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Conference Call Transcript

Reliance Capital

Q1FY10 Results

July 31, 2009 | 04 p.m. IST

Corporate Participants

Mr. Sam Ghosh
CEO, Reliance Capital

Senior management team
Business heads

Questions and Answers

Moderator: Good evening, ladies and gentlemen and welcome to the Reliance Capital Q1 FY2010 Conference Call hosted by Edelweiss Securities Ltd. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's opening remarks. Should you need assistance during this conference please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I will now like to hand over the conference to Mr. Kunal Shah of Edelweiss Securities Ltd. Thank you and over to you Mr. Shah.

Kunal Shah: Thank you Rochelle and good afternoon all of you. This is Kunal Shah from Edelweiss Securities welcoming you all to Q1 FY10 earnings call of Reliance Capital. We are pleased to host the senior management team of Reliance Capital. We have with us Mr. Sam Ghosh – CEO Reliance Capital, Mr. Sandeep Sikka – CEO Reliance Capital Asset Management, Mr. K. V. Srinivasan – CEO Reliance Consumer Finance, Mr. Sudip Bandyopadhyay – MD Reliance Money, Mr. Malay Ghosh – President Reliance Life Insurance, Mr. Amit Bapna – CFO Reliance Capital and Mr. Praveen Challa – Senior Vice President Investor Relations. I will now hand over the floor to Mr. Sam Ghosh to give a summary on Q1 results and an update on various business verticals, over to you sir.

Sam Ghosh: Good afternoon all of you. I will do a brief summary on our results and an update on each of our business operations and then we will take questions.

I hope all of you have received our results by now. For those who haven't, they can view them and a brief presentation on the results on our website.

At this stage of our growth, the focus is to scale up our businesses and build a robust and sustainable business model, rather than focus on quarterly performance. We are happy with the progress that each of our business is making in this direction.

The total income from operations for the quarter ended June 30, 2009 was INR 14.7 billion against INR 15.1 billion for the corresponding previous period – a marginal decline of 3%.

The total costs for the quarter at INR 4.8 billion, were brought down by 9% year on year, due to the cost rationalization measures carried out across various businesses at Reliance Capital. The full benefit of these measures will be seen in this financial year.

The net profit was at INR 1.5 billion as against INR 3.4 billion for the previous quarter – a decrease of 56%.

The decrease in revenues and profits was due to the planned lower contribution from finance & investments, while the core businesses of asset management, insurance and consumer finance maintain steady revenue flows.

We are planning to unlock value in Reliance Life Insurance through various options –a potential IPO or strategic or financial stake sale, or even a combination of both – subject to necessary approvals.

For this quarter, we booked lower capital gains, owing to the planned partial stake sale in Reliance Life Insurance. Being the sole beneficiary of Reliance Life Insurance, the full benefit of this value unlocking will accrue as capital gains to Reliance Capital, through this transaction in the current financial year.

The staff costs for the quarter ended were INR 1.3 billion against INR 1.4 billion for the corresponding period in last year.

The interest & finance charges for the quarter were INR 3.7 billion against INR 2.3 billion in the corresponding quarter previous year. This was largely offset by increase in interest income from consumer finance business and our treasury assets.

The total assets of Reliance Capital, as on June 30, 2009 stood at INR 251 billion against INR 199 billion as of June 30, 2008 – an increase of 26%

The net worth as on June 30, 2009 was at INR 75 billion against INR 69 billion as of June 30, 2008 – an increase of 9%

Reliance Capital ranks among the top 3 Indian private sector financial services groups in terms of networth.

We have no exposure to money market or foreign exchange derivatives.

Reliance Capital has a conservative net debt equity ratio of 1.6 as on June 30, 2009. The company enjoys the highest top- end ratings of 'A1+' and 'F1+' by ICRA and FITCH, respectively for its short term borrowing program and 'CARE AAA' for our long term borrowing program.

We have 17 million customers across our businesses – through our unparalleled distribution network with over 10,000 outlets across India.

Let me now move onto each of our businesses – starting with our asset management business:

Reliance Capital Asset Management:

RMF continues to be India's No.1 Mutual Fund with a market share of 16.1%

The average assets under management of Reliance Mutual Fund increased 19% to INR 1.08 trillion in June 2009 from INR 908 billion in June 2008.

For the quarter, the asset management business declared a net profit of INR 374 million against INR 328 million for the corresponding quarter previous period – an increase of 14%.

There was year-on-year increase in the marketing expenses from INR 217 million to INR 387 million. This increase was due to the increase in the marketing spend towards the launch of Reliance Infrastructure New Fund Offer.

As at June 30, 2009 there were 7.1 million investors compared with 6.8 million at the end of June 30, 2008 - the largest body of investors amongst all private sector mutual funds in the country today.

In May 2009, RMF launched a New Fund – Reliance Infrastructure Fund. This fund collected around INR 23 billion from over 420,000 investors.

This is twice the aggregate amount collected by all Equity NFOs in the past 12 months across the Indian mutual fund industry. In terms of the amount mobilized, it ranks 8th in the top 10 Equity NFOs in the industry in the past 5 years. In fact 5 of the top 10 Equity NFOs are Reliance Mutual Fund NFOs. This only re-affirms the strength of our distribution network.

