1. Industry Overview and Macro-economic Developments

World economic growth improved to 3.8% in 2017 from 3.2% in 2016, with underlying strength witnessed across advanced economies as well as the emerging market and developing economies groups. Recovery in the US economic growth was pivotal in pulling the growth rate up for the world in 2017 and is likely to help sustain this momentum in the current year. On the other hand, China's GDP growth continued to remain subdued and stayed below the 7% mark.

As for India, the economic growth rate dropped marginally in 2017-18 to 6.7% from 7.1% during the earlier year. The slowdown was led by the lingering impact of demonetisation, as well as on account of the biggest tax reform in the country since Independence i.e. Goods and Services Tax (GST), which was implemented in the first half of FY18. Further, higher crude oil price and rupee depreciation posed challenges for the economy during the latter half of FY18. Notably, though consecutive hurdles impacted India's growth on an annual basis, GDP growth of 7.7% in Q4 of 2017-18 has once again made India the world's fastest growing major economy, outpacing China's growth by nearly a percentage point. Furthermore, with the implementation of structural reforms like GST - aimed at increasing economic productivity - supported by concerted efforts by the Reserve Bank of India (RBI) towards controlling inflation coupled with a favourable monetary policy stance and a possible third consecutive year of good monsoon, India's GDP looks set to clock a higher growth rate on an annual basis.

The Indian market had an eventful year with the implementation of GST during the second quarter of FY2017-18 and the re-introduction of long-term capital gains tax in the Budget for 2018-19, presented in February 2018. Despite the economic challenges, on account of the various reform measures implemented by the government, Foreign Portfolio Investors (FPIs) continued to pose their faith in the Indian market as evident from their net investments surging to ~₹1.45 lakh cr. in 2017-18. High global investor confidence was also reflected in the record Foreign Direct Investment (FDI) inflows into the country during the year.

A strong year for markets

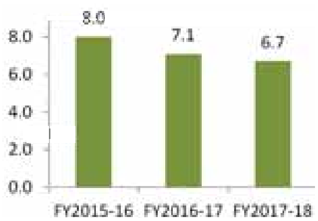
Post a strong 2016-17 performance, expectations as well as apprehensions were running high with respect to the likely performance of the market during 2017-18. While the last couple of months of 2017-18 would have made a large section of the market nervous, the Sensex managed to deliver a return of 11.3% for the year as a whole. The broader markets outperformed the Sensex with the Mid-cap index delivering a return of 13.2% while the Small-cap index ended the year with a gain of 17.7%.

Sensex Returns (year-on-year)[1]				
FY2013-14	FY2014-15	FY2015-16	FY2016-17	FY2017-18
18.9%	24.9%	-9.4%	16.9%	11.3%

Bold reform initiatives have a transitory negative impact on GDP growth

The Indian GDP growth rate slowed down for the second consecutive year in 2017-18 on account of the lingering effects of demonetisation from 2016 and the implementation of GST on July 1, 2017, which impacted trade temporarily as businesses adjusted to the new tax system. The GDP growth rate declined from 7.1% in 2016-17 to 6.7% in 2017-18.

GDP Growth Rate[2]
(new GDP series; base year: 2011-12)



Growth by Sector[3]
(based on the new GDP series)

Sector	FY2015-16	FY2016-17	FY2017-18
Agriculture	0.7%	4.9%	3.4%
Industry	8.8%	5.6%	5.5%
Services	9.7%	7.7%	7.9%
Note: The above is Gross Valued Added (GVA) growth which is marginally different from GDP growth			

GDP growth in 2017-18 was propped up by support from public investments, while private investments remained a drag. Agriculture lent some support to overall growth thanks to a second consecutive good monsoon. Going forward, with 2018-19 being the year just before the General Elections of 2019 and also laced with several important state elections, public investments are unlikely to moderate. Any pick-up in private investment will provide further impetus to GDP growth. Moreover, with global economies being strong, exports are expected to rebound in 2018-19. Lastly, since meteorologists expect India to have a third consecutive year of good monsoon, agriculture will continue to contribute to economic growth. Having said this, the challenges for the economy remain in the form of potentially higher oil prices, a weaker currency, PSU banks' NPA challenges, which will prevent any sharp recovery in lending activities from this segment, and protectionist rhetoric emanating from the US in particular getting converted into a global trade war.

[1]Source: Bloomberg
[2]Source: Bloomberg
[3]Source: CSO, MOSPI and CMIE

Note: *In 2015, the Central Statistical Organisation (CSO) revised the methodology of computing Indian National Accounts, by revising the constant base year to 2011-12 against 2008-09 used earlier, thereby impacting growth numbers. In addition, it has also changed the basis of measurement of GDP to GVA at Basic Prices as against Factor Cost used earlier. The discussion above is based on the new series numbers.*

Since mid-2014, global crude oil had been under tremendous pressure, which had seen the price crash to USD 30 per barrel in early 2016. However, since then, crude oil price had seen a gradual increase. Thus, after having firmed up by ~3% year-on-year in 2016-17, average Brent crude oil price strengthened further by ~16% year-on-year to USD 58 per barrel, hitting a high of ~USD 70 per barrel in 2017-18. The start of 2018-19 has seen a further rise in prices to USD 80 per barrel. Prices rallied sharply due to supply disruption from Venezuela and over concerns of renewed sanctions on Iran by the US. However, an expected increase in supplies from OPEC and non-OPEC members along with a rise in US oil production will help counter the threat of potential supply shortfalls.

