flow-driven business as the anchor of the business and develop advisory capability with sector specialisation. We believe that the mid-market is largely underserved and going forward, it's the mid-level corporates that will generate a large share of economic activity and deal flow. Our business has been positioned to squarely target this segment.

The build out of the business continues, and in fact, we have accelerated our plans as we have moved ahead on the bolt-on acquisitions that we announced earlier:

- Central Joint Enterprises, which trades as Aviate (Asia), formally became a part of Religare Capital Markets on December 9, 2010. Aviate, a unique, ideas-led franchise, adds a team of 30 seasoned professionals to RCML and provides access to top-tier clients in Asia
- On November 4, 2010, we completed the acquisition of the UK operations of BJM, South Africa, giving us access to BJM's UK client-base. Our application for FINRA approval of BJM's US affiliate was also approved during the quarter and the procedural formalities were completed in January. Consequently, we have within our fold, a FINRA-registered broker-dealer and access to a significant US client base.

As a result of these two acquisitions, our institutional equities business is now empanelled with 521 clients worldwide (including clients that BJM's US affiliate is registered with), as against 153 at the end of the previous quarter. Our offerings are being enhanced to provide an integrated product suite across all markets we operate from.

As we watched global investment flow patterns, we observed that the buy-side has been taking selective exposure in frontier markets – testing the waters before entering these

markets in a more meaningful way. Sri Lanka has been one of the top performing frontier markets and we have seen a renewed vigour in the Sri Lankan economy after the end of the civil war. We therefore decided to create a presence in Sri Lanka along with a local partner – we had announced last quarter that we would acquire a 50% stake in Bartleet Mallory Stock Brokers, a top-5 broking firm in that country. The transaction is now complete and we believe that this early-stage investment will stand us in good stead as the market matures and give us an early mover advantage.

On the Investment Banking side, our investments in building a quality franchise with some of the best people in the industry is paying off: we announced some significant deals during the quarter, including our appointment as Global Coordinator and Book-Running Lead Manager for the IPO of Reid & Taylor, and advisor to Fortis Healthcare (International) for the acquisition of Quality Healthcare Asia Limited, Hong Kong.

Our total headcount in Religare Capital Markets has gone up to 249 as of the end of December including the people who came on our rolls as a result of acquisitions – a net addition of 44 persons.

Our reported loss in Religare Capital Markets, both in India and overseas, has gone up in line with plan as this business is in investment mode. Also, owing to the presence of investment banking revenues – which by their very nature are lumpy – there is inherent variability in the revenue line.

Let me now turn to our consolidated financials. Revenue for Q3 grew 14% QOQ and 74% YOY to ₹7.18 billion and as I have pointed out in the past, our revenue mix continues to improve with a greater contribution from our newer businesses.

At the PBT level, we reported a loss of ₹797 million for Q3 as against a profit before tax of ₹165 million in Q2 of this year. At the net level, we reported a loss of ₹985 million for the quarter as against a loss of ₹237 million in Q2. On a consolidated basis, we had to make a tax provision despite a loss before tax because our businesses are housed in separate legal entities and we cannot set off losses from some subsidiaries against profits from others for tax purposes.

Our investments in our Emerging Investment Banking Platform entail reporting losses in accounting terms as the costs towards building out the businesses are treated as revenue expenditure rather than capital expenditure. We reported a loss before tax of ₹885 million for the first nine months of FY11. If we adjust this for the valuation losses of ₹242 million that had to be absorbed by the AMC and the incremental loss of ₹1,824 million reported by our Investment Banking business, we arrive at an adjusted PBT of ₹1,181 million, which is 16% lower than the PBT of ₹1,414 million we had reported in the first nine months of FY10. This swing in the performance of the underlying business has basically come about because of the overall softness in the market in Q3FY11.

Turning to the Balance Sheet, our net owned funds position as of December 31, 2010 was ₹30.7 billion and our consolidated debt-equity ratio was 3.40, giving us headroom to increase leverage.

Let me briefly touch upon the financial performance of the major subsidiaries:

- **Religare Finvest**, our NBFC, reported quarterly revenues of ₹3.3 billion, 18% higher than last quarter and 106% higher than a year ago. The Lending Business now contributes 46% of our topline as against 39% a year ago. PAT, however, was down 50% QOQ to ₹242 million as there was a sharp increase in cost of borrowings during the quarter.