At the end of the quarter, our asset management company had a presence across 316 locations across India.

In our offshore business based in Singapore, we recently appointed a CEO, to increase the focus on our international business. He will lead the business strategy for the overall growth of our offshore business.

Now I turn to our life insurance business.

Reliance Life Insurance:

Reliance Life Insurance has maintained its position as the fourth largest private sector life insurer in India with a private sector market share of 9.3%.

The Total Premium increased by 21% to INR 9 billion for the quarter from INR 7.5 billion in the corresponding previous period. The renewal business saw a year on year growth of 105%.

I am pleased to mention that Reliance Life Insurance sold the highest number of policies in the private sector industry this quarter.

The number of policies sold during the quarter were 415,747 – a year on year increase of 45%. Currently we have over 3.5 million policies are in force.

The Annualized Premium Equivalent was INR 4.5 billion for the quarter against INR 4.2 billion in the corresponding quarter previous year, an increase of 7% against decrease of 7% in APE reported by the Indian life insurance industry and 18% by the private sector life insurance players.

The focus is on regular premium policies – and we have decreased the single premium component of the new business premium significantly to 12% from 27% year on year.

The New Business Premium was INR 5.1 billion for the quarter against INR 5.6 billion in the corresponding quarter previous year.

The Renewal Premium grew by 105% year on year to INR 3.9 billion for the quarter.

Our current distribution network stands at 1,145 branches with an agency force of 161,000 agents.

As on June 30, 2009, we managed INR 83 billion of funds – year on year growth of 112%

Our continued thrust on moving towards profitability – through improved product mix & pricing and various cost rationalization measures has resulted in better capital utilization.

During this quarter, the life business did not require any fresh capital infusion, against INR 3.3 billion invested in the corresponding quarter previous year. The capital invested till date in this business, is INR 27.4 billion.

Our new business achieved profit for quarter ended June 30, 2009 was INR 974 million. This translates into NBAP margin of 21.2%, up from 20.9% for the previous year.

In the presentation, we have disclosed details on the operating assumptions made in the calculation of the NBAP margin.

Moving on to our consumer finance business:

Reliance Consumer Finance:

As on June 30, 2009, the loan book stands at INR 85 billion – virtually unchanged from the loan book as on March 31, 2009. This loan book is well spread across over 125,000 customers from top 20 Indian metros.

This quarter we disbursed INR 6.8 billion against INR 14.3 billion in the corresponding quarter previous year, in line with our conscious strategy to maintain loan book size and focus on asset quality. We disbursed INR 3.6 billion in the fourth quarter of the previous year.

The average cost of borrowing for the quarter was at 8.9% against 9.7% for the previous financial year.

The business generated revenues of INR 2.9 billion for the quarter, against INR 2.6 billion for the corresponding quarter last year – an increase of 10%.

Cost to income ratio for the quarter declined to 44% from 60% for the corresponding quarter previous year.

For the quarter, Reliance Consumer Finance declared a profit before tax of INR 86 million as against INR 310 million in the corresponding period last year. The business showed an increase of 490% in quarter on quarter profits.

Reliance Home Finance – our home finance subsidiary of Reliance Capital has commenced full fledged lending activities.

Now I turn to our broking and distribution business – Reliance Money.

Reliance Money:

Reliance Money is a leading brokerage and distributor of financial products and services in India, with 3.5 million customers. It has the largest distribution network of 8,673 outlets in over 5,000 locations across India.

For the quarter ended June 30, 2009, Reliance Money generated revenues of INR 682 million against INR 782 million for the corresponding previous period.

This decrease in income was due to decline in revenues from the broking and distribution arm of Reliance Money. Revenues from the other services like money transfer, gold coin sales and money changing showed a strong growth of 143%.

Broking contributed to 48% of the total revenues. The daily average stock exchange volume was INR 16 billion.

For the quarter ended June 30, 2009, it declared a net profit of INR 105 million against a loss of nearly INR 106 million in the fourth quarter of the previous year – re-iterating our focus on sustainable profits and building a robust business model.

Reliance Money was adjudged the 'Best Equity Broking House 2009'

and the 'Largest E-broking House' by Dun and Bradstreet in April this year.

The awards were granted to broking houses that not only delivered

superior performance in 2008 amidst the global economic crisis, but also led the way in providing customers value-added and innovative services.

And finally our general insurance business.

Reliance General Insurance:

Reliance General Insurance continues to the India's 3rd largest private sector general insurer with a total market share of 6.3%.

The gross written premium for the quarter remained unchanged year on year at INR 5.6 billion, but grew 32% quarter on quarter from INR 4.2 billion in the fourth quarter of the previous year.

The net written premium for the quarter was INR 3.4 billion as against INR 3.6 billion for the corresponding quarter previous year.

I am extremely pleased to inform you that our general insurance business has turned profitable in this quarter. We declared a profit of INR 10 million against a loss of INR 142 million in the corresponding quarter previous year.

Our focus in this business has been to improve the combined ratio. To achieve this, several measures were undertaken to contain the claims ratio and the management expenses.

As a result of this, the combined ratio (without pool losses) has shown improvement to 108% from 113% in the corresponding previous period. The combined ratio is the sum of claims, commissions and management expenses.