On the currency front, the scenario remained relatively favourable in 2017-18 with the Indian Rupee (INR) strengthening against the US Dollar (USD) to an average of ₹64.5 per USD from ₹67.1 per USD in the previous fiscal on account of reigned in inflation and crude oil price around the USD 60 per barrel mark. Also, the weakness in the US dollar index, which witnessed one of its worst falls in a decade due to uncertain US government policies alongside the large inflows in Indian equities during most part of 2017-18 aided the appreciation in the Indian Rupee. However, with oil and currency trends against the Indian economy at the beginning of 2018-19, the Indian currency has started to feel the heat.

The Wholesale Price Index (WPI) firmed up from 1.7% in 2016-17 to 3.0% in 2017-18[4]. On the other hand, retail inflation, as measured by the Consumer Price Index (CPI), which has been witnessing a sustained decline since 2015-16, dropped further from 4.5% in 2016-17 to 3.6% in 2017-18[5]. Sustained control over food inflation partly aided by government price monitoring and partly by two good years of monsoon leading to better agricultural production, helped control retail inflation. However, going into 2018-19, the low base of last fiscal coupled with the firm up in commodity prices, especially crude, and a depreciated currency, has increased the risks of imported inflation considerably.

Current Account Deficit under stress

India's Current Account Deficit (CAD) is expected to have widened from 0.7% in the previous fiscal to around 2% for 2017-18 on the back of a higher trade deficit driven by a combination of higher global commodity prices and export growth being below potential on account of GST related issues. However, strong capital inflows mitigated this to an extent. Nonetheless, sustained higher crude oil prices and a weaker rupee are expected to put additional pressure on the CAD in 2018-19. Amidst this, India's foreign exchange reserves touched a record of ~USD 424 billion by end-March 2018, which puts India in a relatively comfortable position in the backdrop of firming crude oil prices and tightening central bank policies globally.

RBI remains neutral; Government deviates marginally from fiscal path

The RBI, having changed its Monetary Policy stance from accommodative to neutral in February 2017, sounded alarm bells periodically with respect to inflation rearing its head. Nonetheless, with the aim of lending some support to the economy which had been reeling under the transitory impact of GST implementation, the RBI cut the policy rate by 25 bps in August 2017, bringing the benchmark rate down from 6.25% to 6.00%[6]. However, with the threat of domestic inflation on the horizon and a rising interest rate environment globally, the RBI opted to adopt a wait-and-watch policy. Going forward, global commodity price, the USD/INR equation, inflation (impending higher MSP), strengthening economic growth and monsoon behaviour (impact on food price) would be the key parameters on RBI's radar to determine policy rates.

On the fiscal front, the government marginally deviated from its path of fiscal consolidation. India's fiscal deficit came in at 3.5% for 2017-18[7], in-line with the revised estimates of the government. Notably, during the year, the government had increased its fiscal deficit target for 2017-18 from 3.2% to 3.5% and from 3% to 3.3% for 2018-19 to accommodate higher demand for expenditure.

Performance of the financial services sector

Banking and Credit

Credit Growth: Banks' credit growth improved in 2017-18 post the slowdown witnessed in 2016-17, clocking in at ~9.5%[8] as against 4.7% in the previous fiscal. The key drivers of credit growth were the retail and services sectors, whereas industrial and agriculture demand continued to remain tepid. Credit growth was largely led by private banks, which collectively reported a growth of ~20.9%. On the other hand, PSU banks' credit grew at a sluggish pace of ~4.7%, largely impacted by their asset quality issues.

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[4] Source: Office of the Economic Advisor
[5] Source: Open Government of India (http://data.gov.in)
[6] Source: Reserve Bank of India Monetary Policy Statement
[7] Source: "Medium Term Fiscal Policy Statement", India Budget FY 18
[8] Source: RBI Quarterly Statistics Data

Deposit Growth: Banks' deposit growth in 2017-18 fell to a five decade low of 6.8%[8] as against 11.7% in 2016-17. The slower pace of growth was mainly on account of the expansion of the base due to demonetization in 2016. Further, the movement of savings away from traditional bank deposits to other financial assets like mutual funds and insurance also affected the growth in deposits. Private sector banks led deposit growth too, with a 17.4% increase year-on-year. On the other hand, PSU banks' deposits grew at meagre 3.1% in 2017-18.

Equity Market

During the year, NSE equity cash market volumes increased by 22.1%[9] to approximately ₹61.7 lakh crore as against 19.3% in the previous fiscal. Aided by hectic action in the primary market and sustained participation by institutional and retail investors alike, the market capitalization of NSE-listed companies swelled by 17.2% to ₹140 lakh crore after a strong growth of 28.7% in 2017-18. This growth was despite the challenges on the domestic economy front in the form of the implementation of GST affecting businesses / GDP and on the global economy front in the form of US-Korea standoff w.r.t. the latter's nuclear program and rise in global trade war rhetoric.

Insurance

The first year premium (new business premium) of life insurance companies witnessed a growth of 10.8%[10] in 2017-18 as against growth of 26.2% in 2016-17. The first year premium income was ₹1.93 lakh crore in 2017-18 compared to ₹1.75 lakh crore in 2016-17. The growth was mainly led by private players, which grew at 17.2%, whereas LIC's first year premium growth was a meagre 8.2% year-over-year. The total number of policies increased by 6.6% in 2017-18. On the non-life insurance front, the gross written premium increased from ~₹1.28 lakh crore in 2016-17 to ~₹1.51 lakh crore in 2017-18[10], a surge of 17.5% year-over-year.