- **Religare Securities**, the retail equity broking business, experienced a decline in market-share as well as brokerage yield. Consequently, total revenue for the quarter was ₹1.67 billion, a dip of 3% QOQ. However, PAT increased by 64% QOQ to ₹74 million, primarily because RSL reduced its debt and thereby saved on interest cost.
- In the **Commodities Broking** business, the quarterly revenue was flattish at ₹220 million, while PAT improved by 21% QoQ to ₹23 million, owing largely to some savings in operating expenses.
- **Religare Asset Management**: As I mentioned earlier, the entire asset management industry has been going through a difficult patch. Revenue for the quarter improved by 4% QOQ to ₹85 million and the net loss declined substantially from ₹221 million to ₹53 million, as the previous quarter had a ₹140 million loss on account of valuation of portfolio and upfront brokerage borne by the AMC was lower in Q3 FY11.
- **Religare Global Asset Management** is the entity that holds our investments in Northgate Capital and is also the vehicle that will acquire stakes in asset managers overseas in the future. We are reporting RGAM financials for the first time this quarter. RGAM reported a total income of ₹84 million and a net loss of ₹1 million. Note that Northgate has been consolidated with Religare Enterprises effective December 1, 2010.
- **Religare Capital Markets India** showed a 75% decline in revenue – from ₹582 million in Q2 to ₹148 million in Q3 as the previous quarter included substantial fees from investment banking deals, which by their very nature are lumpy. In Q2, RCML India reported revenue growth of 250% QOQ as the investment banking revenues were realised in that quarter.
- **RCML Overseas**, which encapsulates our investment banking and institutional equities business overseas, reported revenues of ₹493 million against ₹277 million in Q2, reflecting QOQ growth of 78%. This includes inorganic revenue from Aviate, BJM and Bartleet which have been incorporated since the respective dates of acquisition. The net loss in RCML Overseas increased 75% to ₹1,022 million QoQ – this was anticipated as we accelerate the build out of the Emerging Markets Investment Banking Platform.

Our Board at its meeting held yesterday has recommended raising ₹25 billion in further capital, subject to shareholders' approval. This is an enabling resolution that will allow us to finance our growth plans.

Religare has always strived to ensure that there is a very strong alignment between management's and shareholders' interests. To this end, we have instituted a co-ownership plan whereby key personnel in Religare Enterprises as well as our subsidiaries will have a meaningful participation in the Company's future through Employee Stock Options. Our Board has recommended to the shareholders for their approval that 10% of the diluted equity in Religare Enterprises be earmarked for the ESOP. We have also announced a significant ESOP in the various subsidiaries. To reiterate, we have earmarked:

- 10% in Religare Enterprises, the holding company
- 7.5% in Religare Securities
- 7.5% in Religare Asset Management
- 7.5% in Religare Finvest
- 10% in Religare Health Insurance
- 25% in Religare Capital Markets

- 7.5% in Religare Global Asset Management

We believe that our co-ownership plan is a very powerful tool for talent retention and bringing about very strong alignment between management and shareholders.

To sum up, our India business has been facing headwinds during the quarter due to unfavourable macro conditions and the consequent policy action and softness in the markets. While this will continue in the near future, we are confident of the secular growth prospects of the India business. Our first asset management acquisition overseas has been integrated for part of the quarter and we expect to substantially scale up these revenues over time. Our Investment Banking business is in build out mode and we have chosen to opportunistically accelerate the build out by making bolt-on acquisition.

We anticipate that we will end FY11 with revenues of approximately ₹24.8 billion, and a pre-tax loss of ₹2.4 billion and PAT of negative ₹3.3 billion. If we adjust the pre-tax loss for the one-time valuation loss of ₹242 million in Religare Asset Management and the incremental loss in Religare Capital Markets, we arrive at an adjusted PBT of ₹2.1 billion, 5% higher than our FY10 PBT of ₹2.0 billion.

We are confident that with the investments we are making, we will realise our vision of becoming the leading emerging markets financial services group.

With this, 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 lines for questions.

**Operator:** First question comes from Nitesh Goenka from Microsec Capital. You can go ahead sir.

**Nitesh Goenka:** Hi everyone. First of all I would like to ask specific questions related to different segments. First would be, what would be the LAS book size of your company?

**Gagan Randev:** Yes, the current LAS book size is about ₹2000 crore at this point in time that includes promoter funding book also.

**Shachindra Nath:** Nitesh, I believe you must have got copy of the presentation. Our presentation gives the segmental bifurcation of our NBFC portfolio.

**Nitesh Goenka:** Okay, and what would be the amount of collateral against LAS?

**Gagan Randev:** It is on an average about 2 to 2.2 times minimum.

**Nitesh Goenka:** All right, I would also like to know about the brokerage industry. I mean what is your yield in the brokerage business?

**Gagan Randev:** Okay, on the F&O side, the yields in Q3 were 3.22 bps versus 3.28 bps the previous quarter. Cash, we actually saw an increase in our brokerage yield from 9.54 bps to 9.73 bps.