A quick update on the other businesses which were launched last year:

Reliance Asset Reconstruction which is in the business of acquiring, managing and resolving distressed assets, currently has an asset base of over INR 260 million.

Reliance Equities International, the institutional broking business of Reliance Capital, tied up with Auerbach Grayson, a New York based stock broker. Through this tie- up, Reliance Equities International will increase its presence and distribution in North America through Auerbach's 400 plus clients. It also provides access to Auerbach's global research spread across 120 countries.

Thank you very much.

We can now take questions.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. At this time participants who wish to ask questions may please press * followed by 1 on their touchtone phone. If your questions have been answered and you wish to withdraw from the questioning queue, please press * followed by 2. You are requested to use your handsets while asking a question. Participants with questions may please press * and 1 at this time. Our first question is from the line of Suresh Ganpathy of Deutsche Bank, please go ahead.

Suresh Ganpathy: Yeah, just quickly on the consolidation, right now barring life insurance you consolidate all other subsidiaries?

Sam Ghosh: Yeah that is right.

Suresh Ganpathy: That is it, so okay fine. And the other thing is on the broking revenues, so look at it, it has not gone up at all on Q-o-Q and even the average daily trading volume is more or less flat, whereas the overall market volumes itself has gone up 65% Q-o-Q, what is the main reason why revenues have not picked up at all in the Reliance Money?

Sudip Bandyopadhyay: Hi this is Sudip here. In fact, since we have analyzed the market and we find that, yes the market volumes overall have significantly moved up but that is predominantly being led by institutions and high net worth individuals. We have to depend on the retail customers, which is our core constituency. They have not really flocked back to the market the way we had expected. Of course in the past few weeks we have been seeing good traction but overall during the last quarter we have not seen too much of extraordinary movement from the retail clientele.

Suresh Ganpathy: Okay, so much of the profits in your broking business has come purely on account of lower expenses compared with fourth quarter, so what really explains its volatility, I mean is it really that fourth quarter you accounted for some bonuses or something and first quarter you do not have or what exactly is the difference between the staff expenses over 4Q versus 1st quarter 2010?

Sudip Bandyopadhyay: We had gone through some staff reduction between the first quarter last year and this quarter, that is one of the things. We had also restructured our branch network, certain branches which were unproductive have been shutdown. All these have contributed to an extent on the cost saving part and of course the interest also during the first quarter has been much better than the last quarter of the last financial year.

Suresh Ganpathy: Your provisions, on the consumer finance business, they have gone up substantially, you know can you just clarify what exactly is the gross NPL number now in percentage and in absolute term, fourth quarter versus first quarter?

KV Srinivasan: The provisions have actually gone up in line with the growth in the NPLs but what we are really seeing is the overall delinquencies of one day positive plus of that pool has actually come down and that will start reflecting in the NPL numbers going forward, okay because there is a lag effect which really takes about three months to kick-in. So this is how exactly we had projected the numbers to move because the peaking has happened.

Suresh Ganpathy: So what is the gross NPL in first quarter? The fourth quarter was INR 200 crores, right.

KV Srinivasan: Yeah it was 480.

Suresh Ganpathy: Oh okay, so it has more than doubled.

KV Srinivasan: That is right, and that is basically in line with the growth in delinquencies in the second half of last year. So is now kind of reversed. So that is something which you will see the impact of it happening in the next quarter and the quarter thereafter.

Suresh Ganpathy: Okay fine. Thanks so much, yeah.

Moderator: Thank you Mr. Ganpathy. Ladies and gentlemen before we take the next question we would like to remind participants that you may press * and 1 to ask a question. Our next question is from the line of Ashwini Kumar of JM Financial Mutual Fund, please go ahead.

Ashwini Kumar: Good evening sir, just got two questions. What is the loss which you have written off in your life insurance business?

Sam Ghosh: In the first quarter?

Ashwini Kumar: In the first quarter and the total as of now.

Praveen Challa: In the first quarter it was INR 50 crores.

Ashwini Kumar: Okay and totally?

Sam Ghosh: YTD would be just the capital which is INR 2,740 crores infused till date

Ashwini Kumar: And sir what is the total loss written now out of that capital?

Sam Ghosh: You have to deduct the solvency capital from the capital infused till date. So it would be around INR 2,300 crore.

Ashwini Kumar: Okay and sir what is the embedded value.

Sam Ghosh: At this point we are just getting that finalized. We will look at disclosing this number in the next couple of quarters.

Ashwini Kumar: Okay sir. Thanks.

Moderator: Thank you Mr. Kumar. The next question is from the line of Mudit Painuly from Macquarie, please go ahead.

Mudit Painuly: Yeah sure just wanted to know more about the expenses, basically your entire profitability seems to have come from the other expenses and as Suresh had said earlier, could you tell us more about the decrease in expenses in let us say Reliance Money or in consolidated asset management business or in consumer finance business the reduction of other expenses is very sharp quarter-on-quarter. So how sustainable do you see this is going forward, and what exactly have you done there?

Sam Ghosh: Look on the other expenses side we have done a lot of cost rationalization over the last few quarters but, you are talking about the consolidated number, right?

Mudit Painuly: Yeah, I am talking about consolidated numbers and even if I look at your various subsidiaries like say consumer finance, the other expenses have gone down from INR 519 million in fourth quarter 2009 to INR 385 million in first quarter and similarly in Reliance Money it has gone down from INR 449 million to INR 221 million.

