Aditya Birla Nuvo Ltd.

Transcript of FY12 earnings call held on 16th May 2012

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- Mr. Pankaj Razdan, Dy. Chief Executive, Aditya Birla Financial Services
- Senior Management Team, Aditya Birla Financial Services
- Mr. Pranab Barua, Business Head, Madura Fashion & Lifestyle
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Moderator

Ladies and gentlemen good day and welcome to the Aditya Birla Nuvo's FY12 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. Should you need assistance during the conference, please signal an operator by pressing * and then 0 on your touchtone phone. Please note this conference is being recorded. I would now like to hand the conference over to Mr. Sushil Agarwal, Whole Time Director and CFO of Aditya Birla Nuvo. Thanks and over to you sir.

Sushil Agarwal

Good morning and welcome to the earnings call. With me I have Ajay Srinivasan, Chief Executive and Pankaj Razdan, Deputy Chief Executive of Aditya Birla Financial Services along with the senior management team. I also have Pranab Barua, Business Head of Madura Fashion & Lifestyle along with the senior management team, Deepak Patel - CEO of IT-ITeS business and Manoj Kedia - Deputy CFO of ABNL.

I will quickly take you through the key highlights of the company and our performance during this year.

Starting with financial services. Amidst growth challenges faced by the financial services sector, Aditya Birla Financial Services continued to strengthen its market positioning. Today with funds under management worth USD 17.5 billion, ABFS ranks among top 5 private fund managers in India. It has gained market share across the Life Insurance, Asset Management, NBFC and Broking businesses. Birla Sun Life Insurance and Asset Management moved one step up to rank 5th and 4th largest players in India. NBFC business almost doubled its book size. The business is growing at a good pace and will require capital for future growth. Private equity scaled up its assets through launch of one more fund. During the year, ABFS posted 27% growth in earnings before tax at ₹ 600 Crore. With the strong emergence of profitability, Birla Sun Life Insurance has started paying dividend.

Moving to the Telecom business. Amidst regulatory uncertainties and sector challenges, Idea has emerged stronger. Idea continued to expand its revenue market share garnering a much larger share of industry's incremental revenue. Though all India rank of Idea is 3rd with 14.4% revenue share, it is No. 1 player with about 25% share in 8 service areas where it has 900 or 2100 MHz spectrum – this speaks of Idea's efficiency to extract most out of the scarce national resource. Idea leads the industry as an MNP provider & enjoys highest active subscribers ratio in the industry. During the year, revenue of Idea grew by 26% to around USD 4 billion. EBITDA surged by 32% to more than USD 1 billion. Idea has been free cash flow positive since past two quarters. These free cash flows will strengthen the balance sheet to support future growth.

Moving to the Fashion & Lifestyle business. Apparel industry's growth was moderated this year. Despite this scenario, Like to like stores sales of Madura Fashion & Lifestyle continued to grow in double digit – outperforming the industry. Madura crossed ₹ 2,200 Crore revenue mark – almost doubling its revenue in just 2 years. During the year, its EBITDA surged by 46% to around ₹ 200 Crore while margin expanded by 150 basis points. More than half of the growth in profitability was contributed by margin expansion. ROACE has also improved significantly to 21%.

To further fortify its leadership position in Fashion & Lifestyle business, ABNL will be acquiring Pantaloons Format of Future Group. The proposed acquisition will increase our operating market size with an extension into value segment, kidswear and womenwear. After issue of ₹ 800 Crore optionally fully convertible debentures, Pantaloon Retail India Limited will start the demerger process. ABNL will get about 45% stake in the resulting entity triggering open offer. This whole process is expected to take 8-10 months subject to all requisite approvals. The enterprise value of Pantaloons format is around ₹ 2,600 Crore. On completion of the acquisition, the two entities “ABNL’s Madura Fashion & Lifestyle” and “Pantaloons Retail India Ltd.” will work closely as partners to derive operational synergies, in terms of back end, supply chain and many other important value drivers of the business. It is intended to form a Fashion Council which will be headed by Mr. Kumar Mangalam Birla and will comprise of Mr. Pranab Barua and Mr. Ashish Dikshit – Leadership team of our Fashion & Lifestyle business and Mr. Kishore Biyani, Mr. Rakesh Biyani and Mr. Kailash Bhatia from the leadership team of Future Group. The council will act as an advisory body to both the businesses.

