

“Aditya Birla Nuvo Q3FY10 Earnings Call Transcript”

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MANAGEMENT TEAM : ADITYA BIRLA NUVO:

Mr. Sushil Agarwal - CFO, Aditya Birla Nuvo Ltd.

Mr. Ajay Srinivasan - CEO, Aditya Birla Financial Services

Mr. Pankaj Razdan - Deputy CEO, Aditya Birla Financial Services

Mr. Pranab Barua - Business Director, Garments and Textiles

Mr. Deepak Patel- CEO, BPO and IT Services

Mr. Manoj Kedia - President and Dy. CFO, Aditya Birla Nuvo Ltd.

Mr. Mayank Bathwal - CFO, Birla Sun Life Insurance Co. Ltd.

ANTIQUE STOCK BROKING LTD. :

Mr. Anish Jhaveri - CEO, Antique Stock Broking Ltd.



Moderator

Ladies and gentlemen good evening and welcome to the Aditya Birla Nuvo Q3 FY 10 Earnings Conference Call hosted by Antique Stock Broking Ltd. As a reminder, all participants' lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Anish Jhaveri, CEO of Antique Stock Broking Ltd. Thank you and over to you Mr. Jhaveri.

Anish Jhaveri

Thank you. Welcome everyone to the Q3 FY 10 Conference Call of Aditya Birla Nuvo. The conglomerate continues to perform well in all the businesses and results are now really showing. We have the senior management team of ABNL on call. Mr. Sushil Agarwal who is the CFO of ABNL, Ajay Srinivasan who is the CEO of Aditya Birla Financial Services, and Pankaj Razdan who is the deputy CEO of Aditya Birla Financial Services. Mr. Pranab Barua who is the Business Director of Garments and Textiles, Mr. Deepak Patel who is the CEO of BPO and IT Services, Manoj Kedia, the President and Deputy CFO of ABNL, and Mr. Mayank Bathwal who is the CFO of Birla Sun Life Insurance. I now hand over proceedings to Sushil Agarwal. Sushil, if you can just take us through what happened in the quarter across all the businesses and then we will open for Q&A Session.

Sushil Agarwal

Yeah sure, thanks Anish. Hello ladies and gentlemen. A warm welcome to you at the conference call on ABNL's third quarterly 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.

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

- In the **financial services** we clearly wish to be leader and role model with a broad based and integrated business.
 - Our combined AUM rose by 85% in past one year to 19 billion dollars.
 - Our combined net sales grew by 29% to Rs. 39 billion in 9 months of current financial year.
 - We have built nation-wide coverage through more than 1,500 branches and over 2 lacs channel partners serving more than 4.5 million customers.
 - In line with our vision to broad base financial services business, our recently launched Aditya Birla Private Equity Funds have got commitment of over Rs. 675 crores and has announced its first closure in January 2010.

- In **telecom**, our endeavor is to build sustainable competitiveness to emerge stronger. Our thrust is on increasing revenue market share than on mere subscriber's league table. Idea is now a pan-India player with a strong balance sheet. This provides a solid base to support future investments and test any level of competitive pressure.
- In **BPO**, we are building healthy book with strong focus on bottom line. While the business was cash positive during all the three quarters, it has now turned positive at net profit level also during the current quarter.
- In **garments**, the focus is on capitalizing expanded retail space to achieve profitable growth as can be seen in improved earnings.
- **Manufacturing businesses** are operating at full potential and combined together they have achieved highest ever EBITDA at Rs.221 crores during the current quarter.
- Consistent improvement in earnings and equity infusion by promoters have strengthened ABNL's **balance sheet**. Remaining equity infusion of Rs.425 crores will only strengthen it further. During these 9 months, our net debt has reduced by 600 crores.

Now let me share business-wise highlights starting with financial services, which is the largest contributor to ABNL's consolidated revenues at 35%.