Sam Ghosh: I think what we will do is we will go through it business by business because overall if you look at in consolidated it has actually up and there is a reason for that.

Mudit Painuly: Okay sure.

Sudip Bandyopadhyay: In Reliance Money what we have done is we have rationalized the workforce and of course we have also rationalized the branch network which we had. These two things have given us significant cost savings and of course this is sustainable. If the business volume going forward significantly picks up then we will correspondingly add numbers and branches but as things stand down we are optimally structured.

Mudit Painuly: Okay so the other expenses decline is mostly due to the branch rationalization that you have done.

Sam Ghosh: Yes, infrastructure and other kinds of admin cost.

Sudip Bandyopadhyay: Yeah branch reduction also brings in corresponding admin cost reduction and all that, so I think all that put together will be reflected in the other expense reduction.

Mudit Painuly: Okay sure. And let us say your consumer business…

KV Srinivasan: Yeah, the substantial part of the expenses are variable and linked to the amount of disbursements that we make in terms of the distributor commission or in terms of the credit cost and so on so forth. So because our book has been more or less held flat the other expenses have actually come down in relation to that. So that is something which is a variable thing. So even if tomorrow the expenses go up because of growth in business it is quite sustainable. The key factor is the ratio has been brought down and that is something which is more or less at a sustainable level today.

Mudit Painuly: Okay so, and what explains the increase in the consolidated expenses?

Amit Bapna: On the other expenditure in the consolidated number you have a lot of variable costs that are directly linked to business we have done like commissions etc, so it is not only fixed cost which you can see in the consolidated number.

Mudit Painuly: Okay so it has other variable cost related to business which we are not able to see here.

Sundeep Sikka: Yeah apart from commissions you have NFO expenses and all booked as other expenses here. So that is why you see a jump there. But if you look at the fixed cost we have done a lot to improve ……..

Mudit Painuly: Okay so that explains it normally. Okay thanks. I am done.

Moderator: Thank you. Our next question is from the line of Mahesh Vaze of Blackstone Fund Services, please go ahead.

Mahesh Vaze: Yeah hi, how many people do we now employ in the entire Reliance Capital that is including people went on contract and below?

Sam Ghosh: Including off payrolls, it is around 30,000 or so.

Mahesh Vaze: So are we now at an optimum size?

Sam Ghosh: Yeah, I think now the next step is if you want to grow the business at a substantially faster pace than what we have planned then only we need more people. In our plans people we have assumed reasonable and moderated growth rates for which we have got adequate staff but if we grow faster and the markets allow us to go faster then obviously we may need to have more people with sales side.

Mahesh Vaze: And on the gross investment, actually you answered in earlier question, I dint get the numbers, What is the book size and what is the gross NPA?

Praveen Challa: Book size is about INR 8500 crores and the gross NPA is about INR 480 crores.

Mahesh Vaze: And what is the net NPA?

KV Srinivasan: Net NPA is about 40% less so it is about INR 200 crores less.

Mahesh Vaze: And your saying something about the cycle turning? Could we just go over it again?

KV Srinivasan: Sorry.

Mahesh Vaze: You said that the gross NPA cycle is turning and things you should improve going forward. Could you just go over that again?

KV Srinivasan: See what happens is that, the NPA itself is a process which builds up over a period of three months because when a loan goes into a delinquency bucket you wait for 90 days before classifying it as an NPA. So when the reversal happens that what you call is 1+ delinquency that bucket is come down, so therefore you will see that 90 days later the 90+ also is coming down. So therefore the feeding into the pool of NPAs that phase has got reversed.

Mahesh Vaze: But which part of the group comprises of many things including STPL, office financing, am I right?

KV Srinivasan: We do not have STPL, two wheelers, nothing. We only have prime PL and mortgages and vehicles and the SME financing.

Mahesh Vaze: So which part is turning now?

KV Srinivasan: All parts are turning - in fact we never had a problem in the vehicles or the mortgage business much. It is basically the personal loan portfolio which is the unsecured portfolio that was showing signs of stress, so that part is now turning around.

Mahesh Vaze: And of the INR 8,500 odd crores, you also lent to some group companies, right?

Praveen Challa: No, we do not. See the INR 8,500 crores is purely retail lending.

Sam Ghosh: Retail and SME lending only, we do not have any groups.

Mahesh Vaze: But you do have some exposure to the group companies.

Sam Ghosh: Not only consumer finance book, but in the investment book which Amit will answer.

Mahesh Vaze: And what is the size of that book?

Amit Bapna: It will be around INR 3,000 crores.

Mahesh Vaze: I got confused. I thought the INR 8,500 crores number was the entire book

Amit Bapna: That is hard core retail lending. The corporate book is more than INR 3,000 crores of which 50% is to group companies

Mahesh Vaze: And you said that listing or divestment, someone mentioned it on the call. What is the kind of timeframe one is looking at for this divestment?

Sam Ghosh: In the next six to nine months, within the financial year.

Mahesh Vaze: And which side are we inclined to, is it listing or divestment?

Sam Ghosh: Actually we are obviously looking at all the options and the option that comes out as the most favourable from all aspects, regulatory aspect as well as from our side would be the way we go forward.