**Nitesh Goenka:** All right, and how do you see this brokerage industry growth because I see it going down, so that is why I am asking this.

**Gagan Randev:** I think if we were to consider just the last quarter, yes, there has been a little bit of slowdown which has happened especially on the retail side and especially in the cash segment; however, I think if you believe in the secular India story, I think there is nothing which has happened, and notwithstanding what has happened in the last quarter, that would indicate any shift in the India story. For instance, if you look at the macro fact that today despite everything, you just have 17 million demat customers, despite everything you just have a 4% penetration of household savings into equities at this point of time, I think the fact of the matter is that today probably India stands at where the US used to be in the early 1980s which is when we look at the demographics of earnings, the percentage of population, etc., it typically reflects what the US used to reflect at that point of time. So, if we believe in the India story, you would definitely have a tipping point which would happen in the next couple of years where this is going to take off. And notwithstanding the current hardening of interest rates that you are seeing, I think we all believe that in the long term interest rates are going to soften and when that happens you are going to see the trend moving towards other asset classes, and when the percentage of allocations on instruments like pension, etc., also goes up on equities, you are going to see the equity markets take off. So, what you are seeing is an aberration at this point of time, and you are right, the aberration may last for the next couple of quarters, but I think in the long term we will see a tremendous story in the equities business in this country.

**Shachindra Nath:** I would just add on to what Gagan has said which is fundamentally all right is that, irrespective of the way the market is and the current aberration in the softness into the market, these are the markets which throw significant opportunities for large players like us because fundamentally we believe that Indian brokerage industry needs consolidation and the consolidation triggers off only when the markets are soft, when the smaller players cannot sustain and survive these kind of market conditions. Simultaneously, we have as an added advantage as a large integrated financial services player which the standalone brokerage does not have to align our manufacturing basis with our brokerage and converts brokerage as a large distribution platform for ourselves. We have been creating an operating model for the last two to three quarters and working very aggressively towards how we may ensure that our entire strong nationwide distribution reach through our brokerage platform converts itself into a distribution model where in it takes the advantage of the manufacturing bases which we have. These kinds of opportunities standalone brokers do not have and in the process they would weed out over a period of time and we would gain significant scale from it.

**Nitesh Goenka:** Right. So, in future where do you see the most of the profitability coming from, which business.

**Shachindra Nath:** For Religare, you see the trend has been that over a period of time you will see both, in India, part of our Indian integrated financial services play for the next 12 months, we continue to see robust growth in our lending business while currently there may be some margin pressure which would be there but as far as the loan book is concerned, they would continue to grow substantially and also the brokerage platform will continue to deliver profitability because we would continue to tweak our operating model to match the current softness of the market.

**Nitesh Goenka:** And how do you plan to manage the financing risk?

**Anil Saxena:** Financing risk, you see we have been raising long term loans from the banks and issue of debentures which is well within control. So, all our ALM requirements are met at this point of time. As we grow further, we will certainly want to take the long term loans rather than depending on the short term loans.

**Shachindra Nath:** Probably Kavi can illustrate that our product structure is rightly structured which also takes care of the loans to a large extent.

**Kavi Arora:** It is normally on the funding side of that book, the asset finance book. I think fundamentally the business risk is managed by how your portfolio is divided into various product categories, what kind of collateral you have to back it up, and as a total – the asset finance business, we have 88% on secured assets out of which 70% of that is secured against property where your loan to value ratios are under 50% of the current market value, so which is extremely strong collateral to back up. The rest is commercial assets and equipment - assets which are at about 85% of the market value at the time of origination. So, you are on an overall portfolio fairly well covered in terms of your collateral backing up and the other side is how you are funding which Anil spoke about. So, that is the overall risk containment strategy

**Sunil Garg:** Further whatever our portfolio, 60% of the portfolio is on floating rate. So, as and when the rate of interest is increasing, so in the increasing rate scenario we will be also increasing the rate of interest which is chargeable to our customer. So, that is how we control our financing risk by way of increasing the rate of interest.

**Shachindra Nath:** We have the repricing abilities.

**Nitesh Goenka:** Right. So, that explains the overall business risk, financing risk of the business. What if I talk about specifically the lending business?

**Kavi Arora:** That is what we just spoke about. We clarified all three, then how it is funded, what are the various assets that are there in the lending business and how they are structured, so that you know it is a balance risk approach and on top of that we are saying out of the total, 62% is variable interest rates contracts with the customer, so any increase in pressure on margins can be passed on to the customer, so that is how you build an overall cushion in the business.