- In the **life insurance** industry, all concerns about growth are disappearing, with private sector achieving good growth in Q3.
 - Our Life Insurance Venture continues to outperform the Private sector and is gaining market share.
 - In 9 months, while private players could grow by only 3% in new business premium, BSLI achieved 15% growth.
 - As a result, BSLI improved its market share to 9.5% compared to 8.5% in corresponding period last year.
 - Over 12 and half lacs Individual policies were issued in last 9 months achieving growth of 56%.
 - Total premium income grew by 51% while renewal premium grew by 43%.
 - During the nine months, our opex ratio has reduced by 400 bps year on year.
 - With the increasing size of renewal premiums and better expense efficiency, net loss as well as capital requirement has reduced.
 - This is even after absorbing strain of growing new business.
 - Our AUM has almost doubled from last year to about Rs. 14,700 Crores. 100% of AUM is ahead of benchmarks.
- In our **Asset Management** business, the total average AUM registered 46 % growth since March 2009 to reach about Rs. 71,000 Crores.
 - Total equity AUM has almost doubled since March 2009 to Rs. 12,800 Crores.

- This is led by focus on increasing share of equity AUM coupled with superior performance of equity schemes.
 - We achieved highest growth rate in domestic average equity AUM amongst top 5 players.
 - In Q3, we have achieved net sales of over Rs. 350 Cr. while industry has faced net redemption.
 - Our net equity sales have remained positive during every month of the current financial year.
- Moving to **other Financial Services** businesses.
- Our Private Equity Fund has received commitments of over Rs. 675 Crores and announced its first closure.
 - Our broking arm has posted significant improvement in net profit led by 79% rise in equity broking volumes.
 - Our NBFC, Birla Global Finance has been rebranded as Aditya Birla Finance.
- Let me now cover **Telecom** business.
- Idea is now a Pan India player.
 - It ranks 3rd in terms of wireless revenue market share at 12.1%, even though it is 5th in terms of subscribers base.
 - More importantly it ranks 2nd with over 20% revenue market share in 9 service areas where it holds 900 MHz spectrum.
 - Idea's quarterly cash profit grew by 21% despite competitive pressure and launch of 7 new service areas.
 - Net profit de grew to Rs. 170 Crores largely due to higher depreciation on expansion
 - We are confident that with continued focus on operating and financial efficiencies Idea is well positioned to emerge competitively stronger during & after current challenging times.
- Our **BPO** business has turned positive at net profit level. And the profitability is improving quarter by quarter.
- EBITDA margins have increased by 200 bps quarter on quarter and 1000 bps year-on-year.
 - This clearly reflects the sustainability of cost rationalization efforts, we have been pursuing and talking about since past few quarters.
 - This is despite top line being constrained due to lower business from few of existing clients who are suffering slowdown.
 - The benefits of 550 million dollar deals won during the current year will largely accrue next year onwards.
 - The business can now also capitalise on its balance sheet which has been strengthened by infusion of Rs. 250 Cr.
- The **garments** business is Capitalising on the expanded retail space
- Its retail channel has achieved 20% growth in sales during Q3.

- This has helped overall revenues of the garments business to grow by 8%.
 - Major thrust of the business is clearly on improving profitability.
 - As is evident from the numbers, we have saved around Rs. 90 Crores during the 9 months, large part of which has come in this quarter.
- **Manufacturing Businesses** combined together have achieved highest ever EBITDA at Rs. 221 Crores during the quarter.
- More importantly, if you look at the trend line, EBITDA is showing consistent improvement quarter after quarter, leaving aside IPP gain of Rs. 37 Crores booked in Q4 last year.
 - Both operating margins and return on average capital employed are improving consistently.
 - Profitability in the **Carbon Black** business improved driven by higher volumes. To tap robust demand from tyre sector we are expanding our capacity. Greenfield expansion at Patalganga is also progressing well. We are planning to augment capacity further by 85,000 tones at Patalganga in second phase besides another 85,000 tones expansion in southern India. This will raise our capacity from current 2.3 lacs to 4.85 lacs tones.
 - Fertilizers is continuously improving its per day productivity
 - In Rayon also, earnings grew significantly.
 - Insulators business has achieved highest ever quarterly volumes led by recent capacity expansion and improved yield.
 - In the textiles business, EBITDA has doubled during Q3 led by robust demand in linen segment.

Let's now look at the financial performance.

- During the quarter ABNL's **consolidated net sales** grew by 18% year on year.
- **Life Insurance** witnessed 51% growth in premium income.
 - Revenues of **other financial services** businesses almost doubled.
 - **Idea Cellular** revenues grew by 15%.
 - **BPO** revenues, as mentioned earlier, de-grew due to lower business from few existing clients suffering slowdown. Benefit of recently won 550 million Dollar deals will largely accrue from next year
 - **Garments** business achieved 8% year on year growth led by 20% growth in retail channel.
 - **Manufacturing businesses** combined together have posted revenues of about Rs. 1000 Cr. growing sequentially as well as year on year. Both Carbon Black and Fertilisers achieved good volumes growth. However, in the fertilisers business revenues de-

grew since subsidies were higher last year in line with high feedstock prices.