Mahesh Vaze: Right sir. Thanks a lot.

Moderator: Thank you Mr. Vaze. The next question is from the line of Nishit Dholakia of Birla Sun Life, please go ahead.

Nishit Dholakia:: Yeah, sir just wanted to understand on this profitability of the asset management business of around INR 37 crores in this quarter, this is after accounting for the NFO expenses?

Sam Ghosh: Yes, it is after taking all the expenses of NFO.

Nishit Dholakia: Okay thanks.

Moderator: Thank you. Our next question is from the line of Mahesh Chabbria of Fidelity Investments, please go ahead.

Mahesh Chabbria: You have mentioned that you have booked lower capital gains this quarter. Could you throw some light on your unrealized gain on investments?

Amit Bapna: It will be around INR 500 crores.

Mahesh Chabbria: And my second question is on your debt profile I think you had mentioned your net debt equity at about 1.6 which translates close to about INR 12,000 crores of net debt. Sir, what would be the gross debt?

Amit Bapna: Gross debt would be around INR 14,900 crores.

Mahesh Chabbria: Okay so you have got about Rs 2,000 crores of cash?

Amit Bapna: Yes.

Mahesh Chabbria: And how much of this is less than 1 year and more than that?

Amit Bapna: On the Rs 14,900 crores?

Mahesh Chabbria: Yes.

Amit Bapna: Around 4,000 would be greater than, would be around 3 years. In totality I think it will be around 5,000 plus or 1 year money.

Mahesh Chabbria: So INR 9,000 crores is less than one year.

Amit Bapna: Yeah.

Mahesh Chabbria: Okay. Thank you.

Moderator: Thank you Mr. Chabbria. The next question is from the line of Manish Shukla of IIFL, please go ahead.

Manish Shukla: Sir, my question was on the life insurance front. This quarter it was the third consecutive quarter of negative growth for private players. You are doing better but the pace of growth for you also has declined. So what is exactly going behind that and what is driving in this decline considering that the insurance penetration system is very low in India?

Malay Ghosh: Hi, this is Malay from Reliance Life Insurance and it is all about retail investors you know being cautious now and as it is shown everywhere that retail investors are now not too willing to come to the stock markets and as most of portfolios are ULIPs so there is a little space there. I think that is what is happening as of now.

Manish Shukla: But if you see that in terms of equity market post election probably June quarter was one of the best quarters that we will have as far as equity markets are concerned. If that itself was not enough for retail investors to start investing what do you think will drive growth going forward?

Sam Ghosh: Yeah I think if you look at, in September-October when the markets went down and there was liquidity crisis it took three months, life insurance continues growth in December and then from January, it started slowing down. Same way it will take about 90 days or so and we are coming to a stage where I think it should start.

Manish Shukla: So what is your full year growth estimate for yourself?

Malay Ghosh: See we have estimated that the private sector industry will grow between 6-8% and we will grow between 22-25%. That is how we are planned for ourselves.

Manish Shukla: Okay and you see that in spite of the first quarter loss?

Malay Ghosh: Yes, we think that the market will definitely, in all probability change in another one-two months and most important part of the year it is second half, we expect will be much-much better.

Manish Shukla: Secondly, coming to the IRDA circular, have you done your calculations as to what kind of impact that is going to have and I believe there has been some representation to IRDA if you can throw some light what is happening on that front?

Malay Ghosh: Actually I will take the second question first, about representation to IRDA. Actually it was an invitation of IRDA to the life insurance companies. We sat down together, we found out that mortality charges included in the calculation (which was there in the first circular) was a little uncomfortable because life insurance industry will then restrict sum assured which is not the purpose of this

: The difference of gross yield and net yield as of today is between 2.5% to 3.5% and what we need to do is reviewing the minimum term, minimum premium, minimum sum assured, slight changes in operation, the provision for operating cosst and including distribution commission they will be the way going forward. We do not think that it will have much effect on our profitability or even distributors commission. The sales is likely to increase because of a kind of policyholder assurance given across the industry and persistency is likely to improve because of this assurance which takes place on maturity.

Manish Shukla: So in short-term when you are likely to lower your commission expenses, you do not see that driving your sales down, I mean for that matter across industry?

Malay Ghosh: No, regarding the commission you know because all the calculations have not been done, I am saying that as an option but we do not think that commissions will also be impacted largely. It will not actually lower spectrum of the premium we will have to probably offer traditional platform policies which also will you know assure the policy holders about their money being safe in that level.

Manish Shukla: Okay, and just one last data point, you said the employee strength of Reliance Capital is about 30,000 at the end of first quarter. Can you tell me the numbers of previous quarter year before?

Praveen Challa: Manish, Praveen here. We will take it offline. We will give it to you.

Manish Shukla: Okay thank you. Thanks a lot.

Moderator: Thank you Mr. Shukla. The next question is from the line of Shrikant Vadlamani of Nomura Securities, please go ahead.

Shrikant Vadlamani: Hi, first some questions on the insurance business, can you tell me what is the operating cost premium ratio for this quarter?

Praveen Challa: 35%.

Shrikant Vadlamani: Okay and what was the loss during the corresponding quarter last year, accounting loss?

Praveen Challa: Shrikant Praveen here. You want Q1 FY09 loss, right?