**Nitesh Goenka:** Thank you. That will be all from my side.

**Operator:** Thank you Nitesh. Next question comes from Subramaniam P.S. from Sundaram BNP Paribas AMC Ltd. You can go ahead sir.

**Subramaniam P.S.:** Hi, good afternoon.

**Shachindra Nath:** Good afternoon Mr. Subramaniam.

**Subramaniam P.S.:** My question is also on Religare Finvest. Could you share some details on how the spreads have moved on the book because interest expenses have gone up sharply but the income does not seem to have gone up so sharply? So, if you could just tell us what kind of cost of borrowings and spreads you have seen change sequentially?

**Kavi Arora:** Basically, you know these yields have increased by about 30 bps from where we were quarter on quarter. While the costs have gone up almost by 1%, so to that extent there is a compression of margin in our book and as I just mentioned in the answer to the previous question that we have 62% of the book which is variable rate contract with the client and we are currently awaiting what comes out in the budget, and if there is a further increase in any cost pressure, then we will look at revising the rate for our customers to pass on that pressure. The new acquisition that is coming the yields have moved up by at least 50 bps and that is obviously governed by the rates in the market as well.

**Subramaniam P.S.:** But how is it that yields have not moved up for you in this quarter, because across the banking sector we have seen yields for both banks and non-banks moving up for a quarter on quarter basis and looking at the disclosures that you have given even segment wise across segments yields have come down or they have remained flattish for some segments. So, this is not in line with what is happening in the industry. So, anything, any strategic reasons for not raising interest rates on your loans?

**Kavi Arora:** There is always a lag effect in the economy, before the interest rate or interest cost goes up, your borrowing cost goes up, the acquisition yields only go up with a lagged effect, and also in your installed book which is 62% of book I spoke about is loan against property which is variable, that increase in rate has only happened in January, so you will see that the change was effective January 1, and you will see the effect of that change yield going up in the Q4 results, and as I said there is always a lag effect for the increase, then it is passed on to the customer. In Q3 as well, if we increased our acquisition yields that impact also will only be seen in Q4 because that will not change too much on a book of ₹4500 crore, your acquisition of that month does not make much of difference to the overall book yield. That is why the real impact of all these changes both in acquisition yields and on change in your interest rate yield for the mortgage customers will only come in Q4.

**Shachindra Nath:** Some of our back end borrowing mix has also changed during the last quarter, which has also had an impact in terms of the pricing because some of the short and medium term borrowing has got converted into long-term borrowing. So, that has a back end effect which does not get translated on the front end pricing.

**Subramaniam P.S.:** Also, I just wanted to understand on this loan against property portfolio, is there a risk that defaults might rise if you raise interest rates further or how sensitive are these loans to higher interest rates?

**Kavi Arora:** Well in fact if you are looking at specific pricing on LAS, the book is still at about between 12.5 to 13%, and there is obviously the assessment that happens on these customers and on basic cash generation ability from where the repayment is coming from. These are self employed businesspersons where fundamentally the earnings are still happening, there is nothing wrong with that business model from where the repayment is coming. So, there is, I would say enough cushion, in that to absorb this kind of interest rate scenario. I think Gagan also mentioned that we are seeing this impact in next couple of quarters and obviously nobody wants to comment longer than that, but it is not that the scenario is going to remain as it is for much longer than that.

**Shachindra Nath:** Just to add on what Kavi has said, fundamentally our non-banking finance business is an SME financing business. The way we structure it is that the collateral happens to be property which we take. So, our entire risk metrics and the evaluation process is against that cash flow which that SME business generates, whether he can service the next loan which we have never wanted to go in an unsecured manner so that the security is by way of collateral. So, an interest rate movement, given that these are SME businesses – they generate substantial cash flow for themselves, so we do not see any impact of that in form of default. In any case, our LTVs are very-very high to the market so that risk is also taken care from that.

**Subramaniam P.S.:** Okay. Secondly, I wanted to understand on the overseas capital market business there is an increasing spend on personnel expenses and administrative expenses, wanted to understand this. Is this the kind of peak expenses that we would see or do you think that there is some more investment you would be making in terms of personal and operating expenses before you could see income from operations actually coming in?