- Investment income on policy holders fund moves broadly in line with the movement of equity markets.
- This has further supported revenue growth in Q3 without corresponding impact on profitability since the money belongs to policyholders.
- In 9 months, we achieved 8% growth in net sales. Nine months growth is lower compared to Q3, because in first half of last year realisation in most of the commodity businesses were higher in line with high input prices.

ABNL's strategy to increase the share of services businesses in the consolidated revenues is amply reflected in the business mix shown here. You would recall that a few years back this pie chart was just reverse for Services and manufacturing businesses on a lower base.

- During Q3, **Segmental EBIT**, grew to Rs. 172 Crores.
 - In **Life Insurance** losses reduced despite 54% growth achieved in new business premium.
 - Profit of **other financial services** trebled led by Asset Management and broking businesses.
 - In **Telecom**, profit of Idea de-grew by 14% due to higher depreciation on expansion and competitive pressure.
 - In both, **BPO and garments**, cost rationalization efforts have led to substantial improvement in bottom-line sequentially as well as year on year.
 - Profit of **manufacturing businesses** combined together grew 3 times year on year and 11% quarter on quarter. In Carbon Black, higher profitability during the quarter is reflective more of one time input price advantage. Fertilisers, Insulators and Textiles businesses have achieved higher profitability sequentially as well as year on year led by higher volumes. Rayon has shown significant improvement year on year led by higher VFY realisation and lower input costs. However, quarter on quarter it decreased due to poor chlorine prices.
 - During 9 months, Segmental EBIT, has grown significantly to Rs. 423 Crores.
- If you look at graphs on slide 14, this is how ABNL's top line and bottom line have moved in last few quarters.
 - As we know, Life Insurance writes maximum business in Q4. If you exclude that revenues are on a growing trend.
 - It gives me a great pleasure to share that for the 2nd consecutive quarter, ABNL has achieved highest ever EBITDA at Rs. 421 Cr.
 - Net profit is also growing even after absorbing rising depreciation in telecom business.

- At consolidated as well as standalone level, net debt to EBITDA has reduced considerably from over 6 to less than 4.
 - This was supported by improved earnings across the businesses and equity infusion by promoters,
 - Standalone net debt to equity has reduced from 0.9 to 0.6.
 - Looking at the conglomerate structure of the company, where more than half of standalone capital employed is in the form of long term investments, the ratios are at reasonable level.
- Coming to Consolidated Financials.
- EBITDA has more than doubled driven by improved bottom-line in Life Insurance, BPO, Garments and manufacturing businesses.
 - Consecutively for the 3rd quarter interest expenses have shown a declining trend.
 - Depreciation is higher largely due to expansion in Telecom.
 - As a result, we posted a positive net profit of Rs. 8 Crores during the quarter against loss of Rs. 156 Crores incurred in last year.
 - In 9 months also, losses have been reduced significantly from about Rs. 300 Crores to Rs. 25 Crores.
- Coming to Standalone Financials. We have achieved highest ever EBITDA at standalone level too
- This was driven by improved profitability across the businesses --- Specifically carbon black where last year profitability was impacted due sharp volatility in crude oil prices.
 - Here also, consecutively for the 3rd quarter interest expenses have shown a declining trend.
 - Overall, net profit grew substantially to around Rs. 81 Cr.
- To sum up the financial performance, I would like to once again highlight that
- ABNL has achieved highest ever EBITDA at manufacturing businesses level and at standalone as well as consolidated level during the quarter.
 - As is reflected in results, growth businesses have moved closer to achieving path to profitability in line with plan.
 - As a unique conglomerate, ABNL is well positioned to capitalise on the growth opportunities available across the wide spectrum of Indian Economy.
 - Consistent improvement in earnings as well as market positioning across the businesses coupled with strengthened balance sheet; gives us great confidence in the future growth prospect with an objective to create value for all the stake holders

So, this is from my side on the quarterly performance of the Company. We can open lines for Q&A session.



