



Religare Enterprises Limited

Q1FY13 Earnings Conference Call

Wednesday, 8th Aug 2012 at 3:30 pm IST

Kishore Belai : Good afternoon everyone and thank you for joining us on our First Quarter FY13 results conference call. I am Kishore Belai, Head of Investor Relations at Religare. We are joined on this call today by Mr. Shachindra Nath, our Group CEO, Mr. Anil Saxena, our Group CFO, and members of our senior management.

Before we start the proceedings, I'd like to mention that certain statements that may be made on this call may be forward-looking statements and we do not undertake to publicly update them. A statement in this regard has been included in the invitation for this call. On this call, Mr. Nath will first give you an update on the Company's performance for the quarter and we will subsequently open the lines for Q&A. I now turn the call over to Mr. Nath.

Shachindra Nath : Thank you Kishore. Good afternoon everybody and thank you for joining us on this call. Our results presentation has been uploaded on our website and emailed to you all. I hope you have studied the numbers already.

Before I start with the quarterly performance review of the Religare portfolio, let me bring you up to speed on the launch of our Health Insurance business. I had mentioned on our last call that Religare Health Insurance Company Limited had received R2 and R3 approval from IRDA and was to commence commercial operations in Q2 FY13. I am happy to report that RHICL's Individual and Group products – known as 'Care' and 'GroupCare' respectively – have been approved by IRDA and in fact RHICL wrote its first policy exactly a month ago. RHICL is already live from 30 offices in 28 cities nationwide, utilising the existing Religare network to the extent possible, and as I have mentioned in the past, at the lowest possible opex – the total pre-operative expenses until launch were under ₹ 290 million and we believe this will set the new benchmark for the Health Insurance industry. Furthermore, in just the first month of operations, RHICL has collected premium of ₹ 73.5 million. In pursuance of our objective of maximising synergies within the group, Religare Securities Limited has obtained IRDA's consent for acting as Corporate Agent for RHICL. With over 800,000 customers, RSL is well-positioned to promote RHICL's products. I am confident that RHICL will become a unique provider of protection to consumers, given the strong linkages with healthcare delivery and financial services distribution within the extended Group.

Let me now talk a little about the environment which has created the context for our operating and financial performance in Q1 FY13. I had mentioned on our last conference call that we expected the markets to remain challenged in the foreseeable future. As you will see on slides 2 and 3 of our Investor Presentation, this has actually played out in Q1 FY13. GDP growth has contracted and the outlook has deteriorated, and all segments of the financial services industry have been negatively impacted. Despite this backdrop, Religare continued to focus on execution. We have tried to maintain the momentum generated since Q3 FY12 and deliver consistent financial performance.

Let me give you an overview of our consolidated financials which you can see from Slide #4 to 6. Consolidated revenue for Q1 rose 14% on a year-on-year basis to ₹ 8,606 million. We reported a PBT-level profit of ₹ 851 million for Q1 FY13 against ₹ 817 million in Q4 FY12, reflecting a consistent improvement in our operating performance. At the PAT level, after adjusting for exceptional items and dividend distribution tax, we reported a profit of ₹ 402 million for the quarter under review as against ₹ 403 million in Q4 FY12, firmly establishing our profitability trajectory. Note that Q1 FY13 financials are not truly comparable with Q1 FY12 financials as RCML was consolidated in REL's financials for Q1 FY12 but not in Q1 FY13.

Let me now give you a brief update on each of our portfolio companies which has been summarized on Slide #7 to 9 in the presentation. Religare Finvest Limited, which houses our Lending business, continued to deliver strong operational performance. Total lending portfolio increased by ₹ 98 billion to ₹ 117 billion. Net Interest Margin stood at 3.85%, reflecting a decline of 43 basis points from the previous quarter. NIM has come down primarily because we have securitised part of our high-yielding portfolio and the difference between the acquisition yield and the assignment yield is now accounted in the Other Income line and therefore not reflected in NIM. I'd like to highlight that under our accounting policy, we recognise the gains from assignment over the original life of the asset – we do not book the gains upfront. There has also been an increase in the weighted average cost of funds during the quarter. Operating efficiency continues to improve as reflected in the decline in Opex/ANR ratio, which came down by 18 bps to 2.02%. Our Gross and Net NPA on a 90-day basis stood at 0.94% and 0.59% respectively, higher by 8 to 9 basis points sequentially. The increase is partly on account of seasoning of the portfolio and partly because of lumpiness caused by a few cases. We are more than adequately covered on these cases and are working with the borrowers towards resolution, which we expect will happen soon. The capital adequacy ratio for RFL stood at 18.60% as on 30th June, 2012 reflecting a good cushion for growth.