**Shachindra Nath:** Martin and Tarun both are here and they can attempt to answer that but before that you need to realize that any investment banking business which you build out it is a two or three phase implementation which you have to do. Within the fact that we are trying to build out an emerging market investment banking franchise because our view was that a standalone India-centric or country-specific investment banking in present day world wouldn't succeed or survive and we have to capture the significant 14 trillion dollar capital equity issue as an opportunity and showcase ourselves as an integrated emerging market investment bank. Now, if you have to build that what it takes to build that? You have to first build management teams across these markets. You have a significant cost of entry into these markets which is licensing process, physical infrastructure set up process, and then you have the challenge of how do you get access to the client for generating the flow business. So, all of that takes some amount of time to build up and then the way the business is, most of these people which you are acquiring or hiring are on established platforms, so they are on established platform of Goldman, J.P. Morgan, Morgan Stanley, for them to join on a new platform, they significantly sacrifice their current earnings and that is why you will need to protect their earnings so that they can shift on those platform and that becomes your onetime cost of acquisition. So, you need to compare this business vis-à-vis if we were to acquire a big investment bank in emerging market and pay for goodwill of 100 or 200 million dollars, versus the build out wherein basically you are acquiring the real asset which is the people. So, you would surely see a significant scale of revenue coming up, I do not want to disclose or commit how much more of investment would go into that business, but Martin is on the call from London and he can give you probably more information.

**Martin Newson:** I concur with Shachindra's overall strategic comments. My view on the detail would be yes, I think, if you are looking at total costs now, I think total costs will be higher next year. Exactly how much they will be higher will depend on what level of investment we make in the centres where we are now operating, that itself will also be a function of market condition, (a) in terms of the price that we have to pay to take people, and (b) our own revenue compression because we have to be mindful of the fact that we will give enough to make the expenditures, but we also have to be judicious in how quick we build out the platform. So, I think from a modelling perspective, you are going to have to put in some hard numbers but then our own numbers are gradually starting to get some traction. So, for example, not shown in these, I mean admittedly from a small base but our monthly run rate on revenues in January are 100% higher to December, and it is on the Indian equity side. So, it is quite difficult right now to work out how revenue is going to go and how costs are going to go, but if you wanted to make a projection you have to project at some higher cost and obviously our job is to be that way to get traction on the revenue side.

**Subramaniam P.S.:** Fair enough. I just wanted to understand in terms of a quarterly run rate that you are doing. So this is the number that you have just put out, it is somewhere close to ₹128 crore of expenditure on the overseas capital market business. Where are the areas where you are currently present and where are the new areas that you are likely to invest in?

**Martin Newson:** I think the good thing is we are largely in many of the places we want to be in now. So, if you look at we have got our FINRA licenses in the US that is done, we have taken office space there. London, we are already in, in India we have a few offices, the hubs are in Mumbai and Delhi, then we are in Dubai, we are in Hong Kong, we are in Singapore and we are in Melbourne. We have a JV in Sri Lanka, we are also in South Africa now. Now, if I look at new locations in which we want to expand for next year, I would be surprised if we would go into one or two more locations that might be what you might think. I do not want to announce which one they are going to be because in some cases we are talking to various people and I do not want to bid against ourselves, but if we were to go into one or two more additional locations that would be in line with our current thinking, I do not think you will see us going into 3 or 4 or

5 in the coming year. If we end up with a market meltdown and a potential for the stressed assets, potential to buy stressed assets that may change. So the extent to which you had a market meltdown we may accelerate that, but just on a pure run rate basis, if markets stay roughly where they are, I will be surprised if we weren't into two more centres or more than two more centres, and we think about it, the expensive centres we are already in - in Hong Kong, Singapore, London, and New York.

**Subramaniam P.S.:** And you are fully staffed in terms of what you wanted to do in most of these locations?

**Martin Newson:** No, I think we need to make, and that is my point about why the costs will have to go up from here and it will depend a little bit on how revenues develop, but in some other locations we would like to be adding the staff.

**Subramaniam P.S.:** Okay. Thanks a lot, that was useful.

**Shachindra Nath:** Before you end on this point, because there are a lot of other people listening and lot of people have queries about our investment banking business, so I will just add on to what Martin has said. Our business has three legs the way we have developed. We wanted to build a big global distribution franchise capturing the flow which is coming to the emerging market. That flow is in the hands of the buy side and the penetration to the buy side is the most difficult thing to get into any kind of institutional brokerage investment banking business and that is why we have explained that we have done bolt on acquisitions like Aviate and BJM which allows us now or connects us through our empanelments to be with 500 plus global institutional investor base. Now, it is up to us: the execution capability that how we convert and generate flow out of these 500 accounts with us and also that is dependent upon the market, because if the market remains buoyant you will see the flow happening quicker versus market which is soft than buy side tends not to go to new brokers. And once you see the revenue flow from there, our India investment banking business, our ECM now is in play, given that we have a strong corporate client relationship with our promoter financing business and generally we have a good corporate access, you would see us start flowing our ECM products into our distribution flow and then we would build the corporate finance or advisory business.

