Aditya Birla Nuvo Limited

Transcript of FY11 earnings call held on May 31, 2011

Management Team :

- Mr. Sushil Agarwal – Whole time Director & CFO, ABNL
- Mr. Manoj Kedia – President & Dy. CFO, ABNL
- Senior Leadership Team, Aditya Birla Financial Services
- Senior Leadership Team, Fashion & Lifestyle business
- Mr. Deepak Patel – CEO, Aditya Birla Minacs, IT-ITeS business of ABNL

Moderator Ladies and gentlemen good day and welcome to the Aditya Birla Nuvo FY 11 results conference call. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during this conference please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I would like to hand the conference over to Mr. Sushil Agarwal, Whole time Director and CFO of Aditya Birla Nuvo. Thank you and over to sir.

Sushil Agarwal Good morning everybody and we welcome you to conference call of Aditya Birla Nuvo. With me I have on the call Senior Leadership team of Financial Services Business, Mr. S. Visvanathan – CFO, Fashion and Lifestyle Business & , Deepak Patel – CEO of Aditya Birla Minacs and Manoj Kedia, President & Dy. CFO of ABNL. Through this presentation we will cover Aditya Birla Nuvo's key highlights and financial performance.

<u>Aditya Birla Nuvo : Strong Foundation Energised Growth</u>

ABNL has evolved a lot due to several initiatives and developments that have taken root and shape in past few years. ABNL is a unique conglomerate operating in high growth sectors of Indian Economy, like **Savings, Consumption, Infrastructure, Agriculture and Outsourcing**. Within these sectors we have built leadership position in these businesses spanning across **Financial Services, Telecom, Fashion & Lifestyle, IT-ITeS and Manufacturing**. We have pedigree of resources like strength of ABG ecosystem, power brands, customer base of about 100 million – covering roughly 10% of India's population, focused management teams at business level supported by over 50,000 employees, nationwide presence with over 1 million touch points and a strong balance sheet to support growth aspirations

<u>Leadership built by continuous pursuit of strategic objectives</u>

Guided by its vision and driven by strategic objectives Aditya Birla Nuvo has built leadership position across its businesses.

In **FINANCIAL SERVICES**, Aditya Birla Financial Services is a large non bank player with funds under management of USD 20 billion and revenue size of USD 1.4 billion. With entry in 2 new verticals, we are now present across a wide spectrum of financial services space.

In **TELECOM**, IDEA ranks among top 10 cellular operators in the World with more than 1 billion minutes of usage per day. It is one of the fastest growing Indian telecom majors.

In **FASHION & LIFESTYLE** business, Madura Fashion & Lifestyle sells one branded apparel in every 2 seconds through about 900 exclusive brand outlets spanning across 1.3 million square feet besides more than 1250 departmental stores & multi brand outlets.

In **IT-ITeS**, Minacs has global delivery capabilities that serve several FORTUNE-500 clients through 35 centres and over 19500 employees

In **MANUFACTURING**, our businesses are well placed to tap growth opportunities across Agri, Power, Automobiles and Textiles sectors

ABNL's **financial position** has also strengthened with Net Debt to Equity at 0.58 and Net Debt to EBITDA at 3.2.

<u>Achieved Revenue Growth across the businesses</u>

ALL THE BUSINESSES have shown steady growth in revenue. Since Idea has not published its results for quarter 4, comparative results for nine months are provided. In case of IT-ITeS business also, revenue has picked up growth after being impacted by global slowdown in FY10.

<u>Augmented profitability across the businesses</u>

Bottom-line across the businesses have improved considerably led by financial services. Fashion & Lifestyle and IT-ITeS businesses have shown significant turned around. In past two years, a swing of ₹ 1100

Crore in EBITDA has been achieved by financial services, ₹ 300 Crore by Fashion & Lifestyle and ₹ 200 Crore each by IT-ITeS and Manufacturing businesses. Summing up this has led a swing of ₹ 1800 Crore in consolidated EBITDA in past 2 years.

Delivered robust growth in consolidated earnings

In the absence of Idea results for 4th quarter, we have considered the financial statements of Idea only for the nine months ended 31st December in both the years for comparison purpose. Looking at pro-forma results, which provide an apple to apple comparison, ABNL has delivered robust growth in earnings. Revenue @ USD 4 billion registered a rise of 17%. Its EBITDA is over ₹ 2400 Crore showing a rise of 71%. ABNL's net profit is over ₹ 750 Crore, i.e., 9 times of the net profit earned in the previous year.