Religare Securities Limited, our Retail Broking arm has been impacted by the absolute decline in market-wide Cash Equities turnover and this has overshadowed the operational improvements we have made in our business. However, our efforts are paying off as our Equity Broking market share was basically steady and our client base continues to increase gradually, currently standing at approximately 828,000. Commodities Broking performed better with a 20 basis point increase in market share to 2.7% and an increase in the client base to approximately 164,000. The decline in Cash volumes has impacted industry-wide revenue. Our retail broking business reported a quarter-on-quarter revenue decline of ₹ 147 million or 12%; however, the negative impact at the PBT level was restricted to ₹ 20 million.

Religare Asset Management Company Limited, which operates our India Asset Management business, witnessed a steady quarter, characterised by an increase in Institutional and Retail AUM. The early results from our recent distribution tie-up with a major Bank have been very encouraging. RAMC stayed very close to the break-even mark, reporting a marginal loss of ₹ 10 million.

In Religare Macquarie Wealth Management Limited, our Wealth Management Joint Venture, AUM stood at ₹ 27.5 bn. as on 30th June 2012. Our efforts towards improving operational efficiency have borne fruit as AUM per relationship manager increased 23% QOQ to ₹ 331 million or nearly double the year-ago level.

AEGON Religare Life Insurance Company Limited, our Life Insurance JV, continues to build its franchise with an increase in the customer base to around 227,000 customers while ensuring that capital is used efficiently. Just to remind you, the

investment structure allows Religare to participate fully in the equity upside in this venture while enjoying a guaranteed floor return.

Religare Global Asset Management had AUM totalling USD 13.4 billion as of 30th June 2012 and is executing to its plan. Northgate Capital, one of our existing affiliates, has successfully completed fund raise of around USD 700 million, the first since its acquisition by Religare. RGAM continues to build its business primarily around an inorganic strategy, but we are supplementing this with two green field affiliates in areas where we have the skill base and the right network. The first such organic affiliate has already been incorporated and has received in-principal approval from the Singapore Stock Exchange (SGX) for listing of its first fund – a business trust that will own and operate healthcare-related infrastructure assets.

You would recall that the consolidated financial statements of Religare Capital Markets Limited have been excluded from REL's consolidated financial statements with effect from 1st October 2011. However, the business continues to remain operationally integrated with the rest of Religare. The Capital Markets continue to remain challenged and within the constraints of the market, RCML continues to improve its operating metrics – be it client empanelment, research coverage or market share. You will find all these details on slide 18 of the presentation.

We believe that the economic outlook will continue to be clouded for some more time and the markets will continue to be challenged. Religare has invested substantial effort over the past three quarters to make its portfolio companies more flexible and resilient so that we can sail through these turbulent waters. We continue monitor the performance of each of our portfolio companies and benchmark their performance to the peer group. To reiterate, in Religare Finvest, our focus is to achieve benchmark ROE while maintaining asset quality. In Religare Securities, as we complete our transition to an asset-light model, our immediate focus is on attaining absolute profitability and to generate superior ROE in the next year. In Religare Asset Management, the effort is for our funds to outperform the market, and grow both domestic and offshore AUM. In Religare Health Insurance, we plan to operate with very low opex by leveraging the Religare ecosystem.

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

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

Moderator : We have the first question from the line of Vikas Garg from Fidelity, please go ahead.

Vikas Garg : On the recent development of Deccan Chronicle deal – just wanted to understand the rationale of you taking exposure in that company and as of now what is the status of that particular exposure?