- Moderator** Thank you very much sir. Ladies and gentlemen we will now begin with the question and answer session. At this time if you would like to ask a question please press “*” and then “1” on your touchtone phone. If you decide to withdraw your question from the questioning queue, please press “*” and then “2” to remove yourself from the list. The first question is from the line of Ms. Priya Rohira from Enam Securities. Please go ahead.
- Priya Rohira** My first question is related to the BPO business and its turn around in the past 2 to 3 quarters. How do you see the business standing out in FY 11, especially on the lines that you have a good exposure to automotive and manufacturing domain? Second question relates to the fertilizer business. What is the IPP gain over here? And thirdly on the Capex plan for FY 11.
- Deepak Patel** To address your question on BPO, all our industries are growing very nicely. We are expanding our portfolio to get into newer set of services which is fuelling the growth. We aren't just in voice business. We are more and more getting into finance and accounting services, procurement services, wealth management BPO services, collection services and so on. We are getting into the core value chain of our customers' industry and expanding our business beyond what traditionally what used to be called BPO. This year, with the divesting of certain non-performing accounts as well as the lower volumes from various customers especially in the automotive industry, we've had a 15% decline year over year. But now the focus is returning back to profitable growth from here as is reflecting in bottom-line and the deals we have closed. As earlier mentioned by Sushil, we've have closed over 550 million dollars of deals in the first 9 months, out of which about 250 million dollars are renewals and 300 million dollars is new business. Besides, we have built a very strong sales pipeline of over one billion dollars. So we are seeing a good momentum in the next fiscal year at top-line as well as bottom-line front.
- Priya Rohira** Is it fair to assume that given the operational efficiencies which will kick in FY 11 and given the pipeline which you've already booked in, you are expecting double digit growth at the end of say Q4 FY 11, i.e, 4 quarters from now?
- Deepak Patel** On a full fiscal year basis, we would aspire to get into double digit growth.
- Priya Rohira** And on the fertilizers and Capex if you could throw some light ...
- Sushil Agarwal** In the fertilizers business, we have got subsidy arrears of around Rs.14 Crores in Q3 due to revision in policy. IPP gain will be booked in Q4, last year in Q4 we had booked IPP gain of Rs. 37 Crores.
Projecting capex numbers for FY 11 is little early, we will be give a guidance with Q4 results since by that time the planning and budgeting exercise for the next year will be completed. At this stage I can only say



that for manufacturing businesses large part will be for maintenance Capex. On investment side, life insurance business is expected to require around Rs. 750-1000 Crores in next 15-18 months time, out of which ABNL's share will be 74%. Besides, ABNL need to put in 20% of PE fund's corpus as sponsor commitment, but this will be payable over a period of 3 years.

Priya Rohira And for the life insurance you have said that it's roughly 400 to 500 crores for FY 10.

Sushil Agarwal That's ABNL's share for FY10. In 9 months, capital infusion was Rs. 275 Crores out of which ABNL's share was around Rs. 200 Cr. (74%). So in Q4 we are projecting ABNL's share in capital requirement of life insurance business at Rs. 200-300 Crores depending upon what kind of growth is achieved.

Priya Rohira Okay, great. Thanks so much. And wish you all the best.

Moderator Thank you. The next question is from the line of Mr. Prashant Kothari from ICICI Prudential. Please go ahead.

Prashant Kothari I wanted to understand that in your life insurance business, the persistency number seems to be very low looking the numbers you have disclosed. And secondly, the proportion of group business has increased a lot. Can you throw some more light on these two things?

Ajay Srinivasan I think you are referring to what is popularly called implied persistency or conservation ratio which is renewal premium of current 9 months divided by the opening book, i.e, total premium of corresponding 9 months of last year. This looks low, largely because of premium flexibility feature that we used to have in a couple of products, where second year premium could be lower premium than what you paid in the first year. So if I pay and I am accounted in the first year, I have the option to pay up to you know even a minimum of 10,000 in the second year. So while the persistency as far as we are concerned is 100% if somebody pays 10,000 in the second year, but in your calculation it will appear as 10%. So that's impact on the persistency numbers that you calculated. Otherwise from our perspective, our persistency continues to remain amongst the best in the industry. The way we calculate it is the 13 months' premium and policy persistency. The second question as far as group business is concerned; I think there's been a fair increase in the group business in the overall industry. If you look at LIC's business itself, you'll see that a lot of the growth that LIC's had over the year has come on the back of group business. So in fact our achievement in this space is we've been able to grow as fast as we have without being a PSU and without having help of the parent. Because I



think if you leave those two out, our group numbers are probably the best you'll see in the industry.