**Subramaniam P.S.:** Okay, thanks sir, that was useful.

**Operator:** Thank you sir. Next question comes from Sudhakar Prabhu from Span Capital Services. You can go ahead.

**Sudhakar Prabhu:** Yes, good afternoon. My question is again relating to the institutional business. Just wanted to understand if you could share the breakup between investment banking income and institutional brokerage income? Is it possible for the India business please?

**Shachindra Nath:** Yes, Tarun please go ahead.

**Tarun Kataria:** I think where we are in the build out of the India business is that the equities platform is a little bit more mature than the investment banking business because most hires that we have made in fact most of them quite frankly have not started yet, you know most guys as you know have three month gardening leaves. So, I think if you look at the numbers and I will not give you specific numbers, the skew is definitely currently towards the equities business, but I think if you look at our planning over the next 24 to 36 months I think you will find it will be sort of 50:50 or 60:40, and as you know Shachin says the start it tends to be lumpy, so I

would work with a 50:50 number but as we currently stand it is very much skewed to the equities business.

**Martin Newson:** I mean globally speaking, for the next year, just to follow up on that I think it will be roughly 70% equities, 30% investment banking.

**Sudhakar Prabhu:** Okay, that is helpful. My second question is regarding the insurance business. What are the capital commitments for the insurance in the next few quarters?

**Anil Saxena:** We already have a sound base as against a capital adequacy requirement of 1.5 times over 2.5 times of the capital adequacy requirement. So, next quarter I do not see any fresh commitment requirement coming, should be coming in the month of may be mid next quarter, mid June I think.

**Sudhakar Prabhu:** And what will be the amount?

**Shachindra Nath:** That would be dependent upon the annual operating plan process is on for all our businesses including our insurance business. Our insurance business like any other business is calibrating how the next year they should plan, because as you see in the last full year, we have expanded our branch network and doubled it from 50 to 100 and we are now reviewing with what should be our next line of action would be. If we decide to continue to grow our infrastructure, then the capital requirement will be different, then if we decide to hold it where it is and continue to grow productivity.

**Sudhakar Prabhu:** Okay, and lastly if the regulations allow, would Religare be interested in acquiring a bank or would it be converted into a bank?

**Shachindra Nath:** We have made public disclosure about how we will review our banking opportunity. I do not think the regulation permits us to acquire a bank, neither we have the intention of doing so. We have carefully reviewed the new draft guideline which was put up by RBI. We feel that Religare has a significant opportunity of getting a banking license given that it has a size, scale, and market penetration both in urban, semi-urban, and rural areas and also it has the widest area of experience of managing large financial services operations across various verticals of financial services industry coupled with the strongest management team in Indian financial services industry and backed by very strong pool of capital but the capital provider or the promoters not being operative into the company. Some combination of that we feel as management that we are strong contender for a new banking license, but it would be dependent upon how regulators review our operation and whether we can achieve the policy objective the way it is defined when the final guidelines comes in.

**Sudhakar Prabhu:** Thank you, that is helpful. All the best.

**Shachindra Nath:** Thank you.

**Operator:** Thank you sir. Next question comes from Nischint Chawathe from Kotak Securities. You can go ahead sir.

**Nischint Chawathe:** Yes, hi. Thanks for taking my questions. I just want to understand from the capital market the India leg of the business I mean from what would be the normalized level of expenses because I guess you know you still say that there is a lot of investment still to be made. So, I guess for the overseas business you said that you are just looking at maybe one or two centres to be added. So, you would be kind of broadly there, but you know how do you see I

mean how much more expenses would you kind of model for an ongoing basis for the India business from the current levels?

**Tarun Kataria:** I guess if I can just, may be Martin can add to that. I think as Shachindra said at the start you know the business is very much in build out mode and there is an equities business here which is largely built out in terms of people, so I think in the equities business you will see material moves up as we sort of upgrade people, so that will be smallish numbers. But the plan is obviously to build a full-fledged investment banking business and as I said in my comments a couple of minutes ago, where we are in that build out given the fact that bankers have three months gardening leaves, I think you will find that the investment banking expense line will be higher over the next quarter, sustainably higher from here, jump coming in the next two quarters and then probably peaking from there, but you can expect to see personnel cost being substantially higher from what we have in fiscal Q2.

**Shachindra Nath:** As I said earlier this business is unlike manufacturing business, it is not about buying a plant, putting it up, having that cooling off period and run it as a machine will start production. This is all about bringing people, creating relationships, pitching to various clients and getting those businesses in. And we are very well calibrated, very careful of when we have to come, so the first phase of implementation strategy is almost complete except those who are already been hired and their expenses would now get logged in, but growth from there onwards is calibrated on the basis of how revenue lines grows up, how markets see us in terms of our investment and pay for our investment which is very significant into the market place currently, and then if we become very successful then we do a level 2 growth from there onwards.