Shachindra Nath : For client related questions we are bound by the client confidentiality. On our investor call if you have any specific questions with related to the company's performance we are more than happy to answer, but with respect to any specific exposure I don't think we can disclose that. But broadly and generally I think for Deccan Chronicle every lender in the market has exposure towards them and they are suffering with liquidity crisis which is well known.

Moderator : The next question is from the line of Kajal Gandhi from ICICI Direct, please go ahead.

Kajal Gandhi : Wanted to understand that 1.8% market share that you are talking in your institutional equities is it on the cash you are talking or the entire business? Is it only institutional cash or cash plus F&O?

Shachindra Nath : It is only cash. 1.8% refers to the institutional cash.

Kajal Gandhi : Can you share with us the total from where this 1.8% number is derived?

Basab Mitra : What we are saying is that this is that whatever is reported as the institutional market volume, we take that and we take our volume and divide the two.

Kajal Gandhi : Because I'm not sure whether separately institutional cash we will be able to get that much.

Basab Mitra : You can get that.

Kajal Gandhi : Can you tell me what is the outlook for your capital market lending book, are you seeing any stress there?

Kavi Arora : If you will look at the numbers in our balance sheet, capital market lending has been the same over last five quarters and that is primarily because of the way the market performed. We don't see too much of stress in our own book and there is an adequate cover that we have which is over two times cover on the loans. And the future outlook largely will remain the same way that it has remained in the last four or five quarters, we are not looking at any aggressive growing of this book.

Kajal Gandhi : What was the last year's disbursement in this segment?

Kavi Arora : What you can clearly see on Slide #11 is the number by each product and you can see that it was ₹ 2300 crore on 30th June 11 and versus June 12, it has remained the same. It has remained ₹ 2300 crore and thereabout.

Kajal Gandhi : But these are short-term loan so you must have got repaid and then you must have disbursed fresh to maintain this outstanding.

Kavi Arora : That's right.

Kajal Gandhi : I wanted to know what must be the fresh disbursement in the last one-year.

Kavi Arora : I don't have the fresh disbursements because that's not the way we track this business, more from the lines that are sanctioned and then we drawdown on those lines.

Moderator : The next question is from the line of Rahul Jain from Goldman Sachs, please go ahead.

Rahul Jain : On your Slide #11 the NIM for this quarter has come off by about 35 bps so just wanted to understand what is the reason for that, is there any reclassification or one off that has taken place in this quarter?

Kavi Arora : This point was mentioned in Shachin's opening remark as well. There are two reasons driving this NIM down in this quarter. One is some of our high yielding assets that we have securitized during this quarter and we don't recognize the income upfront. It's recognized over the term of the assets but the yield level obviously would come down because these are off balance sheet now. Second is increased cost of fund which combined with both these have resulted into 35 bps of this NIM coming down.

Rahul Jain : What exactly is mentioned in the note below that there is some revised computation methodology? On the bottom of the Slide #11 there is a comment which says that NIMs for past quarter have been restated as per revised competition methodology.

Kishore Belai : In the past there were certain miscellaneous income items that would be incidental to the yields on the portfolio which would get accounted as part of NIMs. What we have done is we have retrospectively restated the NIMs excluding those items.

Rahul Jain : Do you mean fee income earlier was included in this?

Kishore Belai : There are items like foreclosure charges etc. that have gone out now.

Rahul Jain : Second thing is on our gross NPA that has been inching up, can you elaborate on which sectors are exactly are contributing this rise in NPAs?

Kavi Arora : If we look at our portfolio very carefully, it is not the same number for all the five quarters. It is basically that our NPA recognition happens at 90 days, we did the first two quarters at 180 days. In absolute 90 days it is about 0.4% and if I were to state 180 days likewise against 0.21 or 0.27 for 30th September 2011 that number is 0.4% that is how we would look at the market which is at 180 days plus. Markets are around 2.5% and that's something which happens even if the portfolio matures. So there is no real concern that we have on NPA levels in the portfolio plus from our risk strategy over the last three years, what we have acquired in portfolio is that we have been focusing completely on customers credit and we have been sector agnostic but there is no concentration risk that we have on our books from any particular sector. So it is uniform and as spread out as our portfolio and we don't see any specific issues from any particular sector.