Strengthened Financial Position

There is considerable improvement in ABNL's financial position & key ratios. Excluding working capital loans, net debt is about ₹ 2000 Crore reduced from about ₹ 2700 Crore two years ago. Net debt to EBITDA is 3.2 times vis-a-vis 5.8 times in FY09. Net debt to equity is 0.58 compared to 0.87 in FY 09. Considering Aditya Birla Nuvo's business and revenue mix with strategic investment of about ₹ 5400 Crore, financial ratios at such levels reflect strength of its balance sheet.

Birla Sun Life Insurance

Coming to the business-wise performance starting with Birla Sun Life Insurance. As we all know that the sector witnessed major regulatory changes during the year. The private sector new business premium de-grew by 17% due to new ULIP guidelines. BSLI's total Premium income marginally grew to around ₹ 5700 Crore. Driven by strong persistency, its renewal premium surged by 41% to about ₹ 3600 Crore. However, new business premium at ₹ 2080 Crore de-grew due to subdued ULIP sales. Led by growing size of in-force book and lower new business strain, it posted EBITDA of ₹ 352 Crore compared to previous year's loss of ₹ 378 Crore. Though in the short run, transition challenges will remain, medium to long term opportunity continues to be attractive for the industry. Going forward, BSLI is focused on increasing market share while building long term and profitable portfolio. Persistency and expense management will continue to remain key focus areas.

Birla Sun Life Asset Management

Coming to Birla Sun Life Asset Management, with an Average AUM at ₹ 67,560 Crore, it ranks 5th with market share that has risen to 9.1%. Its share in Industry's domestic equity Average AUM has risen to 5.45%. While the sector faced net redemption of ₹ 12,000 Crore BSAMC posted net equity sales of ₹ 250 Crore. Its focus on building alternate assets portfolio resulted in collecting ₹ 1,088 Crore through maiden Real Estate Onshore Fund. Its revenue grew by 25% to ₹ 366 Crore, while EBITDA grew by 53% to ₹ 130 Crore. Going forward, BSAMC is focused on scaling size in terms of AUM and profitability with a focus on equity and alternate assets.

Other Financial Services

In our other financial services business; Aditya Birla Finance's closing book size more than doubled to ₹ 1,800 Crore. Supported by highest ever IPO financing of ₹ 5,000 Crore, its revenue more than doubled to ₹ 165 Crore while operating profit was at ₹ 57 Crore. Aditya Birla Private Equity is targeting to close 2nd fund in July 11. Aditya Birla Money, the Broking and Wealth Management business is focusing is on regaining business momentum. Positioning Aditya Birla Money as an integrated platform offering a bouquet of financial solutions is a key focus area.

Telecom

In the telecom business, Idea continues to raise its revenue market share which reflects strength of its brand. While Idea ranked third in India with a revenue share of 13.1% during nine months period ending 31st December 2010, it contributed to 20% of industry's incremental gross revenue during the same period. On 3G front, Idea has gained 1 million subscribers within a month of launch in nine services areas. Idea has also emerged net gainer post launch of mobile number portability. Idea has not published Q4 results. However, on nine months basis its revenue grew by 24% to ₹ 11,240 Crore while net profit de-grew by 9% to ₹ 624 Crore. Decline in revenue per minute was almost compensated by cost efficiencies. Going forward too, Idea’s thrust will be on increasing revenue market share by capitalizing on brand Idea, strong balance sheet and gold standard of 3G services offerings.

Fashion & Lifestyle

In the Fashion & Lifestyle business, industry witnessed notable growth during the year driven by improved customer footfalls. Madura Fashion & Lifestyle outperformed buoyant markets led by brand leadership and expanded retail space. It posted 45% growth in revenue at ₹ 1809 Crore. Like to like stores growth at more than 30% has been impressive across the major brands. Driven by strong sales growth, EBITDA turned-around to ₹ 137 Crore against loss of ₹ 4 Crore in the previous year. During the year, about 250 new exclusive brand outlets were launched to reach a total of 900 EBOs spanning across 1.3 million square feet. Going forward industry growth rate may moderate due to rising apparel prices for passing on rise in cotton prices and recent levy of excise duty. Madura will continue to leverage brand leadership and expanded retail space to support revenue growth, while mitigating impact of cost push through appropriate product and pricing strategy.