Prashant Kothari So what is the persistency that you calculated?

Mayank Bathwal It is not a publicly disclosed number, but IRDA discloses persistency on a time to time basis. If you have a look at those numbers, we are definitely in the top quartile as far as persistency is concerned.

Prashant Kothari What is the opex run rate, how much would it be on a quarterly basis? This is excluding commissions?

.Ajay Srinivasan Prashant, if you see, our opex actually has come down and as Sushil mentioned in his opening remarks that there's been about a 400 basis point reduction on a y-o-y basis in our opex ratio for 9 months ended on 31st December 2009. So we are at around 25% versus about 29 percent which we had last year. And this is excluding commission. Actually opex ratio should not be looked at on a quarterly basis since large chunk of business comes from Q3 & Q4 while fixed expenses are distributed across the quarters.

Prashant Kothari Ok, thanks.

Moderator Thank you. The next question is from Mr. Vishal Biraia from B&K Securities. Please go ahead.

Vishal Biraia Could you give me the standalone EBITDA in Q3 for the branded garments business? What's the loss in the apparels retail & contract exports business?

Sushil Agarwal In Q3, EBITDA in branded garments division is around 25 Crores compared to Rs. 6 Crores last year. Loss at EBITDA level in apparel retail subsidiaries is Rs. 6.5 Crores compared to Rs. 26 Crores incurred in Q3 last year. Loss at EBITDA level in contract exports subsidiary is Rs. 9.5 Crores compared to Rs. 23 Crores incurred in Q3 last year. Thus we achieved Rs. 50 Crores savings at EBITDA level during Q3 and if we look at 9 months EBITDA savings is around Rs. 90 Crores.

Vishal Biraia Okay and this was led by?

Pranab Barua This was led by actually rightsizing in the People segment and remodeling that into a different brand positioning altogether. Savings in The Collective is basically led by overhead reductions, because they had built large overheads for the growth that they had projected. And we have taken a view that we will increase overheads in line with the top line numbers growing year on year. So if exclude these loss-making apparel retail



segments which are newly launched, the garment business is actually a very profitable business.

Vishal Biraia

What's the retail space today?

Pranab Barua

If I share with you the retail space data, you will come to know that while we added 90 exclusive brand outlets each in past 2 years on a net basis, this year in nine months we have added only 20 stores on a net basis to reach a total of 365 stores across 7.8 lacs square feet. The retail space per store has also come down due to rightsizing. This is because we added around 40 right sized stores and closed 20 loss making / large sized stores. By doing this we are achieving sustainable cost outs from the system. We are targeting to have little over 400 stores by the year end across over 8 lacs square feet.

Vishal Biraia

And this compares to about 347 stores across 7.5 lacs square feet in the previous year, that was closing of FY 09?

Pranab Barua

Yes, very true.

Vishal Biraia

What proportion of this increase is in the metros and tier 1 areas and what proportion is in the tier 2, tier 3 areas?

Pranab Barua

Bulk of it is in the metros and tier 1 towns.

Vishal Biraia

Okay. I'll come back to you, sir. Thanks.

Moderator

Thank you. The next question is from the line of Nillai Shah from Morgan Stanley. Please go ahead.

Nillai Shah

On the Capex front, you seem to have brought down Capex estimates for the life insurance business despite of the fact that you have grown very strongly in 9 months. So how should we read into this Rs. 400 to 500 Crores estimate as you were earlier talking about Rs. 500 Crores?

Sushil Agarwal

We had originally said ABNL will infuse around Rs. 500 Crores for the current year. During 9 months itself, capital infusion was lower than what we had planned due to better expense efficiency and increase in size of renewal business. And for full year basis too, we may actually end up investing about 400 crores compared to earlier estimate of Rs. 500 Crores. But as you know that final equity call is always dependent on the growth of the life insurance business in Q4. So at this stage we would like to keep a range only.

Nillai Shah

Okay, and based on the current run rate, when do you aim to break even on this business?