Moderator : The next question from the line of Arvind Subramanian from IDFC, please go ahead.

Arvind Subramanian : I want to understand on Slide #5 it is mentioned the charge on account of corporate dividend tax, could you please explain?

Anil Saxena : It is the dividend distribution tax. Last quarter RFL paid out the dividend to REL of approximately ₹ 95 crore and this is the distribution tax on that which we have received in the current quarter and that's why it is accounted.

Arvind Subramanian : Religare Finvest paid the dividend?

Anil Saxena : Yes, Religare Finvest paid the dividend to REL

Arvind Subramanian : But doesn't the tax get deducted at Religare Finvest?

Anil Saxena : We are presenting the consolidated statement so whether the tax gets deducted at Religare Finvest level or any other entity that is reflected as consolidated.

Arvind Subramanian : Why would you show an adjustment on this dividend tax because you are showing in adjusted PAT?

Anil Saxena : No this is not adjustment, this is really a bifurcation because otherwise if we include the entire tax item your question might be how come the tax has gone so high.

Arvind Subramanian : And in adjusted PAT have you then removed the dividend also?

Anil Saxena : Dividend does come as part of the consolidated.

Arvind Subramanian : How is your ALM on the Religare Finvest? What are the kinds of tenures on the liabilities and assets size?

Sunil Garg : ALM wise we are perfectly fine. Currently if you look at our asset profile our short-term assets and short-term liabilities these numbers are matching and on long-term we have almost ₹ 6000 crore of assets and similarly liabilities also to that extent. So ALM is matched number.

Arvind Subramanian : When I look at Slide #6 you have current liabilities of ₹ 10,000 crore so that means they are all maturing within one year and non-current liabilities of ₹ 7000 crore. If I look at your asset side you have long-term loans of ₹ 8000 crore and short-term loans and advances of only ₹ 6200 and adding those up it does not look like it's matching.

Sunil Garg : Are you looking at the consolidated balance sheet?

Arvind Subramanian : It is consolidated numbers what I am looking at but the loans and advances and the borrowing will be largely from the Finvest, right?

Sunil Garg : If you look at the RFL numbers and we have already disclosed the RFL number. Let me take you to slide # 26, it talks about the RFL numbers on a standalone entity basis. Here is the short-term liability of ₹ 8447 crore against that we have the short-term and the current assets of ₹ 7998 crore so there is a marginal increase in this quarter in the current liabilities which we are hopeful that in the current quarter it will get corrected.

Arvind Subramanian : Then why is the difference arising in the consolidated level, where is the excess either short-term borrowing going?

Sunil Garg : In the other entity the short-term assets and short-term liabilities are there. It can be because of Religare Securities where we are borrowing to give the margin to stock exchange.

Arvind Subramanian : But there again the assets would be short-term if you are giving the margin funding?

Sunil Garg : That asset is not reflected in the short-term assets. It is a part of the bank and reflected in the bank balances.

Arvind Subramanian : If I add your cash and bank balances and short-term loan on a consolidated level?

Sunil Garg : Then you should look at the total number, that is ₹ 10,160 crore against which the current liability of ₹ 10,170 crore. If we take all the current assets then the numbers are matching.

Arvind Subramanian : What is this ₹ 85 crore trade receivables number? Is this outside Religare Finvest?

Sunil Garg : It is outside Religare Finvest.

Arvind Subramanian : So what are those exactly?

Sunil Garg : We need to just take out those numbers and see what exactly would be the nature of those but this is not pertaining to Religare Finvest.

Moderator : The next question is from the line of Chandan Gehlot from Deutsche Asset Management, please go ahead.

Chandan Gehlot : What was the average cost of borrowings in Q4 FY 2012 and in Q1 FY13?

Sunil Garg : In Q4 FY 2012 it was in the range of 11.75% – 11.80% and Q1 FY13 it has gone up by 25bps so it's nearer to 12% - 12.05%.

Chandan Gehlot : Despite a decrease in the bank base rate and there is improvement in the money market so why is the cost of borrowing still high, is it because of this ALM mismatch which we are carrying or this is because generally the Q1 demand for loans is not as high as compared to Q4 FY 2012.