IT-ITeS

Moving to IT-ITeS. Minacs sold total contract value of more than US USD 775 million during the year and won 21 new logos. Minacs has been recognized among top 100 companies in the leaders category. Its revenue grew by 11% to ₹ 1692 Crore while EBITDA grew by 75% to ₹ 183 Crore. EBITDA margin improved by 400 bps. Revenue growth and rationalised cost structure added to bottom-line. Growth has picked up in second half year with conversion of TCV sold in the previous year. Minacs has added 4,000 headcounts during the year to support growth. Going forward too, Minacs is focused on augmenting capabilities and building strong order book.

Manufacturing

The combined revenue of the manufacturing businesses grew by 26% to about ₹ 4700 Crore. Growth was driven by expansion in the Carbon Black business and buoyant volume in the linen segment. EBITDA stood at ₹ 781 Crore up from 748 Crore earned in the last year. Expansion led 19% volume growth and higher power sales in the Carbon Black business was partly offset by stabilisation of the expanded capacity. Steep rise in the input and fuel costs strained profitability in the Rayon business. However, in the last quarter, profitability of Rayon business has shown improving trend with increase in realisation to pass on increased production cost. Volume growth in the Textiles and Insulators businesses contributed to the bottom-line. Higher agri-input sales also augmented profitability. Manufacturing businesses posted operating margin of 16% and return on average capital employed (ROACE) of 26% which is one of the best in the industry.

Going forward, focus in manufacturing businesses will be on margin enhancement by maximising operating efficiency and passing on rise in input and fuel costs. We also have capacity expansion on cards. Caustic soda capacity expansion by 125 TPD to 375 TPD by FY13. Insulators capacity enhancement by ~ 2,000 TPA through debottlenecking to tap power sector growth. We also have plans to further expand carbon black capacity by 85,000 TPA each at Patalganga in second phase and in Southern India to capitalise on auto sector growth.

Consolidated Revenue

Coming to segmental financial performance. Revenue growth during the year was largely driven by expansion led volumes growth in carbon black business, buoyant demand in fashion & lifestyle and textiles businesses and MoU growth in telecom business. In Agri-business, rise in natural gas prices reflected in higher subsidy income. New business growth in Life Insurance was muted post new regulations. However, in the fourth quarter new business sales has shown traction. Though IT-ITeS business has registered 11% growth in full year, during the fourth quarter it has achieved 25% growth supported by conversion of order book

Consolidated EBIT

Profitability growth was largely driven by Life Insurance business becoming profitable as well as turnaround in the Fashion & Lifestyle and IT-ITeS businesses. EBIT in the Telecom business was lower due to two reasons. Firstly there was pressure on average revenue per minute which was compensated by cost efficiencies driven by scale benefit. Another was increase in depreciation cost due to launch of new service areas in the later part of the last year. In the manufacturing businesses, agri-business, insulators and textiles businesses contributed to bottom-line while rayon business was impacted due to rise in input prices. Expansion led volume growth in carbon black was set off by stabilisation cost of expanded capacity.

Consolidated Profit & Loss

Looking at the pro-forma consolidated profit and loss for better comparison, interest cost has reduced considerably driven largely by de-leveraging of the standalone balance sheet. Led by enhanced earnings and promoter infusion, net debt has reduced in the standalone balance sheet. Depreciation has increased on account of expansion in Carbon Black business in the first quarter of the current year and launch of new services areas in telecom business largely in later half of the previous year. As a result, net profit has grown multifold to ₹ 752 Crore.

Standalone Profit & Loss and Balance Sheet

Looking at standalone balance sheet. Standalone Debt has come down. As a result, financial ratios have also improved. Capex of ₹ 241 Crore was spent during the year for opening up of new stores in Fashion & Lifestyle business and maintenance capex in the manufacturing businesses. Working capital has increased largely in carbon black business as a result of expansion and in fashion and lifestyle business in line with growth in business.

Standalone Capex Plan

Coming to standalone capex plan for FY12. Total capex of ₹ 506 Crore is planned, out of which about ₹ 150 crore will be spent on capacity addition in Rayon and Insulators besides opening up of new stores in the Fashion & Lifestyle business. Besides a sum of ₹ 360 Crore will be spent for upgradation, modernization and process improvement etc.