Outlook

Global growth witnessed a recovery in 2017 driven by the recovery in advanced economies, sustained growth in emerging Asia and signs of recovery in several commodity exporting countries. The Indian economy, however, grew at a relatively sluggish pace of 6.7% in 2017-18 as against 7.1% in 2016-17 mainly on account of multiple reform measures being implemented over the past 18-24 months. However, the silver lining last fiscal was that India's GDP growth picked up from 5.6% in Q1FY2018 to 7.7% in Q4FY18. Going forward, economic activity is expected to strengthen and real GDP growth is projected at 7.5% for 2018-19. Higher government spending and pickup in consumption demand augurs well for the Indian economy. Further, a normal monsoon forecast by the India Meteorological Department bodes well for the agriculture sector and rural spending. While the economy is increasingly driven by domestic consumption, any strengthening of external demand will further abet India's economic growth. On the flipside, the risks to India's near-term growth trajectory are rising crude oil prices, a weakening domestic currency and a higher interest rate scenario in the backdrop of inflationary pressures.

Overview of our Business

Religare Structure and Business Model

Religare Enterprises Limited (REL) has seeded and built businesses across the financial services spectrum with the objective of creating scale businesses that generate sustained profitability and create equity value for REL. Religare's businesses operate across three key verticals of the financial services industry in India – Lending (SME Finance and Affordable Housing Finance), Health Insurance and Retail Broking.

REL is a Core Investment Company registered with the Reserve Bank of India (RBI)[11].The operating businesses are housed in subsidiaries and have independent management teams to conduct their day-to-day operations. REL has provided the operating companies with the requisite capital, governance structures, risk management mechanisms and oversight, and helped the operating businesses attain critical scale.

Risk Monitoring and Mitigation

REL has devised a comprehensive framework for risk management and controls for the operating entities.The implementation of the risk management framework is overseen by the Boards of the respective entities, which have representation from REL. The risk management framework has been designed to identify, measure, report, monitor and mitigate various risks inherent in the financial services business, and mandates the Risk Management Committee of the respective Boards to monitor such risks. REL has a comprehensive Internal Audit function to review and evaluate the efficacy and adequacy of internal control systems, compliance with operating systems, accounting procedures and policies.The Internal Audit function is carried out by a reputed external firm and the findings and recommendations are presented to the respective Audit Committees.

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[9]Source: National Stock Exchange of India Ltd.

[10]Source: Insurance Regulatory Development Authority of India

[11]***RBI Disclaimer:*** (a) Reserve Bank of India does not accept any responsibility or guarantee about the present position as to the financial soundness of the company or for the correctness of any of the statements or representations made or opinions expressed by the company and for discharge of liability by the company; (b) Neither is there any provision in law to keep, nor does the company keep any part of the deposits with the Reserve Bank and by issuing the Certificate of Registration to the company, the Reserve Bank neither accepts any responsibility nor guarantee for the payment of the public funds to any person/ body corporate

Key Subsidiaries

REL being a Core Investment Company, the businesses are operated out of various subsidiaries.The table below lists our key subsidiaries as at March 31, 2018, and their major areas of operation:

Company	Status	REL's stake	Major Area(s) of Operation
Lending			
Religare Finvest Limited (RFL)	Subsidiary	85.64%	• SME Finance • Capital Market Finance
Religare Housing Development Finance Corporation Limited (RHDFC)	Subsidiary (held through RFL)	87.50%	• Housing Finance
Health Insurance			
Religare Health Insurance Company Limited (RHICL)	Subsidiary	90.78%	• Health insurance and related products
Retail Broking			
Religare Broking Limited (RBL)	Subsidiary	100%	• Retail Equity Broking • Retail Currency Broking • Online Investment Portal • Depository Services • E-Governance Services
Religare Commodities Limited (RCL)	Subsidiary (held through RBL)	100%	• Retail Commodity Broking

Lending

Our lending business is operated by RFL and its 87.50%-owned subsidiary, RHDFC. RFL is registered with RBI as a non-deposit taking, systemically important Non-Banking Financial Company (NBFC-ND-SI). RFL is focused on providing debt capital to Small & Medium Enterprises (SMEs) to enable them to enhance their productive capacity and throughput – it is amongst the first NBFCs in India to focus on this segment, having started the business in 2008. India's SME sector accounts for nearly 45% of its manufacturing output and approximately 40% of its exports, contributes close to 17% to the nation's GDP and employs about 73 million people, according to the "Trends in SME Financing" study by CRISIL. Yet, the sector is woefully under-funded, giving RFL, which has an early-mover advantage in this segment, tremendous headroom for growth.

Offerings

Given its focus on the SME sector, RFL's offerings have been tailor-made to suit the unique requirements of this sector and comprise:

SME-Secured: RFL's SME-Secured product enables its customers to obtain loans against their residential or commercial property. Loans offered under this product may be utilized towards different purposes including business expansion and purchase of plant and machinery.

SME-Unsecured: This product caters to working capital and other financial requirements of small and medium enterprises, self-employed businessmen and professionals. Loans are granted after an in-depth and detailed financial analysis and credit underwriting of the clients.