Sunil Garg : If you look towards the fag end of March 2012 whatever we borrowed from the market basically because of the liquidity crunch the rate was on a higher side and it is a short-term loan which we took from the market. And for the entire first quarter the lag effect of high cost borrowings was there. In first quarter the cost of funds has gone up whereas the impact was not visible in the March quarter. And borrowings have been repaid in the current quarter so that impact will not spill over to the next quarter.

Chandan Gehlot : Can we see some decline in the cost of borrowings in the next quarter?

Sunil Garg : We are hopeful of that. We are experiencing that in the current quarter.

Chandan Gehlot : How much of your total liabilities is variable?

Sunil Garg : Our entire loan book from the banking system is variable.

Chandan Gehlot : Can you help me with the total amount of other assets and treasury assets for the RFL?

Sunil Garg : It would be in the range of around ₹ 1500 crore.

Chandan Gehlot : Is ₹1500 crore figure including both, your other asset and treasury assets both?

Sunil Garg : Yes correct.

Chandan Gehlot : Is there a decline from the Q4 FY12?

Sunil Garg : Yes quarter on quarter the numbers are coming down.

Chandan Gehlot : Currently there is a monsoon deficit which everybody is now seeing and a drought kind of situation. Do you think on the ground level it will impact any of our SME clients?

Kavi Arora : A simple answer to that question is 'no' from our side. Our overall portfolio exposure on businesses based on agriculture is negligible; we don't see any challenge because of a drought like situation.

Chandan Gehlot : Recently we have read in the print media that NBFCs including Religare have done some structured transactions where they have demanded a share of profits generated from certain real estate projects apart from the usual debt repayment schedule. Can you throw some light on these kinds of structures?

Kavi Arora : As a business we are pretty much focused on SME lending and its not too many transactions that we do on the structured finance side. And how it got quoted out of context, I cannot really comment on that. As a business that is not something that we are actively engaged and we don't do that kind of transactions.

Shachindra Nath Having said that here at Religare Fininvest our focus is to improve our ROE on top of our standard interest margins. And if we can get anything more from our borrowers we are more than happy to get it. But unfortunately we have not got many such occasions to get that.

Chandan Gehlot : What is the total secured portfolio proportion in this quarter?

Kavi Arora : 91% of our loan book is secured, 9% is unsecured.

Chandan Gehlot : Within this 91% secured book, how is the quality of the collateral? Is it exclusive or it is pari passu?

Kavi Arora : First of all about 60% of the book is loan against property. In property our loan at a book level is less than 50% of the marketable value of the property at the time of disbursing the loan. You can say there is more than 2x cover when we do the loan. We do only first and exclusive charge. We don't do second charge. We don't do residual charge. We don't do pari passu. The balance of the book which is commercial assets and plant and machinery, it is again first and exclusive charge and depending on various categories as per our risk grids we take 75 – 80% depending on the asset quality and the standard asset versus the non-standard asset. That's a complete grid against which we take exposure. And all secured assets are first and exclusive charge. On loan against shares as I already mentioned in the call its again 2x covered and it is exclusive charge.

Chandan Gehlot : Will it be possible for you to share what is top 10 client concentration in your capital market book?

Kavi Arora : Sure we can provide by and large percentages and customer names is something we won't be able to give.

Chandan Gehlot : On the call you have mentioned that Religare is not running any client concentration risk. So idea is just to understand what kind of diversification we have on our business verticals. Idea is to get top-10 client, and what is the total percentage of total advance book.

Shachindra Nath : In which segment of our lending?

Chandan Gehlot : In all the 3 segments.

Shachindra Nath : They will be negligible because we don't track on top-10 client basis. As we said it is very well diversified.

Chandan Gehlot : Okay probably I will take it offline.

Moderator : The next question is from the line of Aparna Karnik from DSP Blackrock, please go ahead.

Aparna Karnik : On the ALM you mentioned that short term asset and liabilities are fairly well-matched. If you could give us some sense that within next 3 months what are the liabilities falling due and assets also – what sort of gap is there. And secondly on your lending book if you could just let us have a sense in terms of how much is the exposure to the real estate sector either through developer loans or project loans, etc.?

