Company	Aditya Birla Nuvo
Date	November 04, 2009

Operator:

Thank you for standing by and welcome to ABNL Q2 FY2010 earnings conference call presented by Enam Securities.

At this time, all participants are in a listen-only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question, please press *1 on your telephone. Please be advised, this conference is being recorded today.

I would like to hand the conference over to Mr. Sahil Desai, over to you sir.

Mr. Sahil Desai:

Thanks Varsha.

Good evening everyone. I would like to thank you all for joining us on the Q2 FY10 earnings call of Aditya Birla Nuvo Limited.

We have with the senior management of ABNL. We have Mr. Sushil Agarwal (CFO of ABNL), Mr. Deepak Patel (CEO – BPO and IT Services), Mr. Pranab Barua (Business Director – Garments and Textiles), Mr. Ajay Srinivasan (CEO of Aditya Birla Financial Services), Mr. Pankaj Razdan (Deputy CEO Aditya Birla Financial Services), Mr. Mayank Bathwal (CFO Birla Sun Life Insurance), Mr. Fabien Jeudy (Appointed actuary of Birla Sun Life Insurance).

For convenience of all participants, we will begin with the briefing of ABNL's Q2 FY10 results by Mr. Sushil Agarwal, and this will be followed by a brief overview of financial services by the Financial Services team, including disclosure of the embedded value and value of new business for Birla Sun Life Insurance. This will be followed by a Q&A session.

I would now like to hand over the call to Mr. Sushil Agarwal for an overview of ABNL's results.

Mr. Sushil Agarwal:

Thanks Pankaj.

Hello ladies and gentlemen. A warm welcome to you at the conference call on Nuvo's second quarter results.

I believe you all must have gone through the quarterly results and investor presentation, hence I will quickly touch upon the key highlights of the results starting with our focus areas at Birla Nuvo.

Nuvo continues to remain committed to its chosen strategies in all the businesses.

- In financial services, we clearly wish to be the leader and role model with broad based and integrated business.
- In telecom, our focus is more on building sustainable competitiveness while maintaining growth momentum with eminent launch in remaining two circles Idea will become a pan-India operator in 2009.
- In BPO, we are building healthy order book with focus on non-voice or KPO segment. Aditya Birla Minacs got deals worth half a billion in first half of the year and has a healthy sales pipeline of 1 billion dollar TCV i.e Total Contract Value.
- In garments, the focus is on capitalizing expanded retail space to achieve profitable growth.
- In manufacturing businesses, our focus is on capturing the sector growth and full potential. Combined together all these businesses achieved 20% EBITDA growth

Nuvo got infusion of Rs. 325 Crores from the promoters, which will further strengthen the balance sheet, in addition to Rs. 250 Crores received earlier as application money. Quarter by quarter Nuvo is moving closer to achieving defined strategic objective across the businesses. Moving to business wise performance.

Aditya Birla Financial Services is the largest contributor to Nuvo's consolidated revenue at 32%. It now serves over 4 million customers spread across 500 towns and cities through over 1500 branches supported by more than 15,000 employees and over 2 lacs channel partners.

During the first half, Aditya Birla Financial Services posted 17% year on year growth in consolidated revenues at Rs. 23 billion, that is about half a billion dollar. It has assets under management of more than $16 billion.

Birla Sun Life Insurance continued to outperform the private sector life insurers. Particularly in individual life segment where we have grown by 5%, while private players have de-grown by 10%. We have also achieved highest growth rate among top five players in individual life policies in line with our focus on expanding customer base.

During H1, new business market share has increased YoY from 8.2% to 8.9%. Our AUM has almost doubled from last year and 100% of our AUM is ahead of benchmarks.

Moving to Birla Sun Life Asset Management, here also we continue to do well and as I speak our AUM is now over Rs. 70,000 Crores. We have achieved 68% year on year growth in average domestic AUM compared to industry's 41% growth. This led to increase in market share from 7.1% in September '08 to 8.5% in September '09. Our focus is on building equity and high margin assets. Total equity AUM is now almost doubled since March '09 at the back of superior performance of equity schemes, due to which we have garnered 15% share in industry's equity net sales.