Coming to the IT-ITES business. Aditya Birla Minacs sold total contract value of USD 730 million during the year. This was largely driven by renewals as growth in new business slowed. Revenue grew by 23% and operating EBITDA grew by 16%. The business is generating steady cash profit to fund its capex and working capital requirements.

Moving to the manufacturing business. Sales volume and capacity utilization remained under pressure in the Carbon Black and Insulators businesses due to dumping by China. Both these businesses along with other domestic players have approached the Government for levy of appropriate duties. Despite of this strain, on a combined basis manufacturing businesses sustained EBITDA at ₹ 752 Crore. This was supported by Textiles, Agri and Rayon businesses which posted sound ROACE and strong growth in top-line and bottom-line. While Agri business crossed ₹ 2,000 Crore revenue mark, Textiles business posted its highest ever earnings and crossed ₹ 1,000 Crore revenue mark.

On a consolidated basis, ABNL registered strong earnings. ABNL posted revenue at around ₹ 22,000 Crore - growing at 20% year on year. EBITDA surged by 21% to ₹ 3,259 Crore. However, depreciation and interest costs have surged largely due to 3G investments in the Telecom business. Despite that, earnings before tax and before exceptional items grew by 11%. A provision of ₹ 104 Crore has been made towards entry tax with respect to Renukoot plant of its Carbon Black business located in UP. It largely relates to previous years. So far it was recognized as contingent liability. This has affected net profit growth.

Coming to the standalone balance sheet. The rise in Net Debt / EBITDA from 3.3 to 3.6 is on account of increase in working capital borrowings. Working Capital has increased in past one year mainly on account of slower recovery of fertilizer subsidy from the government. This is an industry wide issue. We have realized part subsidy of about ₹ 280 Crore in March and further about ₹ 110 Crore in April and are hopeful to realize further in coming months. To strengthen the balance sheet and to meet funds requirement for future growth, ABNL has issued 16.5 million warrants to Promoters after getting approval of the shareholders. Out of the total equity infusion of ₹ 1,500 Crore, a sum of ₹ 375 Crore has been received as 25% application money on 10th May.

Going forward ABNL will continue to pursue strategic objectives across its businesses. In Life Insurance business, augmenting product offerings will be prime focus area. Asset Management business is targeting growth in assets size. NBFC business will continue to scale up its book size cautiously. Idea is committed towards gaining revenue market share and participating in evolving wireless broadband business. Fashion & Lifestyle business will continue to leverage its brands and retail channel. IT-ITeS business will focus on operational efficiencies to improve margins besides maintaining revenue growth momentum. Enhancing cost competitiveness and improving margins will be a key focus area in the Manufacturing businesses.

Standalone CAPEX guidance for the next year stands are at around ₹ 650 Crore. Out of this ₹ 450 Crore will be spent in FY 13 for ongoing projects in rayon and Agri business and for opening up of and renovation of retail stores in the Fashion & Lifestyle business. Balance will be spent towards up gradation and maintenance expenses.

To sum up ABNL has posted strong results considering the testing macroeconomic scenario and earning pressures in some of the businesses. ABNL will continue to pursue its growth journey. The promoter infusion will further strengthen the company's balance sheet to support the future growth. This concludes my presentation. We can now open session for questions and answers.

Moderator Thank you very much sir. We will now begin the question and answers session. Our first question is from Rajiv Agarwal of SKS Capital, please go ahead.

Rajiv Agarwal We have taken a deal in Pantaloon Retail, my question pertains to how are we going to fund this deal and how will this create backend synergies, you were talking about?

Sushil Agarwal So far as funding is concerned, partly it will be met through internal accruals of ABNL and partly through promoters infusion. This will be sufficient to take care of funding requirement for the deal. And so far as the synergies are concerned, we are going to create a Fashion council which will work on deriving these synergies. Pranab, would you like to throw light on this.