Aditya Birla Nuvo : A uniquely positioned conglomerate

To sum up, I would like to highlight that with leadership position across its businesses that mirror the growing sectors of Indian Economy, ABNL is a uniquely positioned conglomerate in line with its vision. We remain focused to tap opportunities across the businesses to achieve next level of growth while creating value for all the stakeholders.

Thanks and now we can move to Q&A session.

Moderator Thank you very much. The first question is from Reena Verma from Merrill Lynch, please go ahead.

Reena Hi. Sorry I missed the first part of your presentation but just wanted to understand why you had to report results Ex- Idea and what is the timeline for full audited results. If you can just explain the situation on Idea's results, please?

Sushil Agarwal Reena, we have also disclosed this as a note in our filing to stock exchanges saying that the Hon'ble High Court of Delhi had earlier sanctioned the Scheme of Amalgamation of Spice Communications Limited with Idea Cellular in February 2010. The Court has now granted an ex-parte ad interim stay on the said order on 30th March, 2011 based on an application filed by Department of Telecommunications. Idea has applied for the vacation of stay and restoration of the original position which is pending for hearing before the Court and the matter is sub-judice. As a result of this extra ordinary situation, Idea has not published its Financial Statements for the quarter and the year ended 31st March 2011. As a result, Aditya Birla Nuvo has published pro-forma results taking into consideration only nine months results of Idea, being the latest period for which Idea has published its financial results. As soon as we have final results from Idea we will again declare at consolidated, audited results.

Reena Thank you for that input. Was there any statuary requirements because of which you had to declare regardless of the fact that Idea has not declared its results?

Sushil Agarwal That is right, Reena. Actually if you recall, as per the listing agreement a listed company has to declare its audited results within 60 days from the financial year end, i.e., 30th May. We took guidance from stock exchanges and SEBI in this matter and we were advised that ABNL should at least declare audited standalone results and unaudited consolidated results and this is what we have done.

Reena Thank you, I will come back in the queue for questions.

Moderator Thank you. The next question is from Nitesh Goenka from Microsec Capital. Please go ahead.

Nitesh Goenka I wanted to know that are you planning to exit from Idea within the next 2 to 3 years.

Sushil Agarwal Certainly not. As I mentioned in my opening remarks, Idea is one of the fastest growing Indian Telecom majors. We are increasing our revenue market share quarter after quarter and Idea presently ranks among 10 telecom companies globally in terms of MoUs. Idea is having a strong balance sheet so we feel no reason for this question at this stage.

Nitesh Goenka Okay and any expectations from the Idea's results which are going to come in the near future, the 4th Quarter results?

Sushil Agarwal I do not think that I can comment because we have not got those results.

Nitesh Goenka My next question would be around the Carbon Black business which is doing really good. Any plans of further expansion or something?

Sushil Agarwal I did mention this, when I was reflecting results. We are planning to expand capacities at two locations- one at Patalganga in second phase which would be around 85,000 tons per annum and another in southern India with a capacity of 85,000 tons per annum.

Nitesh Goenka Thank you.

Moderator Thank you. The next question is from Vivek Varma from RBS. Please go ahead.

Vivek Varma Can you share with us EV and VNB numbers for FY 11?

Sushil Agarwal Mayank, you want to pick up this question.

Mayank Bathwal Yes, sure. So Vivek, every year we declare our valuation both in terms of VNB and EV after getting it peer reviewed by an independent agency. So that process is on right now, we should be coming back to you somewhere in the next month or so with reviewed EV and VNB numbers. But in the interim I can indicate that our margins are very much in line with what we declared last year. So we have not really seen any impact because of the change on the product structure.

Vivek Varma Sir, also would it be possible for you to throw some light on your cost over-run during the current financial year?

Mayank Bathwal We will be providing all that data when we declare our EV and its re-conciliation with last year's EV.

Vivek Varma Okay, thank you very much.