Our PMS AUM also has grown by 35% since March '09. Our strong fund performance got recognized in India as well as abroad and as a result we won many awards.

Apollo Sindhoori, the broking company is now rebranded as Aditya Birla Money.

Aditya Birla Private Equity fund has received commitment of over Rs. 500 Crores and will shortly announce its first close in India.

Having said this, we strongly feel that as an integrated player we have all the fire power to grow in the financial services on escalated basis. With 57% of national household savings still lying in fixed deposits with only 4.5% people holding mutual fund accounts and only 1.5% population holding De-Mat accounts, India's financial services sector still has a long way to go.

Idea Cellular has crossed 51 million subscriber base, out of which half are added in past one and half years. This is the same period in which industry has witnessed intense competition caused by over capacity. The industry has reached to a level where business economics itself will eventually phase out to the overcapacity in due course of time. With its strong balance sheet and thrust on building cost efficiency by leveraging its spectrum and scale advantages, Idea is well equipped to emerge stronger out of this phase.

In the **BPO** business focus is on building strong order book with a focus on non-voice segment. During first half of the year, we have bagged deals with half a billion dollars. This includes a deal of $125 million from Idea won in a competitive bid. This Idea deal is a step towards leveraging the Aditya Birla group ecosystem, which itself is a big business opportunity. Besides, we have a strong sales pipeline of 1 billion dollars. Led by strong team and opex and capex rationalization efforts, the business has generated cash profits in consecutive second quarter.

The **Garments** business has turned EBIDTA positive in this quarter. This is in line with its objective to achieve profitable growth. Revenue grew YoY by 5% and QoQ by 34% to Rs. 342 Crores. Flat customer foot falls and higher discounting still remains a reality. Despite this EBIDTA in this quarter has improved by Rs. 23 Crores over last year and by Rs. 33 Crores over previous quarter. We have saved more than Rs. 100 Crores through working capital management.

I will now cover manufacturing businesses of Nuvo.

Carbon black is back to normalcy and is operating at full capacity on back of renewed demand from tyre sector. Further expansion is on schedule.

Fertilizers achieved higher per day growth productivity leading to 18% YoY growth in volumes. On a like to like basis i.e. excluding subsidy arrears of Rs. 24 Crores received in second quarter of last year, EBIDTA have shown a positive trend.

Rayon business posted considerable growth in earning driven by higher VFY realization and lower input costs. This is despite lower profitability in the chemical segment due to lower caustic soda realization.

In **Insulators** business, while domestic demand is gaining momentum but realization remained subdued in the quarter. The 10,000 TPA capacity addition has gone on stream. The benefit of full capacity utilization is expected in the coming quarters.

Coming to financial performance during the quarter Nuvo's **consolidated revenue** crossed a billion dollars, achieving 35% year on year growth. This was largely due to growth in investment income on policy holders fund supported by rise in equity markets.

While life insurance and telecom business witnessed growth in their sales, BPO de grew due to lower business from few existing clients suffering slow down. Benefit of recently won deals worth half a billion dollar will largely accrue in later half of FY 10 and onwards.

Both carbon black and fertilizer achieved good volume growth. However, revenue de grew since in Q2 last year realization was higher in line with high feedstock prices. Sequentially, both the businesses have achieved good volumes as well as revenue growth.

It gives me a great pleasure to share that in this quarter Nuvo has achieved highest ever **consolidated EBIDTA** at Rs. 413 Crores achieving 78% YoY growth. This was led by improved profitability in the BPO, Rayon, and Carbon Black businesses coupled with reduced losses in life insurance and garment businesses.

Life insurance losses reduced aided by higher profitability arising out of in force businesses. In both BPO and garments cost rationalization efforts have led to sustainable cost out. Both of these have saved Rs. 18 Crores each during this quarter and Rs. 30 Crores each during the half year compared to last year. In carbon black higher profitability during this quarter is reflective of more of one time input price advantage. CBFS prices have already started showing up turn in line with the crude oil prices. In Rayon earnings growth was driven by higher VFY realization and lower input cost. As a result consolidated net profit improved considerably even after absorbing higher depreciation consequent to expansion in telecom business.