Pranab Barua Yes. Rajiv, through the fashion council, we will look at all areas of synergies that are possible between the two businesses - both the Madura business as well as the Pantaloon business. And we believe it could be in the areas of sourcing and procurement as on a combined basis we will attain a greater scale in terms of sourcing. Also in the front end, we will in a better position for the real estate negotiation - with both the high street as well as mall developers. So these are the two big areas. There are some other areas which it will too premature to talk about, we will have to examine it – for example – retailing some of the Madura brands into Pantaloon etc. The obvious ones are very clear - around procurement & sourcing and real estate.

Rajiv Agarwal Have you set up any targets for what would be the quantum of synergies to be realized in the next one or two years?

Pranab Barua Both set of parties have their own set of numbers and probably a better clarity will be achieved during the fashion council meetings. Hence it is pre-mature to talk about the numbers right now.

Rajiv Agarwal What could be the debt reduction in the Pantaloon business that would happen due to the infusion of funds?

Pranab Barua Overall debt push down is around ₹ 1,600 Crore from PRIL. And as far as the Pantaloon Format is concerned – it will ultimately have debt of ₹ 800 Crore – since debentures to be subscribed by ABNL will get converted into equity.

Sushil Agarwal ABNL will infuse ₹ 800 Crore by way of optionally convertible debentures into PRIL and on the demerger of Pantaloon Format these debentures along with another debt of ₹ 800 Crore will be transferred to demerged entity. After conversion of debentures into equity, actual debt left with the demerged entity will be ₹ 800 Crore.

Rajiv Agarwal So the reduction in debt for PRIL will be around ₹ 1,600 Crore right?

Sushil Agarwal Yes, it will get ₹ 800 Crore infusion from ABNL plus it will push down debt of ₹ 800 Crore to demerged entity.

Rajiv Agarwal Ok. Thanks

Moderator Thank you very much. Our next question is from the line of Girish Achhipalia from Morgan Stanley, please go ahead.

Girish Achhipalia Just wanted to understand how this planned equity infusion of ₹ 1,500 Crore is going to utilized, can you just break that up please?

Sushil Agarwal As I was mentioning that during FY13, we have a CAPEX commitment of around ₹ 650 Crore, we will have to infuse ₹ 800 Crore for the Pantaloon deal plus there will be an open offer. We will have to provide equity support to the NBFC business where we are growing our book size. So these are the areas where we are going to need funds. Cash inflows will be partly from the working capital reduction, annual cash profits and the preferential allotment.

Girish Achhipalia That is precisely my point. You will have some EBITDA coming through and obviously you are talking about working capital getting reduced so I mean I do not see any reason why CAPEX has to be funded through this preferential infusion? Why does ABNL need so much money?

Sushil Agarwal There are some sources of funds and there are some utilization areas. Part of the funding requirements will be funded through internal accruals but since we have capex projects going on, the NBFC business is growing, we have to fund Pantaloons Deal and leveraging ratios have also risen – hence capital infusion was required.

Girish Achhipalia Out of ₹ 1,500 Crore, let's assume, ₹ 800 Crore goes into Pantaloons, where this remaining ₹ 700 Crore is needed?

Sushil Agarwal One must remember that the infusion of ₹ 1500 Crore will come over a period of 18 months.

Girish Achhipalia I agree that the funds will come over a period of 18 months but then where this balance is likely to be spent because next year also ABNL will have some EBITDA generation and as you highlighted working capital will also rationalize. Where this balance money will be spent?

Sushil Agarwal Besides funding the growth plans of our businesses over next 2 -3 years, we also want to keep room on our balance sheet for future growth opportunities.

Girish Achhipalia The second question is on the deal with Pantaloon. My calculation suggest that you have done this deal at 12X EBITDA so if you can comment on the valuations first, second what is the inventory that we have assumed on the books once the deal happens and if you could please quantify the synergies, it will be very helpful.

Sushil Agarwal Your assessment on the multiple is right. We are still working on the synergies and on numbers as Pranab said maybe we can take some of these questions when we have completed the due diligence.

Girish Achhipalia Could please quantify the working capital inventory that this transaction will eventually lead to?

Pranab Barua Actually the due diligence has just started and currently we are not in a position to share such details at this stage.