Moderator Thank you. The next question is from Girish Achhipalia from Morgan Stanley. Please go ahead

Girish Achhipalia Two questions actually, the first one is on capex. You mentioned that about ₹ 350 to 360 Crore is likely to be spent on maintenance and up gradation. Can you throw some light on which segments are going to be benefited from them? And follow up on second question only on capex, the fact that you mentioned that you are also looking to add capacity in Carbon Black. Now is that already a part of the capex plan which is announced or is this going to be incremental and I had a follow-up on garments actually as well. There is a sequential decline in margins of about 400 basis points? What do you think is the most sustainable margin and have you taken any price hikes in the quarter. Is the margin going to move up from here, and are we seeing any decline in volumes?

Sushil Agarwal Let me answer your capex question first. The Carbon Black capacity, which I spoke about, has not been built into the Capex plan which I had shared. We are at exploring stage and as soon as we firm up the plan will come back to you with total capex on Carbon Black capacity expansion. Normally all across the manufacturing businesses we are going to be spending the other than project capex which includes Rayon, Agri, Insulators and Textiles – basically all over manufacturing facilities. And on your last question of margin on Fashion and Lifestyle business, I request Mr. Visvanathan to take up the question.

S. Visvanathan See, the question was regarding sequential reduction in margin, right. In the last quarter of this financial year, we have been hit by the cotton price increase. There is a time lag between when garments players absorb the price increase and when they pass it on to the end consumers in terms of increase in the apparel prices. So you would see that the margins are getting maintained in the subsequent quarters in the coming year and the coming two quarters. We have already increased our prices in the market to take care of the excise duty impact and also the increase in cotton prices.

Girish Achhipalia So, what is the price hike that you have already taken for both these things?

S. Visvanathan See, approximately, it comes to anywhere depending on the category of the product, if it is shirt or a trouser or a suit and kind of composition that goes into the cotton, polyester viscose etc. its range is somewhere between 6% to 8% to 10%.

Girish Achhipalia Okay, sir. Thanks.

Moderator Thank you. The next question is from Rishab Bothra from B&K Securities. Please go ahead.

Rishab Bothra My question is in pretext to fashion and lifestyle I believe we sold lesser volumes, lesser pieces of garments in Q4 versus last year, any reason for this?

S. Visvanathan Overall for the year we have sold about 16 million pieces – registering year on year growth of 28%. And in the last quarter too, volumes have grown, however volume growth could be higher but for excise duty impact. During the year, excise duty was introduced by the government and it came into effect from 1st March. From 1st March almost up to 28th of March, the government had not declared the notification. And most of the dispatches were held up to the retail stores. Resulting in lower that planned volumes, because we were not able to give in the fresh stock while there was stock at the store because of the excise duty impact.

Rishab Bothra So from this quarter onwards we will be seeing healthy growth in volume as well?

S. Visvanathan Yes, we have been seeing healthy growth. If you look at the full year it is about 12.4 million pieces to 15.9 million pieces, which is quite a healthy growth of 28%.

Rishab Bothra So going forward also we can achieve these?

S. Visvanathan We have given outlook in the results that we expect industry growth to moderate because of the impact of rise in the apparel prices to pass on rise in cotton prices and the excise duty. It is difficult to estimate and give you a number at this point of times, but we do expect some impact due to this.

Rishab Bothra What kind of expansion would you be undertaking this year?

S. Visvanathan This year we are targeting to open about 200 stores. Last year (FY11) we added some 250 stores.

Rishab Bothra And in terms of square foot roughly?

S. Visvanathan Square foot addition will be in the range of 1.5- 2 million square feet approximately, depending on the size of the store that we get.

Rishab Bothra So the Capex plan includes this expansion?

S. Visvanathan Yes.

Rishab Bothra In Carbon Black we expanded capacities by 85,000 tons. You are mentioning of the expansion at two locations by 85,000 tons each, is that so?

Sushil Agarwal Yes, that is right.

Rishab Bothra So what is the current capacity as of now in Carbon Black?

Sushil Agarwal Total is 315,000 as of now.

Rishab Bothra And will be adding close to 170 again?

Sushil Agarwal That is right.

Rishab Bothra And this will be coming up by when, roughly?

Sushil Agarwal We have not frozen up the timing of the expansion as of now. This depends upon how demand is shaping up in the coming future. We will come back to you as soon as we finalise this.

Rishab Bothra In this segment volume growth is visible because you are expending a lot of capacity, will there be further price hikes because auto industry is also growing well. Can we consider this segment to grow both in terms of volume as well as realization?