In addition to its primary focus on lending to SMEs, RFL provides financing against shares and securities, both to retail customers and to promoters of listed companies against their holdings in their own companies, collectively referred to as Capital Marketing Lending. Specifically, RFL offers Loans Against Securities (to retail customers, secured by marketable securities held by them); IPO Financing (providing liquidity to high net-worth individuals to enable them to subscribe to public offerings of shares); ESOP Financing (granting loans to salaried individuals against vested stock options and shares allotted on exercise of such options, which is typically facilitated by the employer); and Promoter Financing (lending to promoters of reputed mid-sized and large corporates against shares held by them in their companies, as well as other collateral, in order to augment the resources at the disposal of the promoters).

In the past, RFL offered SME Commercial Asset funding for commercial vehicles (new or used) and construction equipment (heavy or light) segments to priority sector small operations as well as high end strategic operators. This line of business has been discontinued.

Presence in SME clusters

SME units tend to be concentrated in clusters in or around large cities to take advantage of the infrastructure and ancillary services that are available in such centres. Nearly 80% of the SME financing opportunity in India is concentrated in 25 such clusters and RFL has systematically built its branch network to cover all these locations – as at March 31, 2018, RFL's network comprised 32 branches across 13 states and 1 Union Territory. In addition, RFL conducts business in clusters that are in proximity of those where it has a branch using the hub-and-spoke model and in this manner services markets where it does not have a branch presence. RFL has developed robust and comprehensive infrastructure to ensure that all critical processes – including credit assessment, risk management, collections and recoveries – are performed in-house and has made substantial investments towards building best-in-class infrastructure to support its business operations.

Operational Performance

The total loans and advances (net of repayments and assignments) was ₹9,797 crore as at March 31, 2018 from ₹13,974 crore at the end of the earlier year. RFL had consciously restrained fresh lending during the previous year to conserve its capital in view of the stressed credit environment and RFL continued with this approach during the year under review as well. In addition, during the year, RBI has directed RFL to adhere to a corrective action plan that, amongst other conditions, stipulates that RFL shall not expand its credit portfolio. Consequently, fresh disbursements were significantly lower than the principal amounts of loans repaid during the year leading to a decline in the book size. The total number of active accounts as at March 31, 2018 stood at 9,025. RFL's gross non-performing assets (90-day basis) as at March 31, 2018 stood at 34.3% and net non-performing assets (NPAs) stood at 20.4%; the increase in NPAs reflects the challenging credit conditions across the economy in general, and a sizable default in RFL's corporate loan book in particular, compounded by a reduction in RFL's book size.

Balance Sheet and Credit Ratings

Shareholders' funds in RFL as at March 31, 2018 (including retained earnings) amounted to ₹1,938 crore and balance sheet size stood at ₹12,532 crore. Shareholders' funds take into account the significant provisions made towards non-performing assets during the year.

The following table lists the ratings on RFL's debt as at March 31, 2018:

Rating Type	Rating by ICRA[12]	Amount (₹ crore)	Rating by India Ratings[12]	Amount (₹ crore)
Commercial Paper	[ICRA] A3 (WDI)	2,000	IND A3+ (RWN)	3,000
Long Term Debt	[ICRA] BBB (WDI)	1,000	IND BBB (RWN)	3,000
Long Term Bank Loans	[ICRA] BBB (WDI)	12,000	IND BBB (RWN)	15,000
Short Term Bank Loans	-	-	IND A3+ (RWN)	3,000
Tier-2 Subordinate Debt	-	-	IND BBB (RWN)	750

WDI = Watch with developing implications and RWN = Rating Watch Negative

Additionally, RFL has a Long-Term Rating of 'CARE BBB (watch with developing implications)' from CARE[12] for an amount of ₹36.93 crore.

During the financial year under review, the credit rating agencies have revised short-term ratings assigned to RFL to 'A3+ (Rating Watch Negative)' and 'A3 (Watch with developing implications)' and the long term ratings to 'BBB (Rating Watch Negative)' and 'BBB (Watch with developing implications)'. The rating agencies have attributed the revision to delay in incremental capital infusion, delay in wind-down of the corporate loan book, deteriorating financial flexibility, and stressed loan portfolio.

[12]*ICRA stands for ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited), an associate of Moody's Investor Services; India Ratings refers to India Ratings and Research Private Limited, a Fitch Group Company; CARE stands for CARE Ratings Limited (formerly Credit Analysis and Research Limited).*

Affordable Housing Finance

RFL's subsidiary RHDFC is licenced by National Housing Bank (NHB) as a Housing Finance Company (HFC) and focuses on providing loans for acquisition, construction and repair of dwelling units in the affordable housing segment. The "Report on Trend and Progress of Housing in India, 2016" by NHB estimates a total deficit of 43.7 million dwelling units in rural India and 18.8 million dwelling units in urban India with 90% of the deficit in the urban areas being in affordable housing segment. This gap between the demand and supply needs to be closed rapidly if the aspirations of a fast-growing nation are to be met, and has created an enormous opportunity for funding of affordable housing. The ability to assess the credit worthiness of potential borrowers is crucial for succeeding in this segment; robust credit assessment processes position RHDFC extremely well to capitalise on this opportunity.

RHDFC operated through 30 branches as at March 31, 2018 and has a presence in Delhi NCR, Rajasthan, Maharashtra, Gujarat, Madhya Pradesh, Tamil Nadu, Karnataka, Telangana and Andhra Pradesh.

During FY2017-18, RHDFC disbursed loans totalling ₹186 crore in the affordable housing segment, and the corresponding total loans outstanding as at March 31, 2018 stood at ₹898 crore. Due to financial challenges at RFL and REL, its ultimate parent, the book size of RHDFC remained similar to the previous year. However, with the distribution reach intact and the scale of operations maintained, RHDFC is set to make a meaningful impact in its target segment.