Girish Achhipalia Fair enough, my third part of the question is on life insurance, when are we likely to get the EV numbers and if you can comment on the NBAP margin. Also there is some talk about NAV guaranteed products being taken off - so any thought process around the same?

Ajay Srinivasan The EV and VNB margin figures are normally disclosed in July with Q1 results as we are getting these numbers peer reviewed. As far as the NAV products are concerned - there has been some discussion by the regulator around it on different forums but I do not think that there is any decision about these products being closed or being discontinued.

Girish Achhipalia Okay Thanks.

Moderator Thank you very much. Our next question is from the line of Amit Rathi of DSP Merrill Lynch, please go ahead.

Amit Rathi Few housekeeping questions like the other income in the standalone business has jumped. Is there any specific reason for that?

Sushil Agarwal Birla Sun Life Insurance has declared dividend @ 5% of paid up capital. ABNL has received ₹ 73 Crore for its 74% share and this has led to increase in other income.

Amit Rathi And what would have been the normalized tax rate for the standalone business?

Sushil Agarwal Around 27 to 28%.

Amit Rathi This time in Q4 our Agri business was affected any specific reason and what would have been the normalized margins going forward?

Sushil Agarwal There was a breakdown which had impacted the Agri business and normally EBITDA margin would be around 14% to 15% in the urea segment on a normal basis. On a blended basis, the margins may be lower due to increasing share of trading segment.

Amit Rathi The financial services EBITDA you have not disclosed the same so what would have been the 4th quarter and full-year numbers for the other financial services?

Sushil Agarwal Full year EBITDA is around ₹ 660 Crore.

Amit Rathi Coming to BPO business. How is the business doing and what is the conversion rate of our contract value. And what is the sites opening target for the year?

Deepak Patel As you know that our business is mainly in North America and Western world economies are impacted presently. While our revenue has grown up by 23%, our normalized EBITDA has grown by 16%. Around 40% of our total contract value has come from new business and we have won around 16 new logos during this year. Largely the contract value is out of the renewals. And renewals are coming at compressed margins. So while business continues to grow and generate cash flows, but on the margin front it is a bit of a challenging situation presently in this business.

Amit Rathi Would I know the CAPEX for the standalone business for FY 12, is it ₹ 227 Core or was it lower or higher?

Sushil Agarwal It was ₹ 320 Crore.

Amit Rathi Sorry but in your presentation in page 22 we have mentioned 227 what is that relating to?

Sushil Agarwal Out the capex spent during the year, some has been capitalized and remaining relating to ongoing projects / capex is being carried forward. So ₹ 227 Crore is the capex spent and carried forward.

Amit Rathi How this subsidies recovery is going on. Like you had mentioned that you have recovered some amount in April and March?

Sushil Agarwal Just to give you a perspective, subsidy outstanding peaked at around ₹ 940 Crore in February 2012. During March 2012, we got around ₹ 280 Crore and in April we got another ₹ 110 Crore. So that is where we stand as of now and we believe that going forward there would be further recovery.

Amit Rathi And how is our petition for antidumping or safeguard duty for Insulators and Carbon Black is taken care of by the government, like what has been the progress on that front?

Sushil Agarwal Petitions have been filed and investigation has started in this regard. We are pursuing with the Government for levy of duty in both the businesses.

Amit Rathi Okay. Thanks.

Moderator Thank you very much. Our next question is from Grishma Shah of Envision Capital, please go ahead.

Grishma Shah Madura has done fantastically well for Q4 and for the year given that a lot of industry players have reported Q4 with a lot of inventory problems. So just wanted to know what has worked in favour of us, what has been our strategy for that?

Ashish Dikshit I will take on the quarter for the first. Q4 in fact has seen a little bit of slowdown. If you look at the Q4 numbers in comparison to other quarters, especially compared to the first half, the overall growth has slowed down. Growth has moderated to ~20% compared to 30% plus growth that we were garnering in the first half of the year. So in a sense there is market slowdown which is visible. However the way industry functions is that there is a very large intake in the wholesale part of the business which happens prior to each season. Therefore Q4 typically becomes the large quarter for the wholesale part of the business to intake their spring summer requirement and that has gone off very well for us. We were also conscious about the way the market is shaping up because some of these trends were visible right from September onwards to that extent we had kept a very tight control over our inventories and the entire supply chain systems. It is because of that we have closed year with reasonably good growth for the whole year. And we have managed to keep our capital employed in the business practically at the same level or marginally higher than last year despite a reasonably good growth in sales.