To sum up, we remain one of the most unique players of capturing both growth and value businesses of Indian economy. Nuvo is well positioned to emerge stronger with continuous persuade of strategic initiatives and is looking beyond immediate challenges. It is moving closer to achieving profitability in the growth businesses. The investments made, specifically in financial services, BPO, and the garment businesses, are geared towards building business with long-term goals while creating value for the share holders.

So, this is from my side on the quarterly performance of Aditya Birla Nuvo. I will now hand over to Ajay for an overview on financial services and disclosing of VNB, and thereafter we will open for Q&A.

Mr. Ajay Srinivasan:

I will just introduce very briefly the key highlights of the performance for the half-year and the quarter ended September, and then basically hand over to some of the individual businesses to talk through individual items.

As we all are experiencing, there are winds of change blowing across the financial services industry. The gloom and doom of 2008-09 seems to have been replaced with a sense of cautious optimism. However, in a fast evolving environment, new regulatory changes are being introduced and contemplated. And the impact of these has yet to be fully realized and felt. The financial services opportunity remains huge but we need to be ever ready to face the challenges of competition, of regulatory activism and of course of an evolving customer and distributor.

In the second quarter of 2009-10 the Aditya Birla Financial Services Group has continued to demonstrate its ability to buck the industry trend and stay a step ahead. The consolidated revenues of our businesses crossed Rs. 23 billion in H1 of 2009-10, showing a 17% year on year (yoy) growth.

Our businesses continue to track well against plan and these are some of the highlights of our performance, by financial services businesses, during the quarter:

Birla Sun Life Insurance (BSLI):

- Our annualized premium equivalent (APE) grew y-o-y by 18% for Q2'09-10.
- While the private life insurers de-grew by 10% in individual new business premium during Q2, we grew by 5%.
- For year-to-date September 2009, we were ranked No. 5 among the private sector players, significantly closing the gap with the players ahead.
- Our total premium of Rs. 2072 Crores during H1 reflects a y-o-y growth of 15%, with a very strong 53% growth in renewal premium.
- BSLI increased its market share among private players to just below 9% for H1FY10 from 8.2% in H1 last year.
- Our y-o-y policy growth of 58% for H1 FY10 demonstrates our increasing penetration and retail reach.
- Our advisor strength has increased to 1,66,000 as on September 2009, versus 1,26,000 in September 2008.
- We have Rs. 13,575 Crores of assets under management, having almost doubled over September 2008. 100% of our funds have outperformed benchmarks.
- An eye on profitable growth has helped us reduce our H1 net loss y-o-y from Rs. 347 Crores to Rs. 238 Crores.
- So, I think in keeping with our focus in terms of building a balanced growth top line and bottom line, we have continued to drive strong growth, continued to drive above the average market growth, gained market share, and improved the profitability of the business.

Birla Sun Life Asset Management:

- We ranked no. 5 on the basis of our average domestic assets under management (AUM) of Rs. 63,056 Crores, as at 30th September 2009
- The AUM reflects a growth of 68% over September 2008 against industry's 41%.
- Our market share has grown to 8.5%, up from 7.1% in September 2008
- Total average AUM including PMS and offshore equity AUM stood at Rs. 65609 as on September 30,2009.
- Equity average AUM doubled since March 2009 backed by strong fund performance and 16% share in H1 industry's equity net sales.
- Our equity composition within the total asset mix has increased to 18% from 12% in March 2009.
- I think the other very notable item in the AMC is very strong fund performance we have had, and I think many of you might have seen the hoarding around town in terms of some of the awards we have won, but basically if I just to give you a very quick highlights of our performance :
  - We have the highest no. of funds (15) with 4 & 5 Star ratings, across the industry.
  - We were awarded the "Platinum" (Top Category) awards 2009 from ET quarterly MF Tracker for 3 schemes.
  - Birla Sun life Tax Relief '96 has been ranked as the "World's Best Performing Equity Fund" on a 13 year period, from among 3006 eligible equity funds that were compared globally, by Lipper.
  - Hong Kong based magazine "The Asset" adjusged us the Asset Management Company of the year, as a part of their "Triple A Investment Awards 2009"
  - We were also awarded best "Onshore Fund House in India 2009" by Asian Investor Magazine.
  - At the recent Outlook Money NDTV awards we were recognized as the "Best Debt Fund House of the Year – Joint Winners" as also the "Best Mutual Fund House of the Year"
- Profit before tax was about Rs. 14 Crores an increase of 68% over the previous quarter
- The drive to grow our PMS assets picked up speed with the equity corpus of our PMS assets quadrupling at the end of Q2, versus Q1.
- We intensified focus on the marketing of our Real Estate Fund
- So, I think underpinning the growth and underpinning the franchisee we are building is a very strong for all our funds across all assets classes. I just wanted to highlight that.

Moving to our third business, the **private equity** business, we have continued to receive very strong response from Indian institutions and HNI. This is an onshore fund and it will be our maiden fund in this area, and we have today commitments for over 500 Crores in hand and we are expecting to close the first fund shortly in the month of November.

Birla Sun Life Distribution (BSDL)**,** which is an open architecture distribution business, does distribution of a variety of products from life insurance to a variety of other financial services products. In terms of life insurance sales alone, the business there has sold 8.1 Crores in the second quarter as against 2 Crores that it sold in Q2 of the previous year, so really becoming a very significant corporate agent for BSLI. It has started selling a number of high margin funds, so the product range that is being sold through BSDL has improved considerably.

If I look at total assets under advice, which is the big driver of earnings for a company like this, it has grown from 11,700 Crores in June to over 13,000 Crores in September with a strong 20% growth in equity assets underlying that overall growth.

Birla Global Finance (BGFCL), which is our non-banking finance company, posted profit before tax of about 20.5 Crores for the half year ended September 2009.

Birla Insurance Advisory and Broking Services is our general insurance broking business. We don't manufacture general insurance products, but we have a general insurance broking business that allows us to provide that product range to our customer group. That business has witnessed a growth of 12% in premium for the quarter ended September 2009 and for the half year business profit before tax is around 4 Crores.

The last business, I would like to talk about is our **retail broking** business. As some of you may know we have acquired a retail broking business in March 2009. Post the acquisition the business has continued to focus on growth and in fact has increased the momentum of growth considerably since then. Consolidated revenues for the first half of 2009-10, was about 55 Crores as against about 51 Crores in the same period last year. But what is interesting is that net profit margin has basically grown to about 11.2% as against about 6.7% in H1 2008-09.

So, that is a very quick run through the seven business entities we have under this umbrella called Aditya Birla Financial Services. All of these businesses have seen considerable growth, we believe are growing faster than the markets in which they operate, and are really working to deliver the vision that we have set for the financial services group, which is to build leadership, to be a role model, to be integrated in the way we operate and to basically be in a broad based set of businesses that we see attractive economically.

What I would now like to do is just hand over to Mayank, who is the CFO for the life insurance business.

Some time ago we talked about wanting to disclose more around the underlying profitability in the insurance business. Traditionally, we have been talking to you about the top line and the growth of our AP, and I think many of you had questions around both VNB margin as well as the embedded value. So, we thought we would keep that commitment and today share with you the embedded value and the VNB for the year ending 208-09, which has now been audited. We have our chief Appointed Actuary with us as well, so if you have any technical questions he will be happy to take them. But between Mayank and Fabien I think we should be able to take you through this piece next.

So, I will hand over to Mayank to take you through that.

Once we are done with that then we will just open up for questions. So, if you have questions, I have Pankaj Razdan with me, Pankaj, me, Mayank and Fabien will answer any questions that you may have as a result of this specific EV VNB disclosure or any other business questions you may have.

Over to you Mayank.

Mr. Mayank Bathwal:

Thanks Ajay.

