

## **Religare Enterprises Limited**

## Q1 FY16 results conference call

Monday, August 3, 2015 at 4:00 p.m. IST

**Kishore Belai:** Good afternoon everyone and welcome to our fourth quarter and full-year FY15 earnings conference call.

We are joined on this call today by Mr. Shachindra Nath, our Group CEO, Mr. Anil Saxena, our Group CFO, Mr. Sunil Garg, Head of Group Treasury and the senior management of our portfolio companies.

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 presentation.

On this call, Mr. Nath will first give you an update on the Company's performance for the quarter and the year, will thereafter share the vision for the future. We will subsequently open the lines for Q&A. I now turn the call over to Mr. Nath.

**Mr. Shachindra Nath:** Thank you, Kishore. Good afternoon everybody and thank you for joining us on this call. I hope you have been able to study our results presentation which has been uploaded on our website.

Let me straight away discuss our performance for Q1FY16.

As you know, Religare Enterprises Limited is the holding company for our integrated financial services platform, with the individual businesses operating out of our portfolio companies. Our consolidated performance is therefore an aggregation of the performance of the underlying businesses. Let me walk you through our consolidated financials first and then I will explain the performance of the major portfolio companies.

An overview of the consolidated financial of Religare Enterprises Limited is on slides 6 to 8:



- Revenue for Q1 FY16 is ₹10,614 million compared to ₹11,755 million during the previous quarter, a decline of 10% quarter-on-quarter. The major factor driving the decline is the seasonality in the life insurance business, which saw a decline of ₹953 million quarter-on-quarter as the previous quarter was the seasonally strongest quarter for the life insurance business. We also experienced quarter-on-quarter decline of ₹249 million in the Retail Broking business as the overall market volumes declined, and ₹216 million in Global Asset Management as Q4FY15 included catch-up fees relating to the closing of one of our overseas affiliates' funds for subscription as I had explained on the last call. These declines were partially offset by growth in other businesses. On a year-on-year basis consolidated revenue increased by 16% with all businesses contributing to the growth.
- Profit before tax for Q1FY16 was ₹1,232 million as against ₹1,310 in the previous quarter, a
  decline of ₹78 million or 6%. On year-on-year basis, PBT was up 80% from the level of ₹684
  million in Q1FY15.
- Profit after tax for Q1FY16 was ₹371 million as against PAT of ₹494 million in the previous quarter. I would like to mention that during the quarter, an amount of ₹146 million was paid as dividend distribution tax on the dividend distributed by our subsidiary, Religare Finvest Limited. This amount was charged to the consolidated income statement for Q1FY16 and has reduced the reported PAT to that extent. Excluding this charge, our profitability for Q1FY16 has in fact been slightly better than the previous quarter although optically it appears otherwise. In the year-ago quarter, PAT was reported at ₹1 million.

Let me now give you an update on our portfolio companies, which is presented on Slides 9 to 31 of the presentation:

• In Religare Finvest Limited, which houses our Lending business, the SME-Secured book has grown by ₹8.7 billion quarter-on-quarter and this has driven the increase in overall book size. The total lending book stood at ₹138.9 billion as at June 30, 2015 as against ₹132.7 billion as of March 31, 2015. Core NIM was 4.74% during the quarter which is within our target band. Opex to ANR ratio for the quarter stood at 2.27%, an improvement of 20 basis points quarter-on-quarter reflecting the operating efficiencies of the business. Gross NPA on a 90-day basis stood at 2.86% at the end of Q1FY16, 62 basis points higher than the earlier quarter. We had mentioned on our call two quarters ago that we were anticipating some increase in NPAs for two to three quarters and therefore we have already put in place a plan to resolve the delinquencies – this is reflected in 180-day NPAs, which have essentially stayed flat for the last



three quarters. I would also like to mention that the increase in delinquencies has largely been in SME-Secured loans and we have approximately 2.4x cover on our receivables, which gives us greater leverage in recoveries. Turning to RFL Financials, revenue for the quarter was ₹5,993 million and the profit after tax was ₹751 million compared to ₹5,928 million and ₹648 million respectively during Q4FY15. Revenue increased by 20% year-over-year reflecting the growth in the book and the PAT increased by 34% in the same period, reflecting better management of borrowing costs and the benefit of operating efficiencies. In fact, improving our borrowing cost has been a major theme through last year and continues to be a key objective for the current year as well.