**Nischint Chawathe:** So, I think the sense that you gave us is that you are looking at in this entire piece that roughly 50:50 or 60:40 contribution of investment banking and equities and given that what you are essentially saying is that the growth can be substantial now. When do you expect to break even or putting it differently what proportion of the expenses are variable and can move up and down?

**Martin Newson:** In terms of the variable expenses, initially I think the years 1 and 2 on our total expenses, maybe 20% would be variable, but that is the maximum amount given the comment made earlier about having to provide people comfort, etc., and going forward the variability increases quite dramatically, from years 3, 4, and 5.

**Nischint Chawathe:** So, when do you expect to break even in the business?

**Shachindra Nath:** We would avoid to give that, as we said there are two core parts of that business, one is the flow business that we presume that given that we have now 500 accounts which we have empanelment and we are in that aggressive execution process of building the revenue flows from each of these accounts, and then we are building a substantial India investment banking business in some of the other core market business, and as I mean, who else better than you know that the business being very lumpy and we can be very lucky and we can be very unlucky as well. So, based upon that I would avoid giving you guidance, when the business would break even. It should be seen as the way market moves up and as the way we, but we would be reporting our progress every quarter.

**Nischint Chawathe:** Sure. Even for Religare global asset management, just trying to understand the numbers, how do we read the numbers in conjunction with the AUMs or how do you really interpret the numbers and what is going on out there?

**Shachindra Nath:** That is very simple actually because the entire Religare Global Asset Management strategy is purely an acquisition driven strategy. We are trying to build, we are trying to capture the capital - ten trillion dollar of capital flow which would happen from west to east in one decade, and the way we want to capture that flow is by acquiring multiple boutique asset managers in US market who actually manage the money for the local market and then with our partnership they would be able to launch new investment products for emerging markets, that is the platform build out. So, we will buy asset managers across all product lines of asset management businesses, we would help them to set up their offices and investment teams in emerging markets, we would set up distribution team across the globe which would help them to growth their AUM. Having said that, each of our acquisition on standalone basis are very profitable acquisitions, on an average we are acquiring these businesses between range of 8 times EBITDA to 12 times EBITDA, and they are roughly return on equity of 20% plus.

**Nischint Chawathe:** Okay. Sir, just trying to understand, but then you are just about breaking even this quarter (in this business). So, what happened there, it is just consolidated for a short period, because this quarter you do not see any earnings, you just see a marginal loss?

**Anil Saxena:** That marginal loss is primarily on account of the fixed expenses which we have incurred but otherwise this business is profitable from the day one. As Shachindra said, this generates roughly 20 odd percent of return on equity on PBT level.

**Shachindra Nath:** I do not have the exact number, but if you look at two of our acquisition on a proforma basis, they would be generating a top line of around 45 million dollars with a 50% EBITDA margin.

**Nischint Chawathe:** Okay, so what you are saying is essentially that one or two quarters would be just fixed expenses in the initial stage you are doing cost, expenses, etc., because even the expenses I think a large chunk seems to be personnel expenses. So, this is just one or two quarters after which we will be able to see more stable numbers is what you can broadly say?

**Shachindra Nath:** I think next quarter you should see a number.

**Anil Saxena:** Yes, and even otherwise, you see why these expenses are built up is because obviously there is a time lag between the start of the process and end of the process wherein we have to get regulatory approvals in India and overseas, and obviously during that period of time the expenses continue.

**Nischint Chawathe:** Okay, fine. Thank you very much.

**Shachindra Nath:** Thank you.

**Operator:** Thank you sir. Next question comes from Amit Kawle from CRISIL. You can go ahead sir.

**Amit Kawle:** Yes, hi everyone. Just wanted to get a feel on what is the operating environment for the Finvest business as such given the interest rate scenario and since you have already achieved around 88% of the asset finance book, do you see a slowdown over the next year?

**Kavi Arora:** In fact we are not really looking at slowdown just because we have reached a ₹5 billion book. We are constantly evaluating what are our new acquisition yield goals given that the cost of funds has gone up for us. How much of that has translated in terms of increasing yield for the client in the market which is also determined by various players in the market and thus what is the relative acquisition yields that we can get from the market. In the near term I do

not see any slowdown in terms of fresh asset acquisition because interestingly for us it has happened at a time when there is a larger opportunity for us to kind of absorb these compressed margins, because we had put up a capacity in form of management bandwidth over last couple of years and have set that up and now we do not see a significant increase in our operating cost in that sense to manage this business. So, what I am saying is that there is obviously an opportunity to make use of that installed capacity for the business and which will mean that we will have to become more efficient for the business to absorb some of the trade pressure but our acquisition of fresh assets will be on a strong one in the coming financial year.