As mentioned by Ajay, we had committed that we will disclose our embedded value and VNB numbers sometime during this year. We wanted to be sure about the basis of calculation of EV and VNB, given the fact that a lot of that has to do with how the future will entail.

Till March 2009, the share holders have injected a capital of about 2,000 Crores in this business, and a lot of that came in the year 2008-09, actually it was about 725 Crores, and obviously a big part of that was to fund future growth. Now, in that context, the embedded value that the business has generated as of 31 March, 2009, is 3,060 Crores, so as you can see it is 50% more than the capital injected by the share holders, a lot of which is to fund future growth.

If you would look at the kind of the return that it has generated without taking into account any future value that this business is going to generate, the embedded value is actually giving a approximately 17.5% return (CAGR) as of 31 March, 2009 considering capital has been injected a various points of time in the past. So, a significant value has been created in this business against the capital that has been injected by the share holders through just the embedded value.

Again, we have also generated a value of new business about 496 Crores, just a little less than 500 Crores in the previous year, and this is an indication of the kind of future value that will be generated by this business with incremental growth coming in and therefore increasing the VNB in the future.

To make sure that this whole process was reviewed by an independent agency, we had appointed Towers Perrin, a global professional services firm specializing in areas including actuarial consulting and risk and capital management. They have reviewed the methodology, assumptions and the results for the individual life business, which is being covered through this disclosure and their conclusions are enclosed in the presentation which is available at the home page of Aditya Birla Nuvo's website www.adityabirlanuvo.com.

So, in terms of how much does this VNB convert into margins if you have to take the IRDA reported individual life first year premium numbers, they would be approximately 20.3% in the financial year 2008-09. So, in summary we would like to just reiterate the fact that this business has generated significant value for the share holders in the last 7-

8 years and especially given the growth that we have witnessed in the last 2 years commencing 2007-08.

So, I would now like to hand over the call back to the moderator and we can get into the Q&A session.

Operator:

Certainly sir.

At this time, participants who wish to ask a question please press *1 on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press the hash or the pound key.

First in line, we have a question from Sachin Seth from HSBC.

Mr. Sachin:

Hi! This is Sachin. I just had a couple of questions on the sector, the insurance sector as a whole, there is a lot of noise on the regulator making some changes both on the disclosure front as well as on FDI, and the second part I think is to do with the Swaroop Committee recommendations, just wanted to get a sense of what your views would be on these three issues?

Mr. Ajay Srinivasan:

I think on the issue of Swaroop Committee I think our general view is that it is a consultative paper at this point in time. I think they have put it up for the view of many stakeholders; we are not sure what shape that will finally take. I think it is a little early to comment on it, and the industry and the IRDA have had their views made known to the Swaroop Committee. There is a very strong push back from both the industry and the IRDA saying that the industry is very different to the other industries we are talking about and therefore needs to be thought of differently.

The other two points you raised were?

Mr. Sachin:

What is the time line on the disclosure standards from IRDA?

Mr. Ajay Srinivasan:

I think in terms of disclosures we already have fairly stringent disclosures, I was discussing with Fabien on how is it very different to the western world, Fabien might be able to point a view, whether it is going to be very different say to the western world Fabien?

Mr. Fabien Jeudy:

I don't think it is going to be that different. The IRDA is working hard with and the appointed actuaries to come up with a model so that the whole industry discloses in a consistent way. I think this will probably come within a year, that is all I know for now..

Mr. Ajay Srinivasan :

And your third question was?

Mr. Sachin:

Yeah, just on the FDI part of it, what is IRDA's stand line or view on that?

Mr. Ajay Srinivasan:

I think everybody believes the FDI should be reasonably soon, I don't think we can put a time line to it, but for whatever we are hearing it is not that far off.

Mr. Sachin:

Okay, and if I can just ask one or two number related questions, one is obviously I think the assumptions behind all the numbers that you disclosed, first of all thanks a lot for disclosing all these, I guess you are the first to disclose a lot of these numbers, but is it in the presentation or should we ask for it on the phone right now?