As at March 31, 2018 RHDFC's long term rating was '[ICRA] BBB' and on watch with developing implications and the short term rating was '[ICRA] A3' and on watch with developing implications. ICRA Limited has revised the ratings downward following a similar rating action on RHDFC's immediate parent, RFL, in light of the strong operational linkages between RHDFC and RFL.

Health Insurance

Our subsidiary RHICL is licenced by IRDAI to offer health insurance and related products. Two leading public sector banks, viz., Corporation Bank and Union Bank of India, are co-promoters in this venture holding over 4% equity each. RHICL has been formed to capitalise on the vast opportunity in the health insurance space in India, stemming from low insurance penetration (high proportion of out-of-pocket expenditure by patients) coupled with the fast rising cost of medical treatment.

RHICL launched its products in July 2012 and totally has 14 approved products spanning retail health, group health, excess of loss, maternity, travel insurance, personal accident and critical illness policies, and various riders. RHICL has developed a multi-channel distribution model that provides a balanced revenue contribution from the direct, agency, bank and alternate channels. Designing innovative products to address unmet customer needs and providing best-in-class customer service experience have been the key tenets of doing business for RHICL: besides enabling this through a state-of-the-art technology platform that RHICL has developed, RHICL has since inception managed claims for all retail policies in-house as the claims experience is the chief determinant of the customer's perception of the insurer.

Operational Performance

FY2017-18 marked the completion of five full years of operations for RHICL and Gross Written Premium crossed an important milestone of ₹10 billion. Gross Written Premium garnered was ₹1,111 crore during the year as against ₹726 crore in FY2016-17, representing growth of 53%. Over 6,500 hospitals have been enrolled for providing cashless treatment to the insured. RHICL has established a pan-India distribution network of 74 offices. RHICL has benefitted from robust operational processes and scale effects; the ratio of claims to earned premium for FY2017-18 was 52% only slightly higher than 51% in the earlier year.

Retail Broking

The Retail Broking business facilitates trading and investment in equities and equity derivatives, currencies and commodities for its clients and is operated by RBL and its subsidiaries.

Retail Equity Broking: The retail equity broking business was operated by RSL [a wholly owned subsidiary of the Company for part of the year, which was merged with the Company pursuant to the Composite Scheme of Arrangement approved by National Company Law Tribunal ('NCLT')]. Pursuant to the order of NCLT, the broking business of RSL was transferred and now vests with RBL. RBL is a member of the National Stock Exchange of India Limited (NSE), BSE Limited (BSE, formerly the Bombay Stock Exchange) and Metropolitan Stock Exchange of India Limited (MSEI, formerly MCX Stock Exchange Limited) in cash equities, futures & options and currency derivatives segments. In addition, RBL is a Depository Participant with the National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) which facilitates smooth settlement of clients' delivery-based transactions.

Retail Currency Broking: Trading in currency futures and options allows clients to hedge the capital and trading exposures they may have in currencies other than the Indian rupee. These products are offered by RBL as a member of the currency segment on NSE, BSE and MSEI. Currently, the exchanges permit futures trading in four currency pairs, viz. US dollar-Indian rupee, Euro-Indian rupee, Pound Sterling-Indian rupee and Japanese yen-Indian rupee, and options trading in the US dollar-Indian rupee pair.

Retail Commodity Broking: RCL was a wholly owned subsidiary of RSL for part of the year. RCL became a wholly owned subsidiary of RBL after the approval from NCLT of the Composite Scheme of Arrangement. RCL, now a wholly owned subsidiary of RBL, is a member of the two major electronic commodities futures exchanges in India, viz., Multi-Commodity Exchange of India Limited (MCX) and the National Commodities & Derivatives Exchange Limited (NCDEX). Exchange-based trading of futures in various agricultural products, bullion, metals and oil & gas provides producers, end-users and intermediaries who are exposed to price risks in these commodities, a platform for locking-in future prices and thereby hedging their exposures. Further more, commodities have emerged as an alternative investment avenue to investors looking for diversification of their investments. RCL has established a presence in various agricultural markets ('*mandis*') and centres where physical trading in other commodities takes place in addition to financial centres where investors are concentrated to facilitate hedging of price risks and to provide a convenient means of investing in an emerging asset class.

Ancillary Services: RBL is also a TIN (Tax Information Network) and PAN (Income Tax Permanent Account Number) facilitation partner of NSDL and offers services relating to PAN, TAN (Tax Deduction and Collection Account Number), and filing of TDS/TCS (Tax Deduction at Source/Tax Collection at Source) returns at select branches, to help its customers fulfil their major financial services needs under a single roof. RBL is also empanelled with Unique Identification Authority of India as an Enrolment Agency for generation of Aadhaar, with E-mudra as Registering Authority/ Agent for issuance of Digital Signature Certificate and is an AMFI registered mutual fund distributor. RBL is also registered as Point of Presence (POP) with Pension Fund Regulatory Development Authority ('PFRDA') under PFRDA Point of Presence Regulations, 2015 and with Insurance Regulation & Development Authority as a composite corporate agent to distribute insurance products.