Shrikant Vadlamani: Yeah because Q1 FY10 I think has been told to be around INR 50 crores, right?

Praveen Challa: Right.

Malay Ghosh: It was about 240 crores in the corresponding period of the previous year.

Shrikant Vadlamani: Okay. And when you said that your differential between gross net to yield is around 2.5-3.5% I was wondering that if it is around 3% for example to take an average how can you either not cut commissions, nor cut your margins but still come under the 2.25% because that is a meaningful difference, right.

Malay Ghosh: No, it is a meaningful difference but if you go through the whole circular we will see that the whole difference between gross yield and net yield will have to be at the end of the term at maturity and the products can be modified before 31st December to take care of areas like you can discourage policies to surrender through a position of surrender charge you can restrict the minimum premium which we used to give at INR 5,000 can actually go up to INR 10,000 or 12,000. The minimum term which we used to offer at any time after 5 years could be restricted to 10 years, actually encouraging customers to be in this business for a longer time.

Shrikant Vadlamani: Okay fair point. Thank you so much. I just had some questions from the consolidated balance sheet as well, one is the Q-o-Q increase in the cost at the consolidated level. I know you answered that but you were not too clear to me. Could you just come again on that? I am talking about the non-insurance cost at the consolidated level Q-o-Q increase?

Sam Ghosh: Yeah, if we look at it, see there are a couple of things Shrikant. The main items would be and marketing expenses of NFO and also strategy accounting consolidation perspective, the provisions also treated as a part of SG&A. The provisions for that have gone up. So these two line items kind of significantly account for the increase.

Shrikant Vadlamani: Okay, okay thank you. And the last one is could you give me a broad breakup of the balance sheet on the asset side, consolidated balance sheet?

Praveen Challa: Consolidated balance sheet on the asset side, we have listed equities of roughly around INR 2,100 crores. We have investments in various businesses of approximately INR 4,000 crores of which first Life Insurance is around INR 2,700 crores and INR 800 crores in general insurance and the rest of the businesses account for the balance. And we have a consumer finance loan book of INR 8,500 crores, unlisted private equity kind of investment is almost INR 700 crores, cash and cash equivalents of INR 2,000 crores and a corporate loan book of around INR 3,000 crores.

Shrikant Vadlamani: But the total balance sheet size is INR 25,000 crores. Sir that is what is given in presentation or am I taking it wrongly?

Praveen Challa: Yeah, so if you look at it, fixed assets of INR 300 crores and we will also have some current assets and receivables of INR 500 crores, so the total is INR 25,000 crores.

Shrikant Vadlamani: Okay, you should probably add up. Probably I am just getting confused. Okay thanks.

Moderator: Thank you Mr. Vadlamani. Our next question is from the line of Hiren Dasani of Goldman Sachs, please go ahead.

Hiren Dasani: Yeah, just on the you know Life Insurance side if you look at the renewal premium as a percentage of last year's, first year premium and annual premium some people call it conservation ratio. That seems to have gone up quite a bit this year.

Sam Ghosh: What is the question?

Hiren Dasani: I mean are we seeing improvement in the first quarter or something?

Sam Ghosh: Actually it is just still flat. We are trying you know a lot in which I am getting some good responses across the country. We see that the existing policy holders are now behaving favorably are coming back before the new retail customers but you know the real improvement can be seen in another 3 to 6 months period.

Hiren Dasani: Okay, so do you think that this can probably increase to 75-80%?

Sam Ghosh: Towards the end of the year we hope that it will be crossing 70% and 75% is the target with which the team is working.

Hiren Dasani: Okay. The other question was on the consumer finance side, you know can we get some sense of the NPAs, where it is coming from in the INR 480 crores?

KV Srinivasan: Substantial part of it is coming from the unsecured book that currently constitutes only 11% you know in terms of the personal loans of the total book. But given the nature of the product in terms of you know the continuous risk being there until the last installment is paying off, the NPA levels in the personal loan books are substantially higher. But all the secured loan book is behaving pretty well in line with our expectations so that is where it is.

Hiren Dasani: And we say substantial it will be what 70-80% or?

KV Srinivasan: Unsecured would be easily around 70%.

Hiren Dasani: And considering that these are unsecured the recoverability would be somewhat lower, right, so we need to

KV Srinivasan: Recoverability is slow because of the legal system being slow but then the recoverability over a longer period of time is fairly good and usually what happens is you end up providing first and then recovering later. So there is a time lag.

Hiren Dasani: Looking at the disbursement do we make a conclusion that now we have started to grow this business again?

KV Srinivasan: Yes there has been a substantial increase in the disbursement in Q4 last year and Q1 now essentially it is in line with the risk perception that we have in the market. In fact we consciously stayed of the market in second half last year. So that tide seems to be turning up and with the mortgage market as well as the SME and the vehicle markets firming up I would expect a better time to be in post the monsoons things to pick up pretty well.

Hiren Dasani: We are essentially looking at the SME and commercial vehicles.

KV Srinivasan: SME, commercial vehicles, mortgages, these would be our three focused areas. We had infact defocused on the unsecured personal loan book more than 16 months ago so what you really see in terms of effect on various parameters, it is basically the impact of the old book that was written up to March '2008 so we made a huge change in direction of the past 15-16 months.