Mr. Ajay Srinivasan:

I think a lot of the stuff is on the presentation, if you have any additional question then we will be more than happy to take it.

Mr. Sachin:

Sure, just one on the 20.3% margin that Mayank mentioned, is that post tax and post solvency?

Mr. Fabien Jeudy :

Yes.

Mr. Sachin:

Okay, thanks. I am done with my questions. Thanks everybody.

Operator:

Thank you Mr. Sachin.

Next in line, we have Mr. Siddharth Teli from ICICI Securities.

Mr. Siddharth Teli:

Hi Mayank. The EV numbers seems to be quite higher than what we estimated, congratulations. Just wanted to check that in terms of these margins or rather the EV, does it take into account any expense over runs? I don't have any release on this as of now, so just wanted to check with you and if at all it does, what is that number?

Mr. Mayank Bathwal:

It does take into account expense overrun, and obviously it will be maintenance expense over run because embedded reflects the value of future profits embedded in the in-force policies and therefore, will only have maintenance expense overrun impact. So, it does take into account that.

Mr. Siddharth:

Okay, and in terms of margins, at 20.3 odd percent with the cap on charges now, how do you foresee these going forward?

Mr. Mayank Bathwal:

Our own internal belief is that the margins that we are talking about would not be significantly impacted by the new regulation on cap on charges. The margins will be managed through several means including looking at the product charges structure i.e. looking at the overall quantum of charges, the kind of expenses that will incur both on distribution and the operation side of the business. So, we are reasonably confident of being able to maintain it at fairly similar level of margins.

Mr. Siddharth:

Lastly, you guided on capital need for the next two years at close to 500 Crores each, that still stand correct?

Mr. Mayank Bathwal :

Yes, we maintain that.

Mr. Siddharth:

Thanks. I am done with my questions.

Operator:

Thank you Mr. Siddharth.

Next in line, we have Mr. Vishal Biraia from B&K Securities.

Mr. Vishal Biraia:

Congratulations on the good set of numbers sir. Sir, my question would be the 20.3% margins, would they plateau out over a period of time, would they reduce, and if so what should be the stable range or something of that sort?

Mr. Ajay Srinivasan:

I think like Mayank said you know this is the range that we believe delivers attractive returns to our unit holders and to the share holders. Our aim is really to try and work within this range.

Mr. Vishal:

Can you put a number to it?

Mr. Ajay Srinivasan:

We did put a number to it i.e. 20% we have just disclosed. We believe that current margins are reasonable for us to work with. So, our aim is to try and keep margins at similar level.

Mr. Vishal:

Okay, thank you sir.

Operator:

Thank you Mr. Vishal.

Next in line, we have Mr. M. B. Mahesh from Edelweiss.

Mr. M. B. Mahesh:

Hi! Everyone. This is Mahesh. Congrats, and thanks for the disclosure. One thing on persistency, when we report this NBAP and EV, how have you been your persistency experience against what you actually assumed and how actually you are seeing in this year after March 2009?

Mr. Fabien Jeudy:

The assumption for persistency has been consistent with our objectives, and is relatively consistent based on past trend and future expectations. In the short term, the life insurance works such that the value of the company can actually go up if there are higher lapses from policy holders through recovery of surrender charges and claw back of commissions. So, having higher or lower lapses in the first few years may not actually impact the value of the company. In terms of longer-term lapse assumption, this company is too young and right now it is hard to make an assessment as to whether our assumptions are appropriate.

Mr. M. B. Mahesh :

One more thing on persistency again, if you can share what are your lapse assumption after 3 years, in general, I am saying overall?

Mr. Fabien Jeudy:

It is actually hard to share because they vary by products and for each year. We also assume that not all clients will pay the full premiums in the future, some clients will stop paying premiums, we cannot look at just policy persistency but we need to look at policy persistency and premium persistency put together.

Mr. M. B. Mahesh :

Okay, thanks.

Operator:

Thank you sir.

Next in line, we have a follow up question from Mr. Sachin Seth from HSBC.