The services of the Retail Broking business are targeted at various categories of non-institutional investors, including high net worth individuals and family offices, high-volume traders and arbitrageurs, savvy mass affluent investors and occasional investors. To meet the trading and investing needs of such a diverse set of clients, the business has developed product propositions for every type of client, ranging from personalised full-service offerings for high net worth individuals to execution-only services that operate without any face-to-face contact for occasional investors. Religare is the pioneer of building a nation-wide network of branches to reach out to investors and this continues to remain a major strength: as at March 31, 2018, the physical presence of the Retail Broking business comprised more than 1,100 branches, of which 91 are owned branches and more than 1,000 are Business Partner locations. In addition, RBL has built nine specialised dealing rooms to facilitate trading over the phone and these dealing rooms have been located in various cities across India to provide regional language support to customers.

Religare has always been at the cutting edge of trading technology. In addition to the "brick-and-mortar" branch channel, the Retail Broking business provides its clients the ability to trade over the phone ("Call-N-Trade"), on the internet (through its portal www.religareonline.com) and using feature-rich apps on the leading mobile phone platforms (through its application "Dynami"). RBL has entered into tie-ups with various banks – known as the 'Bancinvest' channel – whereby RBL provides online trading facilities to the banks' customers by integrating RBL's trading platform with the banks' internet banking platform. RBL's partner banks currently include Andhra Bank, Bank of Maharashtra, Corporation Bank, Dhanlaxmi Bank Limited, IndusInd Bank Limited, Karur Vysya Bank Limited, Saraswat Co-operative Bank Limited, South Indian Bank Limited, Tamilnadu Mercantile Bank Limited, The Vijay Co-Operative Bank Ltd., UCO Bank and Union Bank of India.

Operational Performance

FY2017-18 was a strong year for the equity market as trading volumes increased each quarter and average daily turnover for FY2018 was ₹7.57 lakh crore. The share of the lower yielding Futures & Options segment with the overall market turnover was at 95% from 94% during the earlier year and the share of the better yielding cash equities segment was 5% with adverse implications continuing for blended yields. RBL's total traded volume was ₹10.03 lakh crore in FY18 compared to ₹11.89 lakh crore in FY17.

Over the last few years, the industry has undergone structural changes and in response to the changing structure of the industry, our Retail Broking business has altered its operating model to become an asset-light, flexible and predictable business. During the year, we re-evaluated a large number of our Business Partner relationships. Consequently, the number of Business Partners was reduced to 1,058 as at March 31, 2018, as against 1,119 at the end of the earlier year. However, the distribution footprint has not been compromised and our Retail Broking business continues to be present in 404 cities and towns and services close to 1 million unique customers. The financial challenges at the group-level have adversely affected the perception of the Retail Broking business in the eyes of its counterparties and impeded the growth of the business.

During the financial year ended March 31, 2018, RBL's credit ratings were downgraded due to significant deterioration of the financial flexibility of the group as a whole. Short term rating for RBL's commercial paper programme (for an amount of ₹1,200 crore reduced to ₹400 crore after the end of the financial year) and short term bank lines (for an amount of ₹600 crore) are rated '[ICRA] A3' and are on watch with developing implications.

3. Review of Financial Performance

Consolidated Results of Operations

Particulars	FY2017-18		FY2016-17		Growth %
	Amount (₹ crore)	**% of total income**	Amount (₹ crore)	% of total income	
Revenue from Operations	2,586.76	96.05	3,771.76	98.20	(31.42)
Other Income	106.38	3.95	69.26	1.80	53.60
Total Revenue	**2,693.14**	**100.00**	**3,841.02**	**100.00**	**(29.88)**
Expenses					
Employee Benefits Expense	498.35	18.50	644.99	16.79	(22.74)
Finance Costs	1,261.02	46.82	1,836.30	47.81	(31.33)
Depreciation and Amortization Expense	37.61	1.40	30.97	0.81	21.44
Other Expenses	2,474.02	91.86	1,023.25	26.64	141.78
Total Expenses	4,270.99	158.59	3,535.50	92.05	20.80
Profit/(Loss) before Exceptional Items & Tax	**(1,577.85)**	**(58.59)**	**305.52**	**7.95**	**N.A.**
Exceptional Items					
Write Back of Provision for Diminution in the value of non-current Investments in a subsidiary	-	-	450.00	11.72	N.A.
Write off Investment in lieu of Reduction of Share Capital by subsidiary company	-	-	-	-	N.A.
Provision for diminution in value of non-current investment in a subsidiary	-	-	(15.00)	(0.39)	N.A.
Profit on sale of non-current investment in a Joint Venture	-	-	-	-	N.A.
Profit / (Loss) on sale of investment in subsidiaries (Net)	-	-	(83.25)	(2.17)	N.A.
Impairment of Goodwill on Consolidation	-	-	-	-	N.A.
Loans / Sundry Balances written off	-	-	(793.67)	(20.66)	N.A.
Profit/(Loss) after Exceptional Items & before Tax	**(1,577.85)**	**(58.59)**	**(136.40)**	**(3.55)**	**N.A.**
Tax Expenses	(227.43)	(8.44)	(13.04)	(0.34)	N.A.
Profit/(Loss) after Tax and before Minority Interest and Share in Associates	**(1,350.42)**	**(50.14)**	**(123.36)**	**(3.21)**	**N.A.**
Profit/(Loss) attributable to Minority	(157.92)	(5.86)	50.71	1.32	N.A.
Share of Profit in Associates (Net)	-	-	(0.20)	(0.01)	N.A.
Profit / (Loss) for the year	**(1,192.50)**	**(44.28)**	**(174.27)**	**(4.54)**	**N.A.**
Exceptional Items, net of tax	-	-	(250.82)	(6.53)	N.A.
Profit / (Loss) for the year before Exceptional Items	-	-	(76.55)	(1.99)	N.A.
Earnings per equity share (₹)					
Basic	(66.84)		(9.79)		
Diluted	(66.84)		(9.79)		