- Mayank Bathwal** While we have disclosed in our assumptions for EV & VNB disclosure that expense gap will be eliminated in FY2012-13 and this means break even before that year. But we have not set a target for break-even because it is something which is linked to the kind of growth that you achieve. And our call has been very clear based on the guidance that we have received from the share holders that as long as we are demonstrating the growth to be profitable and given the value that is created for the share holders, our growth will not get hamper for capital and we would go for all growth opportunities. And bulk of our loss till now was coming from new business, but now the in-force block is also becoming sizeable and hence the trend of in-force profit as well as expense cap has been very positive. So given these facts it's just a question of the timing of the losses. At this point of time we have not fixed up any particular year as a target for breakeven as long as we grow profitably.
- Nilai Shah** When will the carbon black capacity come through?
- Sushil Agarwal** The green field expansion at Patalganga will go live in next 3 to 4 months. This will take our total capacity to 315,000 MTPA. Besides, we have plans to expand capacity further by 170,000 MT at different locations. We will come back once we have frozen the detailed plan on that.
- Nilai Shah** How should I be viewing your tax rate? The tax expenses seem to be very volatile. So how should we be looking at it on a full year basis?
- Sushil Agarwal** Reflecting our conglomerate structure, investments form a large part of our standalone capital employed, some part of which is funded through debt. That results in 14A disallowances on interest expense on such loans. So effective rate will be around 35-40% or so. Also we have got some tax write backs for earlier years in few quarters, that has also led to fluctuation of overall tax rate. But if you see the statutory result sheet, the breakup is available.
- Nilai Shah** Thanks.
- Moderator** Thank you. The next question is from the line of Mr. Nikunj Doshi from Bain Capital. Please go ahead.
- Nikunj Doshi** What is the size of the book that we have in NBFC. During Q3, the revenue is virtually half, but profit is maintained, can you please explain?
- Sushil Agarwal** See, our NBFC is broadly engaged in 3 lines of business. We have a security-based lending business. We have a corporate financing business largely to SMEs. And the third is a treasury business which we run. Those are the 3 big components. The revenue number that you are looking at doesn't include income from treasury operations since it is not an



operating income but it is included in bottom-line. The income from treasury operations really picked up in 9mFY10 compared to last year since we had proactively curtailed our exposure to manage downturn in financial markets last year. If we include income from treasury operations in revenues, it is almost flat y-o-y. It is around Rs. 110 Crores. Currently our book size is about Rs. 750 Crores which was more than Rs. 1200 Crores at its peak last year. We are now in the process of rebuilding the book.

Nikunj Doshi What is the visibility or the gameplan that we have for the distribution business, I think it is called Birla Sun Life Distribution?

Ajay Srinivasan Yeah, it is rebranded to 'Aditya Birla Money Mart' now. This business is really our customer basing business. It's an open architecture business where we are looking to build a customer franchise where we have direct relationship with our customers. It's 5th largest corporate distributor of mutual funds. It's a very large distributor of life insurance for Birla Sun Life Insurance. And of course, distributor of alternative products, like private equity, real estate funds, broking products etc. So we are building out our team, building out our product base, building the systems, processes. This built up will obviously strain bottom-line initially but during current quarter, bottom-line has improved y-o-y as well as q-o-q driven by growing revenues. It has also started selling products for Aditya Birla Money, our broking arm. These investments will benefit going forward.

Nikunj Doshi So this private equity fund raised was distributed only through this or ...

Ajay Srinivasan No. It was raised through multiple distributors, including Aditya Birla Money Mart, which was one of the largest distributors.

Nikunj Doshi So that income would have been booked in the current quarter?

Pankaj Razdan It will be booked in the next quarter.

Nikunj Doshi Okay. Thanks.

Moderator Thank you. There is a follow-up question from the line of Mr. Vishal Biriiaia from B&K Securities. Please go ahead.

Vishal Biriiaia You mentioned that there were some input price advantage in the carbon black business in the quarter. Could you specify those?

Sushil Agarwal As you know, 80% of cost of producing carbon black is its raw material – CBFS, prices of which moves in line with crude oil prices. And any rise or fall in CBFS is passed on to tyre customers with a time lag. Last year when



crude was at peak in July and suddenly fell to 1/3rd price within 3 months, we got a hit on pipeline inventory. In current year, when crude is rising steadily, we are gaining on input prices.

Vishal Biraia So it was basically inventory kind of a thing that ...

Sushil Agarwal Yeah, that's right.

Vishal Biraia Should we see some benefits in the fourth quarter also?

Sushil Agarwal No, I would say that fourth quarter should be more of normalized operation.