Mr. Sachin:

Hi! Sorry just one follow up question on in case when this FDI rule does come in, what is the arrangement with Sun Life in term of is there a right of first refusal they have in terms of increasing the stake, and is it at market related prices?

Mr. Sushil Agarwal:

Sachin, as and when the FDI gets released, Sun Life has an option to increase the stake. There is no predetermined price, the price for increasing the stake would be reflective of an equitable price based on the fair market value. This is the broad understanding that we have.

Mr. Sachin:

Sure thanks.

Operator:

Thank you sir.

We have a question from Mr. Richard D'souza from ASK Investments.

Mr. Richard D'souza:

Good evening sir. Can you please elaborate on your plan for the financial services subsidiary or the spinning off of financial services into a different company?

Mr. Sushil Agarwal:

We definitely want to create such a structure since it is indeed very supportive in creating a successful and sustainable financial services business by bringing synergy and sharper focus among these businesses which otherwise would be operating in isolation in the areas of marketing, overall strategy, cross sales, product innovation. All the financial services businesses are already operating under a virtual entity Aditya Birla Financial Services headed by senior management team. To legalise such structure is another process which will take its own time due to multiple regulators involved for various business segments within financial services business. We have approached various regulators for approvals.

Mr. Richard D'souza:

Are we looking at listing this entity some time down the line?

Mr. Sushil Agarwal:

Actually this structure does provide a flexibility to monetize and raise funds at some point of time in future. But the timing and quantum will depend on what kind of funds requirements we have going forward with respect to the entire financial services business. At this stage it's quite premature to talk about it.

Mr. Richard D'souza:

Okay, thanks a lot.

Operator:

Thank you Mr. Richard.

Next in line, we have Mr. Anand Vasudevan from Franklin Templeton.

Mr. Anand Vasudevan:

Hi! Good afternoon everyone.

Can you please repeat what you said about how you have dealt with expense over runs in your embedded value disclosure? Did you say that you accounted for maintenance expense over runs, is that correct?

Mr. Mayank Bathwal:

Yes Anand, because embedded value is for the future value post the sales, so you know the acquisition expenses have already been incurred for that business, so there will be only maintenance expenses over run in the future, and we have already taken that into consideration.

Mr. Anand Vasudevan:

But what about the historic expense over runs on your new business acquisition, has that been accounted for as well?

Mr. Mayank Bathwal:

The historic expense gap on acquisition expenses has already been funded by the capital that has been injected and is reflected in the adjusted Net worth which gets reduced with these overruns in the period when they were incurred. While embedded value is the value for the future, expense over run in the past on the acquisition front has already been funded by the capital injected.

Mr. Anand Vasudevan:

Okay, fine.

Mr. Fabien Jeudy:

The adjusted net worth in the embedded value does obviously consider all of the past expense over runs and surplus. On the maintenance side i.e. recurring expenses, the cost incurred in maintaining that business is fully reflected in the embedded value which is the reflection of the future and I could tell you that such expense over runs are relatively immaterial.

For acquisition expenses going forward, we do have an expense over run simply because we are growing the distribution force and the number of branches and our number of partners very. We do expect that this is going to be eliminated within two or three years as is mentioned in the presentation.

Mr. Anand Vasudevan:

Okay, but you know if I can understand in plain English essentially all your cumulative expense over runs in the past, whether it is on maintenance expenses or whether it is on new business acquisition, has been reflected in your embedded value disclosure to date, is that correct?

Mr. Fabien Jeudy:

Absolutely.

Mr. Anand Vasudevan:

Okay, thank you.

Operator:

Thank you Mr. Anand.

Next in line, we have a follow up question from Mr. Sachin Seth from HSBC.

Mr. Sachin:

Okay, hi! again. Just one question on growth outlook, what is the kind of industry growth you are all looking at for the next 5 years and what is your market share targets within that?