**Shachindra Nath:** Not only for our Finvest business, but for all our operative businesses, given the way the Indian market is, there are headwinds against each of our businesses, it helps us to calibrate our next year very well. So, we are in the process of setting up our next year business plan and probably by end of the final quarter we should be able to explain to each one of you that how our next year looks like.

**Amit Kawle:** And in terms of the performance of the overall portfolios, there is a slight spike in the 30 plus days delinquencies. What is the provisioning that you have and what is the nature of this spike, because 90 plus days are quite stable but with the seasoning coming in and with the floating rate portfolio getting reset, how do you see it going forward?

**Kavi Arora:** Small spikes in business they are expected as business mature, but as you yourselves stated that the 90 plus looks fairly stable and given the account the way they are it looks fairly stable in terms of year going ahead. We do not see a particular issue in terms of any of those translating into delinquencies in real. With regard to provision policy it is as in line with as decided by RBI in terms of doubtful assets when you create provision. Also, as a prudent norm for business, we have a policy of doing upfront provision as we acquire the assets and as of today we have provision of about 0.6% on the business that we have. So, that is obviously done with a view, with any time, you know for a rainy day wherever it happens unfortunately which is expected any time for business, there is enough provision created from our current profitability.

**Amit Kavle:** All right. That is all from my side.

**Operator:** Thank you Amit. Next question comes from Manish Ostwal from K.R. Choksey Shares & Securities. You can go ahead sir.

**Manish Ostwal:** A quick question on asset management business. Actually, this business shows regulatory changes recently in a couple of quarters, lower growth in AUM in the industry side and the adjustment to earnings on a lower side. So, could you explain, how do you see this business going forward, number one; and could you give your outlook on the asset management business going forward next 12 to 15 months, especially for equity asset class asset management business.

**Shachindra Nath:** Yes, sure. Saurabh Nanavati would take that.

**Saurabh Nanavati:** Actually I think if you look at the calendar year 2010, we have seen huge outflows in the equity space, the equity AUM of mutual funds. I think what has been the bright spot is very high growth rate in the systematic investment plans and there basically I think the number for the whole industry is close to 50 lakh systematic investment plans which are currently in operation, and adding almost a ₹1,000 crore of AUM every month at this point of time. In fact if you see the last 1 to 2 months, the equity inflows have been positive for the industry. I mean what we feel is this is as bad as it can get to be honest, I think we are at an absolute bottom from an outflow perspective as well as the industry has lost a lot of retail folios

in the last year. Presently, Religare is one of the four AMCs in the top 20 which has gained retail folios even during this period. So, I think it is at the bottom, it can only improve from here, but the traction will perhaps begin only after the first quarter of 2011.

**Manish Ostwal:** Okay, sir. As far as the institutional broking business is concerned, because we analyze other institutional broking businesses most of the businesses are into closer to in a red or growth is very slow as compared to retail business. So, what is your sense in terms of integrated financial players, what kind of synergy do you see from institutional broking to the investment banking, overall profitability at a consolidated level?

**Shachindra Nath:** Okay, in detail we have explained the strategy but very quickly the whole integrated financial services play, our view is that the standalone businesses in current market environment wouldn't succeed or survive in long run. The opportunity which we have is that we have the base of manufacturing and distribution, we have base right from retail to corporate through our various businesses. We have right matrix to cover these clients and we can significantly flow businesses to each other. The way our management structure is and the way we are aligned by way of the co-ownership program, normal challenges which you see in other business group we do not have it. So it is one management team which is executing these businesses for various vertical of itself and that is the core of it, but we will be happy to answer in detail if you want, probably on a separate call.

**Manish Ostwal:** Okay sir. And last question on the insurance space, could you explain what is the capital requirement for Religare AEGON insurance for next few years?

**Shachindra Nath:** We have already answered that question for the quarter and we have said that we are looking at doing the annual plans for the next year and post that plan in our Q4 we would be able to give you some guidance on that.

**Manish Ostwal:** Okay, sir. Thank you very much. All the best for next quarter.

**Shachindra Nath:** Thank you very much.

**Operator:** Thank you Manish. At this time, there are no further questions from the participants. I would like to hand the floor back to Religare management team for final remarks. Over to you sir.

**Kishore Belai:** Thank you everyone for joining us today. If you have any further questions, feel free to write to us and we will be happy to answer your questions. Thank you and have a good evening.

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