Vishal Biraia What kind of growth have you seen in the the volumes on the insulator side, it was mainly led by? And why revenues are flat in Q3?

Sushil Agarwal The business achieved highest ever quarterly volumes during Q3. We achieved 22% y-o-y and 28% q-o-q growth in volumes in the current quarter. Domestic demand is robust with the project activities gaining momentum. The growth was led by recent capacity expansion which is now stabilized. This was further augmented by improved yield, i.e, lower rejections. Revenues are flat in Q3 due to pressure on realisation caused by competition.

Vishal Biraia What will be the capacity utilization of the insulator business as of now?

Manoj Kedia Actually in terms of loading capacity we are utilizing the full capacity, but after considering the rejections, the yield will be around 85%.

Vishal Biraia Okay, fair enough. Thanks a lot sir.

Moderator Thank you. The next question is from the line of Ms. Reena Verma from Merrill Lynch. Please go ahead.

Reena Verma You've highlighted that this has been the highest ever EBITDA contribution from your manufacturing businesses. At an overall level what are the major challenges that you see in sustaining this and going forward what is going to be the key growth driver at an overall level? Will it be continued margin improvement because you've done very well on cost efficiency in many businesses, but what next?

Sushil Agarwal In carbon black and insulators where we have expanded there will definitely be expansion in profits too going forward, while Rayon, Fertilisers and textiles are expected to sustain the profitability. Only challenge will be in insulators where realisation is under pressure due to



competition. So while EBITDA should see improvement in absolute amount, margins as a percentage may remain flat.

Reena Verma We haven't seen much momentum in top line in some of these businesses. So is the cost saving just temporary because you've had lots of management change and related to that perhaps a drive towards efficiency improvement. What happens when you step up the levers once again to try and drive revenue growth or is that not on the agenda?

Sushil Agarwal During 9 months, revenue has de-grown in manufacturing businesses because in first half of last year realisation in most of the commodity businesses was higher in line with high input prices. Otherwise, all these businesses have achieved good volumes growth and also this did not have any impact on bottom-line due to lower input costs. On the contrary, the profitability has considerably improved across all these businesses.

Reena Verma Okay, fine. Thank you.

Moderator Thank you. There's a follow-up question from the line of Mr. Vishal Biraia from B&K Securities. Please go ahead.

Vishal Biraia The 550 million dollars of additional pipeline that we talked about in the BPO business, is this in addition to current annual run rate of USD 380 million?

Deepak Patel No, first USD 550 million is not in pipeline, we already got these orders in our book and secondly it is total contract value, i.e., these contracts will be executed over a period 1 year to 3 years in duration. Out of the 550 million dollars of what we call sales backlog. USD 250 million was renewals of existing contracts. And 300 million dollars were new contracts.

Vishal Biraia Okay, Thank you.

Moderator Thank you. The next question is from the line of Mr. Veekesh Gandhi from Merrill Lynch. Please go ahead.

Veekesh Gandhi Regarding the insurance industry, what kind of growth are we looking at and how much ABNL is looking to grow from here on?

Ajay Srinivasan We think on a broad basis given all the demographics and the economic environment in the country, you should see over a period of time 15-20% growth in the industry. Our aim is to grow faster than that I think that's all we can say at this point.

Veekesh Gandhi This is despite all kind of regulations looking to get in way?



- Ajay Srinivasan** Yeah, I think regulations may have short term impact but in long run these will bring discipline to the industry and ultimate beneficiary will be the businesses itself. Anyhow the growth opportunity is so large to be impacted by such regulations in long run. Ultimately, when you are talking about 300 billion dollars of savings every year, it has to go into some form of saving. Right?
- Veekesh Gandhi** Sure. Okay. Thank you.
- Moderator** Thank you. Participants if you have a question please press “*” and “1” at this time. Sir at this moment we don’t have any further questions. I would now like to hand the floor back to Mr. Jhaveri. Thank you and over to you sir.
- Anish Jhaveri** Well, I would like to thank the management team of ABNL. I think the platform was very clearly laid for the future growth across all the businesses. We wish Aditya Birla Nuvo and the entire team all the very best. And thanks to the management and all the participants for participating. Sushil thanks a lot.
- Sushil Agarwal** Thanks Anish. Thanks everybody.
- Moderator** Thank you very much sir. That concludes this conference call. Thank you for joining us and you may now disconnect your lines.