Mr. Ajay Srinivasan:

I think 5 years is a very long time, Sachin, to try and predict growth rates. Generally, what we say is financial services sector grow at a multiple of 2 and a half times GDP growth. Hence, if India grows 6-7% then this industry should grow 18-20% as a thumb rule. Although this may not happen every year, but I think on a long-term basis if we deliver the GDP growth then that is the way we see the industry growing. Our ambition has always been to say that we want to be a leading player and we would like to grow faster than the industry. That is what we have been doing over the last couple of years.

Mr. Sachin:

Okay, thanks.

Operator:

Thank you sir.

Next in line, we have Mr. Vishal from B&K Securities.

Mr. Vishal:

Sir, my question this time relates to the garments business, what kind of growth and operating margins should we forecast and which would be led by what?

Mr. Pranab Barua:

I think in the reported half year we have grown at around about 10%, and going forward we are projecting a growth slightly higher than that. This is being driven partly by the retail expansion and partly we are hopeful for the markets to turn around, it has been a fairly weak market in the second half of last year and first half of this year. So, during the second half this year we are looking for a growth for a slightly higher growth rate than that.

Mr. Vishal:

Okay, are we looking at expanding the retail stores, I know we have rationalized the retail space, but are we looking at significant expansions?

Mr. Pranab Barua:

On the retail expansion, we were very cautious in the first half because the markets were not showing customary footfalls. The entire retail financial model was not adding up as far as the rentals were concerned, but going forward now we have identified and we should be expanding at a faster rate than what we did in the first half. But this expansion will not impact us too much in the second half of this year, but will probably affect us more in the coming year, that is next financial year.

Mr. Vishal:

Thank you very much sir.

Operator:

Thank you sir.

Next in line, we have Mr. Shantanu Chakravarty from IIFL.

Mr. Shantanu Chakravarty:

Hello sir, congratulations on a good set of numbers and also on the fact that you disclosed and set up market benchmark. Just a couple of questions on the overall balance sheet; firstly, what is the consolidated and stand alone gross debt, and the corresponding numbers for cash and cash equivalents?

Mr. Sushil Agarwal:

As of September '09, on a consolidated basis, we have around Rs. 6900 Crores of gross debt, which includes debt from Idea, BPO and all of that. With cash and cash equivalents of Rs. 1540 Crores, consolidated net debt comes to Rs. 5350 Crores. On a stand alone basis, gross debt has come down from Rs. 4500 Crores in March 2009 to around Rs. 3800 Crores. With cash and cash equivalents of Rs. 400 Crores in standalone balance sheet, standalone net debt comes to Rs. 3400 Crores. This is given on page 34 and 35 of quarterly presentation.

Mr. Shantanu Chakravarthy:

Okay, and one more question, what is the current exact share holding of ABNL and Aditya Birla Group in Idea on a fully diluted basis, if you could say?

Mr. Sushil Agarwal:

Nuvo's shareholding in Idea is 27.02% as of now. After the spice merger, it will come down to 25.39%. Aditya Birla Group's shareholding in Idea is 49.13% as of now. After the spice merger, it will come down to 46.16%.

Mr. Shantanu Chakravarthy:

Okay sir. The final question is on the life insurance business, so given that your growth has been kind of ahead of the market, where do you see both the market as well as yourself in the next 12 to 18 months, growth wise?

Mr. Mayank Bathwal:

Shantanu, I think we have answered that question earlier saying that basically growth in financial services sector is a function of overall GDP growth and sentiment in the market, I think we believe that industry should get back to 15-20% growth rates. If industry gets back to those rates, then we would aim to be going faster than that.

Mr. Shantanu Chakravarthy:

Okay. Thanks again for your time.

Mr. Mayank Bathwal:

Thank you.

Operator:

Thank you Mr. Shantanu. At this time, there are no further questions from the participants. I would like to hand the floor back to Mr. Sahil Desai, over to you sir.

Mr. Sahil Desai:

Thanks Varsha. I would like to thank you all for joining us on the call today. I would also like to thank the management for taking the time out to speak to you guys. Hope it was helpful. Thank you.

Mr. Sushil Agarwal:

Thanks.

Operator:

Thank you sir. That does conclude our conference for today. Thank you for participating. You may all discontinue now.