Kavi Arora : Commercial real estate or CRE as defined by RBI includes developer loans, lease-rental discounted where primarily the repayment source is from property. It is not just developer loan as per that definition. The CRE exposure on our balance sheet is 23%.

Aparna Karnik : This would include loans to developers and lease-rental discounting. Right?

Kavi Arora : That's right.

Aparna Karnik : And that doesn't include your LAP exposures?

Kavi Arora : No it does not. They are not categorized as commercial real estate. Let me explain that loan against property is loan to entrepreneur for his business where the collateral is a property.

Aparna Karnik : LAP is separate from the CRE and where is commercial real estate classified in your borrowing? I mean which segment do you put it in?

Kavi Arora : LAP is overall from the asset book and from liability side, it is supported by long term lines from the banks.

Aparna Karnik : On the ALM over the next 3 months, if you could give a sense what sort of assets and liabilities are falling due?

Sunil Garg : In the 3 months bucket, the major source of liability which is falling due is from CP market. So whatever we are borrowing from the CP market will come up for repayment in the next 3 months. That's the only source. Apart from that

even the short term liabilities which are in form of the CC limit from the bank where we can go for 18 months NCD papers; we have given a put-call option after a year, these are the types of papers which are not due for the maturity in the next 3 months.

Aparna Karnik : And is this matched by the assets and investments?

Sunil Garg : Yes, I would say assets, which are short term in nature. Entire book of our capital market lending book and whatever we maintain towards the liquidity backup arbitrage book are short term in nature.

Moderator : The next question is from the line of Amit Jain from Sunidhi Securities, please go ahead.

Amit Jain : What's your share of borrowings from banks and NCD, etc., if you can provide the break up?

Sunil Garg : The limit stands at ₹ 9000 crore but the actual borrowing from the banking system would be around ₹ 7500 crore and NCD is ₹ 1800 – 2000 crore.

Amit Jain : Your operating cost is coming down continuously. Wanted to know what's our view on that and how do you see going forward?

Shachindra Nath : You are talking about operating cost at a consolidated level?

Amit Jain : Yes at consolidated level.

Basab Mitra : There are couple of different actions. One is that you have to be careful about comparing year-on-year because there have been some changes as we mentioned on the RCML deconsolidation – that has taken some operating cost out of system. But a lot of that is also because we have done specifically shifts in some of our businesses like broking where we have made it more asset-light. And then thirdly there have been some structural changes of the corporate centre. It's a combination the RCML deconsolidation, work that is happening in some of our businesses on reducing our overhead costs and stuff that we have done on the corporate centre. It is really this combination of factors why the cost has come down.

Amit Jain : Can we consider our current quarter to be consistent or we will see further fall in the operating cost?

Basab Mitra : I think we should really look at sequentially not year-on-year. A sequential movement is really what you should be looking at. We continue to look at productivity metrics across the business especially in this environment. And there will be further changes that we will make but we don't see dramatic shifts happening quarter-on-quarter. It will be more in line of cost productivity measures that we take.

Shachindra Nath : But you are right to assume that the quarter 1 of current financial year is more or less the baseline at which we will operate at.

Amit Jain : Your PAT after minority interest in consolidated balance sheet is about ₹ 24 crore whereas PAT in standalone lending business is about ₹ 48 crore plus you have a cash of about ₹ 2300 crore which must yield about ₹ 58 crore per

quarter considering interest rate about 10% on PBT basis. So it means most of your other businesses are making substantial losses, just wanted your view on that.

Anil Saxena : What we have done on Page #5, is that we have shown the dividend distribution tax separately. That's not coming as part of the consolidated net profit. But apart from that there are other businesses like broking and health insurance where we have some negative income which on an overall basis, we are in the process of curtailing those losses and turning those businesses to profitability.

Amit Jain : Is it possible to give us the breakup between the same?

Shachindra Nath : As we said we have just started the health insurance and that would remain in investment mode for next 3 – 4 years.

Amit Jain : Is it possible to provide PBT breakup for all the businesses?

Shachindra Nath : It is there in our presentation. You have entity level P&L and entity level balance sheets.