***Note**: 1. REL, RCML and RHC Holding Pvt. Ltd. have entered into a tripartite agreement that places severe long term restrictions on RCML, significantly impairing its ability to transfer funds to REL. Owing to this restriction RCML's consolidated financial statements have been excluded from REL's consolidated financial statements since October 1, 2011.*

Our income from operations was ₹2,586.76 crore for the FY2017-18, as compared to ₹3,771.76 crore for the FY2016-17, representing a decrease of 31%. We recorded 'Loss before Exceptional Items & Tax' of ₹1,577.85 crore as compared to 'Profit before Exceptional Items & Tax' of ₹305.52 crore for FY2016-17. Loss for FY2017-18 was ₹1,192.50 as compared to Loss for FY2016-17 was ₹174.27. The increase in loss for the financial year ended March 31, 2018 is primarily due to a provision of ₹1,018 crore made against the delinquent accounts from the corporate loan book of a subsidiary. We reported basic earnings per equity share of (₹ 66.84) in FY2017-18 as against basic earnings per equity share of (₹9.79) in FY2016-17. The consolidated financial results are a reflection of the underlying performance of the various segments which have been analysed below.

Segment-wise Performance

Our income from operations is comprised of income from lending activities, income from insurance premium, income from broking operations, interest income from fixed deposits with banks, income from non-current investments, income from current investments, interest income from delayed payments, profit on assignment of loans, income from advisory services, investment management and advisory fees and income from arbitrage and trading of securities and derivatives.

A comparison of the income from our operations in FY2017-18 and in FY2016-17 is tabulated below, and an analysis of the variance under the major heads between the two years follows thereafter.

Particulars	**FY2017-18**		FY2016-17	
	Amount (₹ crore)	**% of Total Income**	Amount (₹ crore)	% of Total Income
Income from Lending Activities	1,358.58	50.45	2,415.94	62.90
Income from Insurance Premium (Net of Premium on re-insurance ceded)	678.42	25.19	479.29	12.48
Income from Broking Operations	267.19	9.92	289.47	7.54
Interest Income from Fixed Deposits with Banks	76.48	2.84	53.56	1.39
Income from Non- Current Investments	69.19	2.57	63.75	1.66
Income from Current Investments	57.35	2.13	70.92	1.85
Interest Income from Delayed Payments	53.69	1.99	72.15	1.88
Profit on Assignment of Loans	19.72	0.73	33.36	0.87
Income from Advisory Services	3.29	0.12	10.01	0.26
Investment Management and Advisory Fees	2.55	0.09	272.26	7.09
Income from Arbitrage and Trading of Securities and Derivatives (Net)	0.29	0.01	7.80	0.20
Total	**2,586.76**	**96.05**	**3,771.76**	**98.20**

Income from Lending Activities

Our subsidiary RFL, being an NBFC, offers lending products. The interest income from our lending operations decreased by 43.77% to ₹1,358.58 crore for FY2017-18, constituting 50.45% of our total income from ₹2,415.94 crore for FY2016-17, constituting 62.90% of our total income. Below is a comparison of the constituents of income from financing activity:

Particulars	**FY2017-18**		FY2016-17	
	Amount (₹ crore)	**% of Total Income**	Amount (₹ crore)	% of Total Income
SME Financing				
- SME-Secured	962.90	35.75	1,560.65	40.63
- SME-Unsecured	122.96	4.57	262.01	6.82
- Others	0.18	0.01	1.56	0.04

Particulars	FY2017-18		FY2016-17	
	Amount (₹ crore)	% of Total Income	Amount (₹ crore)	% of Total Income
Capital Market Financing				
- Loan Against Securities	20.86	0.77	76.69	2.00
- IPO Funding	0.01	0.01	2.26	0.06
Housing Loan	132.83	4.93	138.14	3.60
Other Loans	118.84	4.41	374.63	9.75
Total	**1,358.58**	**50.45**	**2,415.94**	**62.90**

SME Financing

SME-Secured: Interest income from SME-Secured portfolio decreased by 38% to ₹962.90 crore for FY2017-18 as compared to ₹1,560.65 crore for FY2016-17 mainly due to decrease in average book size and reversal of interest income due to loans becoming non-performing. Total Book Size (net of repayments & assignments) as at March 31, 2018 was ₹6,495 crore as compared to ₹10,463 crore as at March 31, 2017. SME-Secured is a well-diversified portfolio covering customers from over 80+ different industries. The product is well secured with asset coverage of around 2x.

SME-Unsecured: The revenue generated through this activity decreased to ₹123 crore constituting 4.57% of our total income for FY2017-18 from ₹262.01 crore constituting 6.82% of our total income for FY2016-17. Total book size (net of repayments & assignments) as at March 31, 2018 was ₹530 crore.

Others: 'Others' represents the erstwhile SME-Commercial Assets business line which has been discontinued. Interest income from 'Others' was ₹0.2 crore for FY2017-18 as compared to ₹1.56 crore for FY2016-17. Interest income decreased in FY2017-18 as the product has been discontinued and book size (net of repayments & assignments) decreased from ₹5 crore as at March 31, 2017 to ₹0.1 crore as at March 31, 2018.

Capital Market Financing: Interest income from our capital markets financing activities was ₹20.9 crore for FY2017-18 as compared to ₹78.96 crore for FY2016-17 primarily due to decrease in the average book size.