Sushil Agarwal In this business, we pass on input price increase to the tyre manufacturers with a time lag. Since input price, in this business, is linked to crude oil prices, it increased or decreased in line with cruse and similarly realisation may witness ups and downs. In any case, volume growth plays an important role in business growth.

Rishab Bothra So in this segment mostly cost escalation is passed on through price increases?

Sushil Agarwal That is right.

Rishab Bothra In Agri business, we have seen urea volumes not picking up, can the volumes grow or capacity utilization increase beyond 1.1 million tons in coming years?

Sushil Agarwal Fertilizer by and large we have been operating at more than 100% capacity, and unless capacities are expanded, volumes would remain by and large in this band. We are awaiting clarity on policy on gas pricing and availability in this regard as we explore 1 million ton capacity expansion.

Rishab Bothra And if you could elaborate on the improvement in terms of realization and subsidy, you mentioned that despite volume being lower the revenue was up because of higher subsidy and realization, if you could elaborate on this?

Manoj Kedia In this business, natural gas is key raw material and fuel. Increase in natural gas prices is compensated by government in form of rise in subsidies. In the fourth quarter there was a five-day breakdown in our plant, that is why the volumes were lower but since natural gas prices were higher year on year, rise in subsidies led to higher revenue.

Rishab Bothra Composition of Agri input and urea in terms of revenue, if you could?

Manoj Kedia It is around 94% Urea & 6% agri input sales.

Rishab Bothra And any expansion in urea in case there is some policy change, which is happening urea based subsidy.

Manoj Kedia Yes, as Sushil was mentioning that once the regulations are clear we are definitely interested to expanded capacity, we are just waiting for the final regulations to come out.

Rishab Bothra What would be the rough expansion and capital outlay for that?

Manoj Kedia For 1 million ton it will be around ₹ 3750 Crore or so.

Rishab Bothra In insulators segment power demand is enormous, you mentioned that you are trying to optimize your mix, so what kind of mix would be going forward and what would be the volume and realization for such mix?

Manoj Kedia Right now we are expanding capacity by 2000 tons through de-bottlenecking and our focus will be to move towards the high rated insulator, so that we can increase the realization to that extent.

Rishab Bothra So in the segment is it government tenders or it is private parties?

Manoj Kedia All the government tenders are routed through PGCIL, and they are the larger player in this. We are supplying to PGCIL plus all the original equipment manufacturers (OEMs) are there and then in the transmission and distribution segment several state electricity boards are our customers.

Rishab Bothra So there is no delay in receiving payments from government customers?

Manoj Kedia No.

Rishab Bothra In textile could you break down linen and wool volume and realization growth?

Manoj Kedia In Linen yarn, linen fabric and worsted yarn – volume growth has been 28%, 45% and 16%.

Rishab Bothra What has been trend on Realization side?

Manoj Kedia Realisation is up in all the segments – firstly to pass on rise in input prices and secondly due to robust demand in linen segment.

Rishab Bothra In terms of capex, you mentioned that ₹ 88 Crore has been spent till date and ₹ 506 Crore will be spent in FY 12 and ₹ 83 Crore in FY 13. What would be the capitalization in FY 12 and what will remain CWIP at the end of FY12?

Manoj Kedia Total plan was for ₹ 677 Crore out of which ₹ 88 Crore has been spend till last year. Hence ₹ 88 Crore is opening CWIP of FY12. Out of ₹ 506 Crore which we plan to spend in FY12, about ₹ 150 Crore will remain in CWIP and balance will be capitalized in FY12 itself.

Rishab Bothra And lastly on investment, there were some addition in investments is it on mutual fund side or is it on subsidiary or JV side?

Sushil Agarwal It is on our subsidiary companies side, particularly contribution to private equity fund where we have 20% sponsor commitment.

Rishab Bothra Could you just elaborate on the embedded value for this financial year ending 31st March?

Sushil Agarwal I think Mayank did cover this question earlier saying that it is being peer reviewed, so as soon as we have a final number will come back to you.

Rishab Bothra But any peer-review was done after Q3 or you do it on an annual basis?

Sushil Agarwal We do it on an annual basis.

Rishab Bothra Thank you.

Moderator Thank you. The next question is from Richa Naram from CRISIL. Please go ahead.

Richa Naram I just wanted to know what sort of hike you are seeing in apparel prices going ahead. To what extent you will you pass on the excise duty hike and cotton prices. And by how much has the raw material cost increased at your end?