Hiren Dasani: What about mortgages?

KV Srinivasan: Mortgages you know it constitutes about 36% of or total book and performance is very good.

Hiren Dasani: Yeah, are we likely to grow in that?

KV Srinivasan: Yeah, yeah certainly. That would remain a focused area. As I said those three areas, commercial vehicles and construction equipment, SME and mortgages would be the key focus.

Hiren Dasani: Do we have the adequate asset liability mix excluding the mortgages?

KV Srinivasan: Yes, we do by and large, in fact that is being one of the biggest changes that we have done in the past half year of you know completely realigning our asset liability profile so in this situation we are in a much better position.

Hiren Dasani: And one question on the asset management company, the revenues which are reported in the presentation are per the entire, I mean all the businesses like PMS, EPFO

Sundeep Sikka: Yeah, it is consolidated for everything.

Hiren Dasani: So in that case like Q-o-Q there is a very sharp jump in the AUMs but you do not see the similar increase in the revenues.

Sundeep Sikka: It's on account of two things. First, like we said we have booked NFO expenses in this.

Hiren Dasani: No, I am saying here for the revenue line.

Sundeep Sikka: Okay, top line also what happens, what we need to understand is if we look at the last year, the average quarterly Sensex level was 16,000 compared with 13,000 at this point of time. Since equities contribute very highly to our revenue, average equity assets in Q1 FY09 were 33,000 compared with average assets this time because of the mark-to-market about 26,800. That is primarily the reason.

Hiren Dasani: Sorry you are saying the equity has come down as a proportion, is that correct?

Sundeep Sikka: Because of mark to market the equity NAVs come down and because of these revenues also come down. And a larger proportion of assets under management is debt.

Hiren Dasani: No, no I am just looking at a Q-o-Q basis.

Praveen Challa: You know in the fourth quarter typically we have other income which is you know back ended. You know the AMC is pretty well capitalized. It has currently almost INR 700-800 crores of investible surplus. So the dividend etc which are back-ended and they just flow to us in the last quarter. Typically in the last quarter this other income kind of goes up. So the revenue line also includes that as well.

Hiren Dasani: Okay. Thanks a lot.

Moderator: Thank you Mr. Dasani. The next question is from the line of Ashish Rangnekar of ICICI Ventures, please go ahead.

Ashish Rangnekar: Good afternoon gentlemen. My question was regarding your leverage. You stated that your consolidated net debt to equity ratio was 1.6, could you shed some light on how that breaks down between your lending businesses, the lending fund based businesses and the fee based brokerage businesses?

Sam Ghosh: I think there are two bits in this. There is a consumer finance lending as well as corporate book lending. For the INR 12,000 crores we have a net borrowings to around INR 12,000 crores of which around INR 8000 odd crores is for all the retail lending which is the consumer finance business. The balance 4000 is for the corporate lending and investment. That is the breakup for the INR 12,000 crores of borrowing. Our investments in group companies, yeah so if you look at fee based income etc which is there is Reliance Money, there is hardly any investments there.

Ashish Rangnekar: So you are saying there is hardly any debt in your Reliance Money business?

Sudip Bandyopadhyay: See Reliance Money raises money through commercial paper from time to time and this is predominantly deployed for providing margin to the exchanges. Other than that we do not have any debt.

Ashish Rangnekar: Okay. Great, thank you.

Moderator: Thank you Mr. Rangnekar. Our next question is from the line of Nischint Chawathe of Kotak Institutional Equities, please go ahead.

Nischint Chawathe: Yeah, hi. First question on the consumer finance business, if I look at the presentation and you know look at the interest expenses, just wanted to get a sense of you know what is the net worth that is assumed for the consumer finance business for both?

KV Srinivasan: It is taken at a debt equity ratio of 5:1 so you can attribute about 16% of book at about INR 1,100 crores.

Nischint Chawathe: Okay, for both fourth quarter and first quarter.

KV Srinivasan: Yeah roughly because this book size is more or less the same.

Nischint Chawathe: Yeah and in terms of the mortgage business I guess it is included in this or it is a mortgage book now, pushed into the new subsidiary or how does it work?

KV Srinivasan: It is substantially on the RCL standalone balance sheet itself and new lending is basically in home loans will be booked in the new subsidiary. As far as home loans is concerned, these are two types of mortgage loans, one is the loan against property, which loan against property is substantially going to be on the Reliance Capital balance sheet itself, and the home finance company will cater to new home purchase. So you know on a consolidated basis all of this is being put together.

Nischint Chawathe: Okay, okay and I guess currently what would be the asset base of the home finance book?

KV Srinivasan: It is around INR 200 crores.

Nischint Chawathe: Okay on the life insurance side, I see the ticket size you know going down to around INR 11,000, you know any sense on this, any change in the top five policies on a quarter-on-quarter basis? Any change in the strategy or what is it that this is kind of brought the ticket size so drastically over the last few quarters?

Sam Ghosh: No, actually it was because of the focus on the regular premium policy rather than single premium and also our focus on the two-tier, three-tier and lower tier towns and cities. It is more about getting more agents from these places and trying to get the middle income market into this. It was a strategy which worked because we could substantially increase the client base, we could substantially take care of the markets going down and we could reduce our single premium portfolio from 27 to 12% and now well below 10% and I think that this will continue till modifications in these products actually come in as per the IRDA circulars and then probably we can see along with markets going up, along with modifications in the products may be there will be a new market for higher sum assured policies coming in.