- Moving on to our **Retail Broking business**, the performance was muted as the overall market volumes declined during the quarter. While there will be quarterly variations in the market behavior we have been focused on ensuring that our acquisition machinery builds up a pipeline for future growth this is bearing good results as we have added over 14,300 new clients during the quarter. The business reported revenue of ₹1,133 million in Q1FY16, which is 7% higher than the year-ago quarter and a decline of 18% lower on a sequential basis, stemming from the decline in overall market activity during the quarter. As a reflection of the subdued performance we reported a net loss of ₹33 million during the quarter compared to a PAT of ₹115 million in Q4FY15 and ₹20 million in the year-ago quarter.
- In Religare Wealth Management Limited, our Assets under Management stood at ₹39.5 billion as of June 30, 2015, an improvement of ₹7.7 billion over the year-ago quarter, although there was a decline in the AUM quarter-on-quarter some liquid funds AUM flowed out. Even as the traditional offering continued to do well, we are seeing traction in PMS and Alternative Assets, which we believe will be important growth drivers for going forward.
- Religare Capital Markets Limited continues to invest in the areas of strength. International business continues to expand reach through partnership with the regional securities and advisory firms. As of June 30, 2015 the business was empanelled with 482 institutional investors globally and during the quarter completed a ₹4 billion QIP offering of SeQuent Scientific Limited, one of the largest Pharma companies in the animal health segment in India.
- In Religare Invesco Asset Management Company Private Limited, our India asset management business, in Q1FY16, average AUM increased by 21% year-on-year primarily due



to increasing retail interest reflected in the growth in retail folios and SIPs. Sequentially, though, there was a decline in AUM which was largely driven by outflows in liquid funds, that in any case has very low free yields. Revenue for the quarter was ₹245 million, 3% growth over the revenue of ₹239 million in Q4FY15 and growth of 29% over the year-ago quarter's revenue of ₹190 million. PAT for the quarter was ₹5 million, and while optically this is a very significant decline from the earlier quarter's PAT of ₹57 million, as I had mentioned on the last call, the profitability level in Q4FY15 was a function of certain non-recurring items and to that extent the decline this quarter is due to the high base effect. The company continues to focus on improving equity AUM, and this effort is being supported by the sustained interest in equity schemes experienced in the recent past.

- Moving on to the Global Asset Management Business, Religare Global Asset Management our multi-boutique Alternative Asset management platform, the total Assets under Management of the affiliates as of June 30, 2015 stood at USD 20.1 billion. For the quarter, RGAM Inc. reported revenue of ₹1,748 million compared to ₹1,964 million in Q4FY15, a decrease of 11% quarter-on-quarter while PAT after minority interest and share of associates was ₹193 million compared to ₹276 million in Q4FY15, a decrease of 30% quarter-on-quarter. As explained earlier, the Q4FY15 financials included catch-up fees which are lumpy in nature and therefore the decline in profits on QOQ basis is due to the high base.
- Religare Health Insurance Company Limited, our Health Insurance venture, continues to perform as per plan, with GWP, distribution and the provider network, all scaling up nicely. Gross Written Premium for the quarter was ₹1,240 million, an increase of 20% quarter-on-quarter and 132% year-on-year, while the number of hospitals in the network increased to 4,532. A new product 'Student Explore' was approved by IRDA during the quarter, increasing the number of offerings to nine. RHICL's products are finding good acceptance in the market with 'Care', the Comprehensive Health Insurance product rated as the 'Best Health Insurance Plan' by Mint Mediclaim Ratings.
- AEGON Religare Life Insurance Company, our Life Insurance JV, continues to build its
  franchise with an increase in the customer base to approximately 391,000 customers. The
  company has been known for its pioneering efforts in the online space and it was adjudged as
  the "E-Business Leader" for the third year running at the Insurance Award 2015, reflecting its
  position as a leader in the use of technology. As I had updated you in the last call, we entered