Moderator : The next question is a follow up from the line of Vikas Garg from Fidelity, please go ahead

Vikas Garg : On commercial real estate exposure which you said is at around 23%. Just to understand if I am taking it correctly, this 23% is the percentage of the total book which you are earning at around ₹ 12000 odd cores?

Shachindra Nath : That's right.

Vikas Garg : You said it's a combination of your lease-rental discounting and for the properties which are under construction, is it possible to give a broad breakup across these two segments?

Kavi Arora : First of all it is not property under construction because we are not in typical home loan market where developer loans are given. Loans to developer which are collateralized by the property and through the receivables from the products and all LRD and these are classified as commercial real estate. You can connect with Kishore separately to take the break down.

Basab Mitra : On that last point I think it is important to point out that our exposure to one of the classic real estate development funding is very negligible. Most of our book is on lease-rental discounting. We are not taking fundamental developer risk in our book that's an important clarification and you will see that in the data.

Moderator : The next question is from the line of Gurvinder Wasan from Principal Mutual Fund, please go ahead.

Gurvinder Wasan : You mentioned your bank funding is around ₹ 7500 crore and NCD is ₹ 1500 crore whereas the total borrowing on RFL's balance sheet is around ₹ 13900 crore. Is it difference from CP?

Sunil Garg : ₹ 7500 crore is bank borrowing. And ₹ 1800 – 2000 crore, is from the NCD market and then there is CP market which would be around ₹ 3300 – 3400 crore. .

Gurvinder Wasan : And on the asset side, we are saying that our AUM is around ₹ 11700 crore and whereas balance sheet showed asset worth ₹ 13700 crore, the difference of ₹ 1800 – 2000 crore is inter-corporate loans, am I right?

Sunil Garg : There is arbitrage book that we run and there is a small proprietary bond portfolio and then there are corporate loans.

Gurvinder Wasan : The combination of all this has moved from ₹ 1500 crore to ₹ 1800 – 2000 crore, between March and June.

Sunil Garg : That's the number.

Gurvinder Wasan : And how much of these inter-corporate loans would be to group companies?

Sunil Garg : Not substantial amounts to group companies, because group companies come under the limit from RBI. So it would be less than ₹ 400 – 500 crore.

Moderator : The next question is from the line of Elizabeth John from CRISIL, please go ahead.

Elizabeth John : On Slide #11 where the gross NPA and net NPA number is given. The number has slightly increased even under the old policy. Definitely it is below the standard. Any particular asset class where you are seeing some kind of pressure?.

Kavi Arora : It is not any specific sector, it is general maturity of the portfolio at 0.4% of gross NPA levels versus 2.5% which is the average in the market. It's not specifically coming from any specific sector.

Elizabeth John : On Slide #19, I wanted to understand the reason for increase in the operating expenses in RGAM and the decline in the personnel expenses in RGAM on a sequential basis.

Paresh Thakker : In RGAM we have two subsidiaries in US and this is for the first time that we did audited consolidation of those entities. Earlier it used to be un-audited consolidation and during the audit, the auditor wanted us to reclassify some of the items from administration expenses into personnel expenses. So some kind of contribution which we had made towards investment teams their share towards the fund. This is the reclassification. So you see there is a shift on expenses from the administration to personnel expenses.

Pervez Bajan : It was the reclassification for all 12 months. The reclassification was done in the last quarter of last year. That's the reason you will see significantly happening in Q4 of last year.

Elizabeth John : Should I be taking Q1 as the base?

Paresh Thakker : Yes.

Moderator : The next question is a follow up from the line of Chandan Gehlot from Deutsche Asset management, please go ahead.

Chandan Gehlot : Wanted to understand our risk management practices in our capital market book?

Shachindra Nath : Well the answer for that will be very elaborate. In a nutshell I would say that we have been running our capital market book for a very long period of time, our non-banking finance business has started with the capital market finance business and we have very well-established and time-tested prudent risk practices in our capital market finance business.

Chandan Gehlot : Do we have any checks and controls where the shares are pledged, whether it is pledged with any other lenders or do we have any limit on a certain percentage of shares which are already pledged, so we are not lending to the same client.