Income from Insurance Premium

Income from Insurance Business was ₹678.42 crore for FY2017-18 as compared to ₹479.29 crore for FY2016-17. RHICL's Net Earned Premium increased by 41.55% to ₹678.42 crore for FY2017-18 as compared to ₹479.29 crore for FY2016-17 primarily on account of increase in scale of operations.

Broking Related Operations

Our brokerage business receives commissions for equities, derivatives and commodities traded on the exchanges on behalf of clients; earns fees from distribution of third party products such as mutual funds and insurance; generates income from depository operations; and recovers transactions fees from clients.

The income arising out of our broking activities was ₹267.19 crore for FY2017-18 constituting 9.92% of our total income as compared to ₹289.47 crore for FY2016-17, constituting 7.54% of our total income. Tabulated below are the details of constituents of our broking income.

Particulars	FY2017-18		FY2016-17	
	Amount (₹ crore)	% of Total Income	Amount (₹ crore)	% of Total Income
Equities & Currencies	175.05	6.50	180.89	4.71
Others	34.54	1.28	45.20	1.18
Recovery of Transaction Fees from Clients	31.36	1.16	31.11	0.81
Commodities	15.62	0.58	20.24	0.53
Income from Depository Operations	10.61	0.39	12.03	0.31
Total	**267.19**	**9.92**	**289.47**	**7.54**

Equities & Currencies: Our income from equity & currency broking operations decreased by 3.23% to ₹175.05 crore for FY2017-18 from ₹180.89 crore for FY2016-17 primarily due to a 13.64% decrease in retail average daily turnover.

Commodities: The revenue from our commodities broking activities decreased from ₹20.24 crore for FY2016-17 to ₹15.62 crore for FY2017-18 primarily due to a 25% decrease in average daily volume of trades executed on the exchanges.

Other Income

Other income primarily includes balances written back/bad debts and loans written off recovered, reversal of earlier years' provision for doubtful debts/ expenses/ NPAs, interest income on loans and fixed deposits with banks etc. Our other income increased to ₹106.38 crore during FY2017-18 constituting 3.95% of our total income for such period as compared to ₹69.26 crore for FY2016-17 constituting 1.80% of our total income for such period. Below is a comparison of the components of our Other Income during FY2017-18 with that in FY2016-17.

Particulars	**FY2017-18**		FY2016-17	
	Amount (₹ crore)	**% of Total Income**	Amount (₹ crore)	% of Total Income
Balances Written Back (Net)/Bad Debts and Loans written off recovered	55.84	2.07	20.45	0.53
Interest Income On-				
Inter Corporate Loans	9.05	0.34	11.99	0.31
Fixed Deposits with Banks	5.40	0.20	7.57	0.20
Others	0.08	0.003	0.46	0.01
Miscellaneous Income	15.07	0.56	12.14	0.32
Reversal of Earlier Years Provision for Doubtful Debts/Expenses/ NPAs	20.18	0.75	16.27	0.42
Rental Income	-	-	0.22	0.01
Profit on Sale of Assets Acquired In Satisfaction Of Debt (Net)	-	-	0.16	0.01
Profit on Sale of Fixed Assets	0.39	0.01	-	-
Profit on Sale of Capital Work In Progress	0.37	0.01	-	-
Total	**106.38**	**3.95**	**69.26**	**1.80**

Key Ratios

₹ crore	**FY2017-18**	FY2016-17
Total Revenue	2,693.14	3,841.02
EBITDA	(279.22)	2,172.79
Margin (%)	**(10.37)**	**56.57**
Profit Before Exceptional Items and Tax	(1,577.85)	305.52
Margin (%)	**(58.59)**	**7.95**
PAT	(1,192.50)	(174.27)
Margin (%)	**(44.28)**	**(4.54)**

4. Human Resources – Contribution to Business Success

Human Resource function focused on employee communication, enhancing productivity and optimisation of people resources across group companies. Our continued belief in people being key differentiators has guided our key initiatives towards leveraging potential of key employees to take additional responsibilities and help the organization achieve its business goals. Our leadership and senior management team focused on employee communication and participated in several employee communication initiatives through multiple town halls, social media and e-channels and one on one meeting to ensure that employees are aligned to the group's business strategy. Our group wide Human Resource initiatives including employee engagement activities, talent management initiatives and employee reward and recognition initiatives have been the key delivery areas along with reviewing and aligning group wide HR practices in line with group's philosophy.

Your Company has been successful in retaining key employees and was able to attract high quality talent through multiple recruitment channels (employee referrals, recruitment agencies, job portals, social networking sites, train-and-hire model and premier campuses). As at March 31, 2018, we had a dedicated team of 7,466 professionals across our operating subsidiaries. The organization has a robust performance management system to facilitate goal setting and mid-term as well as annual appraisal process for each and every employee based on the Balance Scorecard approach on the online Human Resource management system. Through our talent management programs, we have been successful in creating a strong pipeline of internal talent which has contributed in maintaining stable middle and top management teams across businesses. Group Business and Human Resource leadership team has significantly contributed towards business performance by ensuring adherence to established human resource processes and policies, maintaining transparent and credible communication channels with employees at all levels and further reinforcing and celebrating our culture of Passion, Innovation, Ambition, Diligence and Teamwork.

In our continuous effort to provide improved employee experience and support to business we have been continuously investing in Human Resource technology platforms. The Human Resource function has been a strategic enabler for the business and is committed to promote a high performing culture and protect the interest of all stakeholders.