into a definitive agreement to divest our equity in the JV in favor of Bennett, Coleman and Company Limited, an existing shareholder in the JV. The necessary regulatory approvals have been applied for and upon receipt of all approvals we will divest our stake and seize to be a partner in the venture.

To summarize, we have been delivering consistent performance on a consolidated basis, and this is in large part enabled by having a balanced portfolio of businesses across the financial services spectrum. On the last call I had laid out our five year vision for Religare – let me reiterate the goals we have set for each of our key businesses:

- In our SME-focused Lending business, our immediate focus is on realizing the operating efficiency from scale and reducing our borrowing cost, and in three to five years we would like to get to ROE of 17% to 18%
- Our Retail Broking business is already self-sufficient in capital and does not require any support from REL. We are targeting generating substantial absolute profitability in this business
- In our Asset Management joint venture, we are targeting growing faster than the industry and delivering consistent profitability as we attend the scale
- In our Global Asset Management business, we would like to grow our EBITDA in USD terms at a compounded rate of around 20% over next five years
- In Health Insurance, we are aiming to for a return on invested capital of around 20% per annum in a five year timeframe.

The outcome of delivering to these benchmarks in the businesses will be a mid-teens ROE on a consolidated basis and creation of substantial equity value for REL and its shareholders over the medium-to long-term. I believe that we are well-poised to achieve this objective.

With that, I come to an end of my opening remarks. The senior management team of REL, and of our portfolio companies 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:** Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Subir Sen of Birla Sunlife Mutual Fund. Please go ahead.



**Subir Sen:** Just wanted to understand on the lending book, are we seeing incremental stress in the industry in the SME segment, there has been a small little growth in the gross NPA, so if you can just throw some colour on that?

**Kavi Arora:** As Shachin also mentioned in his opening remarks, in quarter one the NPA has increased in number but largely it is on the secured assets book. The fact remains that we continue to see challenge on the cash flows in the hands of the SMEs and I think that the stress is visible. Having said that, there are two or three points that I would I want to just mention. On secured assets which are basically secured against immovable property, our cover on the property itself is about 2.4x on these NPA assets, having done the revaluation of those assets at the end of 31st March, so there is more than sufficient cover in terms of supporting that asset. The other point is that, we see a jump and this has been a phenomenon for last three years, we have seen every year in the first quarter, the NPA number jumps up. I think this typically happens since during quarter four which is year-end for the customers as well as the organization, there is an effort from the customer side also to get the payments in time to report on 31<sup>st</sup> March, and as a result we have seen every year for the last three years that the number jumps up in quarter one. Having said that, there is active participation from the entire team on collections on-ground to see these numbers decrease. We have also mentioned in the past that we think that the NPAs will be maximum at the level that they are currently and we will see a downward trend from here on for quarter three, quarter four of the current financial year.

Subir Sen: And sir these numbers are on a standalone basis, right?

**Kavi Arora:** Yes, that is right. And as a point, since we recognize NPAs at 90 days and that is the number you see has gone up, but it gets resolved and moved back to the normal bucket, so the movement that you see is between 90 to 180 days. So if you look at the 180 days number as mentioned from 31<sup>st</sup> December, 2014 versus now in last 18 months the number has largely stayed at 1.65% to 1.67% and that has remained absolutely stable.

**Shachindra Nath:** Thank you very much for participating in this call. If you have any more questions, please feel free to contact Kishore Belai, our Head of Investor Relations. Thank you very much. Have a good day.

**Note:** This transcript has been edited to improve readability