Shachindra Nath : You are going more on hearsay. As you know the share depository system in India is now very well-established. Post dematerialization of most of the securities, the pledging of the shares, its recording and its invocation is all through National Securities Depository and Central Depository Services links. And they are very well proven, tested system and I don't think there is anything which one has to do. The system generated electronics pledging and de-pledging system are what most of the lenders in the market use. We also use that and there is no additional security or a check which is required to be built at a lender level to say what is in the depository system is an eligible security or is not an eligible security. We don't lend against physical security. So the risk of lending against a security whose title is not clear is not with us.

Chandan Gehlot : Do we accept the collateral share of any entity or do we diversify, or are we taking the combination of the shares, how does it work?

Kavi Arora : There is obviously internal credit mechanism where scrips are divided into A – B – C categories. As Shachin said it can be a fairly elaborate discussion on how we do proper risk assessment. But to give you a very broad highlight, there are obviously scrips categorized into A – B – C and depending upon the total scrips of the customers, the limit is set and at a broad level a 2x cover that is available against the line.

Chandan Gehlot : When we say 2x, this 2x comprise of share of any particular entity or it is a combination of few entities?

Kavi Arora : It's a combination and as I said depending upon the category of how we classify whether A – B and C it can be 2 – 2.2 and sometimes it is taken up to 2.5 depending on the kind of scrip that is there.

Shachindra Nath : Just to add to what Kavi is saying, the capital market finance business is divided in to 2 parts. One is wholesale capital market finance business in which normal parlance called the promoter financing business. And our retail capital market finance business. When we do retail capital market finance business, which is a portfolio or a bucket of security against which a limit is set to a client and lending is done. And in wholesale capital market finance you do a credit assessment of the borrower which is a credible promoter of a business and there you may have a concentrated security portfolio which is the whole security but the cover in those lending cases, would be much higher than the 2 time portfolio. So depending upon the bucket the portfolio and the risk metrics are constructed.

Chandan Gehlot : In our history, have we seen any situation where we could dispose the collateral in to the market?

Shachindra Nath : When you lend against marketable securities we have our defined risk metrics, and if those parameters are getting breached then it is within our right to liquidate the security and recover our loan. That's the part of the process of that lending business and we do it as and when required within our legal recourses available to us.

Chandan Gehlot : But have we exercised this option in the past?

Shachindra Nath : Wherever there will be a default or a margins shortfall it is within our legal recourse to do it. Whenever such event arises, we do it.

Moderator : The next question is from the line of Preksha Rughani from Citi Group, please go ahead.

Preksha Rughani : In AEGON Religare, around the month of May there were talks that AEGON Religare needs about ₹ 100 crore of fresh capital infusion and there were differences between AEGON and Religare with respect to this. I wanted to know what is the development on this issue is and because of these issues can AEGON quit from the JV?

Shachindra Nath : Well I have no privy or knowledge to the issue which you are describing so I don't know what your source is. As far as the business is concerned we continue to monitor the performance of the business. AEGON is a global life insurance company and it has the experience to run such ventures in multiple jurisdictions and they take operating role in providing guidance to the business. We are providing our extreme support to make sure that capital is conserved and the business generates adequate return to all its shareholders. And whatever are the capital needs for the business are being provided by the share holders.

Preksha Rughani : There was an article in ET in the month of May and it said Religare would need about ₹ 25 crore in AEGON Religare in the next couple of months. I just wanted to know that has this capital infusion been done? If it is done then who has infused the capital, is it AEGON or Religare, they have differences amongst them?

Shachindra Nath : Whatever capital call has been made by the board has been met by all three shareholders and that is why you shouldn't believe the media report beyond a certain point, you have more credible information on the company, and you should ask the management and rely on that.

Moderator : As we have no further questions, I would like to hand the floor back to the management for closing comments, please go ahead sir.

Shachindra Nath : Thank you for attending this call. If you have any more queries, please feel free to contact Kishore, our Head of Investor Relations – he will be happy to be of assistance. Have a great day ahead.

Moderator : Thank you gentlemen of the management. On behalf of Religare Enterprises Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

Note: This transcript has been edited to improve readability