S. Visvanathan Basically the excise duty in fact has been passed on almost fully to the consumer because it is linked to the sales value. In terms of passing on rise in cotton prices it depends upon the count construction of the fabric – accordingly same has to be passed on. There is a cost reduction plan too internally, so I would say about 70 to 80% of the cotton prices would normally be passed on, the balance we tried to absorb through reengineering of the product and cost. On an average prices have been increased by 8-10%.

Richa Naram Okay and going ahead what sort of growth are you seeing in the industry, when you see it moderating?

S. Visvanathan It is very difficult to estimate now and we are also actually finding out, because the new product with the increase in the excise duty and the prices, would hit the market sometime in the month of end of April and May onwards. And we would only know at the end of the season what will be the impact whether the sustained growth of about 30-40% which we achieved last year continues or not. At this point of time it is difficult to actually crystal ball gaze and tell you what would be the growth.

Richa Naram Okay, so do you see a marginal dip in volume because of this or how do you feel going ahead?

S. Visvanathan Well, volume I think we should be able to sustain for our own business because the expansion that we are doing. And through the retail expansion and the multi-branded outlets, as there are many under penetrated areas, I do not expect a major dip in the volumes but we have to see the like-to-like growth once new products come to the market.

Richa Naram Thank you very much.

Moderator Thank you. This question is from the line of Jatinder Agarwal from RBS. Please go ahead.

Jatinder Agarwal Just one question on Minacs, what type of employee additions are we looking at and what type of revenue growth do you foresee?

Deepak Patel The headcount addition in the BPO business is directly correlated to the business that we win and depends on which location it is done from. So based on the sold work right now we would see about 4000 people to be added in FY12. And then during the year that number would be continue to be revised as we continue to have dates for commissioning additional work. But right now we have visibility to add about 4000 people globally. In terms of the revenue growth, we do not give out a specific revenue forecast but you can see based on the order book of USD 775 million sold in FY12 which is a record in our history. In FY11 the TCV sales was around 600 million and based on that we have posted 11% growth. So you can do your own calculation on that.

Jatinder Agarwal Thank you.

Moderator Thank you. Next question is from the line of Rajeev Varma from Merrill Lynch. Please go ahead.

Rajeev Hi this is Rajeev. I just had a couple of questions. One is on the insurance, just wanted to understand looking ahead are you starting to see any uptick at all in growth and secondly on the margins you have given some idea on how w much the margins are down?

Mayank Bathwal Rajeev on the first question of growth, I think clearly we have seen some positive traction starting Q4 of FY11 and we have seen that continuing even in the running year. We are expecting growth to come back towards the middle of this year and I think by the end of this fiscal we will be well on course for a fairly reasonable level of performance as far as sales growth is concerned. Medium-to-long term we see a good growth coming back. We have also maintained in the sector the growth should be around 2 to 2.5 times the GDP growth rate. So timeline is very difficult to predict at this point of time given the state of changes that keep coming up in the sector. But I think the positive traction is definitely there for all of us to see. On the second question of the margins, I indicated in my previous response that we are getting our valuations peer reviewed and the indication that I gave was that our margins are more or less at the same levels that we declared last year which was 22%. We have not really seen any impact of change of product structures. One of the reasons that we are able to maintain our product mix very well. So we have seen our product mix changing to about 40% traditional in second half of FY11 and we expect it to remain in that range even in this fiscal.

Rajeev This 40% is on an incremental basis, right?

Mayank Bathwal Incremental basis, so in second half, traditional products contributed to 40% of the sales while on a full-year basis traditional products contributed 21%.

Rajeev Just one other thing, on your other businesses, your other financial services, what basically your focus going to be, I mean IPO financing is not that sustainable, which are the product segments you are looking at, as you expand that book and do you have any guidance on how much you are looking to grow?

Sushil Agarwal On other financial services - clearly on asset management business we would continue to expand our alternate assets and increase our equity market share. In the NBFC business, yes IPO may not be sustainable but we will continue to encash it on an opportunistic basis. But by and large, we will continue to increase our book size in NBFC where we have a large scope within our ABG ecosystem itself.

There are suppliers and vendors who are being dealing with the group for last 30-40-50 years, so we have slightly better track record with those vendors and we would try and expand our corporate finance books tapping these vendors.