Nischint Chawathe: You might have to kind of relook your strategy after the IRDA thing really happens because I mean you know possibly we want to kind of focus of high ticket size because of you know the ratios etc.

Sam Ghosh: Actually we are pretty confident about the strategy that we have taken focusing on the middle income groups and it is working very well. With the IRDA guidelines a new market of higher premiums may open up that is what we are seeing and that may affect the average premium in that but our focus on this level the premiums between INR 8,000 and INR 15,000 will continue.

Nischint Chawathe: Okay. But do you think this, you know the range of 8,000 to 15,000 would be kind of challenging to maintain a spread of 3%, I mean this is focused on the segment.

Sam Ghosh: See in these segments we have found, we have the ability to engage people in looking at longer term life insurance policies. Here, we are being able to make people look at being in a life insurance product for 20 years, 25 years or 30 years. Our highest selling product is carries a kind of loyalty at the end of 10-15-20-25 and 30th year. That is accepted by the market nicely. So I hope that you know I have been able to communicate that our focus in this sector will continue you know irrespective.

Nischint Chawathe: Okay, okay. Now on Reliance Money any mark-to-market gains etc booked during the quarter?

Sudip Bandyopadhyay: We do not have any assets or any lending or any investments in the book, so no question of mark-to-market gains.

Nischint Chawathe: No, on the gold coins

Sudip Bandyopadhyay: No, we do not book any Mark to Market gains on gold coins. Whatever we sell is booked.

Nischint Chawathe: It is a complete pass through?

Sudip Bandyopadhyay: Absolutely.

Nischint Chawathe: Okay, and in terms of the number of branches that you have currently I mean what proportion would be company owned and what proportion would be franchisees?

Sudip Bandyopadhyay: Well we have our own branches which is about 173 and total number of outlets including franchisees are over 8,500.

Nischint Chawathe: Okay that should be fine. And finally on the AMC side you know any outlook which you could give for you know various parts of Mutual Fund, PMS, offshore you know any kind of , even the PE-fund you know what is it that you are really looking at in possibly over the period of next may be 12 to 18 months?

Sundeep Sikka: We will not be able to make futuristic statements but at this point of time, we clearly see a big opportunity in all our verticals with the change in regulation happening on the mutual fund distribution, I think it is a big advantage of the players place like us.

: We clearly see ourselves increasing market share over the next few quarters. On the PMS side also there have been some changes in regulations recently because of which some of the players have shut shop. We sense a big opportunity there. As far as the EPFO and NPS is concerned that also we are seeing the business growth day by day. So I mean I think things look to be pretty good and we will keep seeing increase in both our top line and bottom line.

Nischint Chawathe: Any outlook on the PE business?

Sundeep Sikka: PE business you know it is done separately, it is not run out of mutual fund, I will ask Mr. Amit of Reliance Capital.

Amit Bapna: As far as the PE business goes currently we have appointed these various distributors and bankers and are in the process of raising money from the market. So let us see how that effort pays off and this point of time it would be difficult to give an estimate as to what we will collect.

Nischint Chawathe: Okay thank you very much.

Moderator: Thank you sir. Ladies and gentlemen, due to time constraint we will take the last question from the line of Sneha Dave of ING Investment Managers, please go ahead.

Sneha Dave: Hi, what has been the net interest margin for the consumer finance business?

KV Srinivasan: From a fully debt-funded basis we look at maintaining a net interest margin of about 4%.

Sneha Dave: Okay, and one more question. What would be the average duration of the assets?

KV Srinivasan: The non-mortgaged asset is about 20-24 months. The mortgage typically tends to be about 5-6 years.

Sneha Dave: And on the liability side it is been you just mentioned that out of INR 12,000 crores, INR 4000 crores is having a maturity of more than three years. So what would be the average duration of the liability size for the total Reliance Capital debt?

KV Srinivasan: Look, if you take it in bits and pieces, we do a lot of inventory funding and we have lot of investments in quarter duration asset and typically for the retail lending business if you take out debt borrowing for retail lending business our average maturity would be around 30 months.

: So typically you know off the INR 8,500 crores of consumer finance book, about INR 5,000 crores would be the 1-year-plus and which is funded by about 4,500 of 1-year-plus money so it is more or less fully matched and the rest of it is basically the shorter term or one year kind of exposure.

Sneha Dave: Okay, so INR 5,000 crores out of INR 8,500 crores is more than one year and that is for, okay, okay.

KV Srinivasan: So which is more or less matched by 1-year-plus money or INR 4,500 crores.

Sneha Dave: Okay, okay got it. Thanks a lot.

Moderator: Thank you Ms. Dave. Ladies and gentlemen, that was the last question. I would now hand the conference over to Mr. Kunal Shah of Edelweiss, please go ahead sir.

Kunal Shah: Thank you everyone for taking your time out and thank you all the participants for participating in the call. Have a pleasant evening. Thank you.

Moderator: Thank you Mr. Shah. Thank you gentlemen of the Reliance Capital Management. Ladies and gentlemen, on behalf of Edelweiss Securities Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.

Sam Ghosh: Thank you very much.

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