Rajeev Thank you.

Moderator Thank you. The next question is from the line of Rohit Sanghvi from Prime Securities. Please go ahead.

Rohit Sanghvi I had a question regarding the growth in premium income which you already answered. But I wanted you to extend it a little further in terms of new business premium growth and what is going to be its impact on your profitability for the life insurance business?

Mayank Bathwal One thing that has changed in the new product structure regime is that the level of new business strain that we were seeing in our earlier products has changed, the new business strain has come down significantly. In unit linked products especially in our case, given the fact that we used to amortize all our acquisition expenses over three years. We used to have new business strain in the range of about 30 odd percent which has come down to very negligible levels, now given the fact that the acquisition expenses themselves have come down with the commission levels coming down significantly. So we do not see the same level of new business strain. So the earlier impact of growth in terms of new business strain and therefore a negative profitability in the year of sale is no longer there at the same level. So we do not foresee, any material impact on profitability with variation in the new sales growth levels.

Rohit Sanghvi So you are saying that your renewal premium has reached critical mass that even your new business premium growth will not impact it much even if it goes to the level of 2-2.5x the GDP growth as you expected it to go over a period of time?

Mayank Bathwal Yes, you are right. Again typically in our business once is the renewal book is higher than the first yearbook, one tends to move towards sustained profitability and in our case renewal book is fairly substantial now.

Rohit Sanghvi Thank you.

Moderator Thank you, the next question is a follow question from Jatinder Agarwal from RBS. Please go ahead.

Jatinder Agarwal Hi, Mayank just to take this forward, anything in terms of regulation as far as life insurance industry is concerned where you think it could be either positive or negative?

Mayank Bathwal Couple of regulations have been spoken about; one of them is bancassurance opening up. I think at least from our perspective that is going to be a very positive change in the regulation. Couple of other regulations could be on the operations side - the e-policy, the Demat policies, KYC process to be managed by a few centralized registered entities. I think those are going to be welcome positive moves from a process efficiency perspective. Regulator came out with outsourcing guidelines, there is more to come in terms of clarification and that will obviously have some impact on the kind of process reengineering that we will see in the future. Then there are these direct marketing guidelines, I think again as they get firmed up, we will see some experiments of that on that front being carried out. But the big one is the bancassurance. Besides, we hopefully would like to see in the near future, some change in the pension regulation. There the discussions have been that guarantees might be brought down to capital guarantee rather than that 4.5% guarantee that is there currently. Given the fact that pension business has virtually dried down, it used to be about 25 to 30% of the sector's premium, this is another one regulation change we are expecting. And obviously we will have to see what happens on the DTC front.

Jatinder Agarwal That is useful. Thanks a lot.

Moderator Thank you. The next question is a follow up question from Rishab Bothra from B&K Securities. Please go ahead.

Rishab Bothra Last question we have seen margins contraction in most of the segments in YoY terms and QoQ terms, how do we see scope for improvement going forward in each of the segments?

Sushil Agarwal One of the business in the year gone by where margin contraction was large was rayon – due to sharp rise in wood-pulp prices. However, here VFY prices have been increased in the fourth quarter to pass on increased costs, so that is one positive going ahead. Secondly, in Carbon Black business, during FY11, expanded capacity was stabilization, hence full benefit could not be realized, which will be seen next year. Also in the carbon black and fertilizers particularly, part reason for reduction in margin is not due to reduction in profitability but due to inflated revenue base reflecting rise in input prices. In insulators, improved product mix would help to get a better margin.

Rishab Bothra Lastly sir, do we plan to the delist Aditya Birla Money because we want to have a single financial services entity, which would be listed going forward so any plans on that?

Sushil Agarwal Not really, because I do not think that has anything to do with listing of holding company. So at this stage it would remain a listed vehicle where we already own 75%.

Rishab Bothra Thank you.

Moderator Thank you. Ladies and gentlemen that was last question. I would now like to hand over back to Mr. Sushil Agarwal was for closing comments.

Sushil Agarwal Thanks everybody and in case someone has any specific questions, we can take those questions off line. Thanks again.

Moderator Thank you. Ladies and gentlemen in case of any queries you can contact Mr. Saket Shah or Mr. Romi Talwar. On behalf of Aditya Birla Nuvo that concludes this conference call. Thank you for joining us and you may now disconnect your lines.