Grishma Shah Okay, what would be the outlook now going ahead. How is this season shaping up for us and for the industry?

Ashish Dikshit One of the large factors of what happened last year was driven by the introduction of excise in apparels. That in one shot had increased the cost of materials by as much as 25% to 30% further compounded by the rise in cotton prices itself. To the extent that cotton prices increased were either absorbed or were mitigated over a period of time. Through better buying decisions we were able to absorb that in the pricing but effectively the entire industry saw a significant increase in the consumer prices of the products. That combined with what is happening in the economy has led to consistent and very prolonged slower growth compared to what we have seen 18 months prior to that. Our view is that perhaps the first half of the year will continue to remain somewhat sluggish and that is what we have noticed in the first month and we hope that second half will perhaps come back more strongly.

Grishma Shah Since now that the cotton prices have corrected do you see the industry as a whole responding by taking price cuts or instead of say two end of season sale in a year, we would see one more sale, how do you see this situation, how would the industry react, how would they pass on the price decrease?

Ashish Dikshit Firstly, most of the cost pressure had come only from cotton price increases. And the larger part of cost pressure which has come through excise, there is not much change on that front, although there has been a marginal reduction in this budget. As far as the cost increases due to cotton prices are concerned, we were moderate in terms of taking up the prices and therefore to that extent we would like to hold the prices as they exist today. I think the overall cost pressure in the industry continues to remain high and I do not foresee a significant reduction in consumer prices therefore. On the other hand your question regarding would there be more end of season sales? The answer to that is “no”, we operate with two season cycles and end of each season there is an end of season sale and which is what would continue.

Grishma Shah One question on the Agri business. How are we seeing the inventory in the system and given that we import a lot of fertilizers so how are we are looking in that situation?

Sushil Agarwal We don't have any abnormal inventory. Normal inventory of around 500 metric tons was there in March which is a fraction of what we imported. So I don't think there is any cause of concern on the inventory side.

Grishma Shah And on the industry where if you could comment?

Sushil Agarwal It is a fairly regulated industry so on the manufacturing side, by and large, no abnormal inventory would be there for the other players. But I am not quite sure on a trading side whether they have a large inventory or not.

Grishma Shah Thank you.

Moderator Thank you very much. Our next question is from the line of Priya Rohira of Enam, please go ahead.

Priya Rohira My first question relates to Garments business. Is there any change in plans with respect to your EBO expansion, given the Pantaloon Retail combination along with Madura fashion and lifestyle and how do you plan to leverage this? Second question relates to the manufacturing business - how do you see the next year going through in terms of price volume relationship and the margin over there?

Sushil Agarwal Ashish will take the first one on the EBO expansion and whether there is any synergy between the two.

Ashish Dikshit There are two parts of the questions – firstly, what would happen to the pace of expansion as far as Madura business is concerned. I think it will continue to grow at the same pace as we had grown last year. We added close to 200 stores last year and I think the similar number of stores is what we are looking to open this year too. As far as Pantaloons own expansion plan is concerned that is something we will be able to comment on a little while later.

Pranab Barua Just to add to that we operate in different space sizes. Pantaloon is the retail format with much larger sizes while Madura EBOs operate with much smaller size of stores. So these are reasonably complimentary and I don't think there would be any conflict.

Priya Rohira Sure and you see the working capital efficiency continuing even in the next 1 to 2 years as what we have seen in this year?

Pranab Barua Yes, focus will continue to be there.

Priya Rohira And what would be your long-term target in terms of efficiency on the working capital side for the fashion and lifestyle business?

Pranab Barua We have been able to continuously keep our overall inventory turn around just under 3 last year, we should be able to improve it to around 3 plus this year and going forward to around 3.5.

Priya Rohira If you could just provide details on the manufacturing business as well?

Sushil Agarwal In manufacturing business, in the short-term, there still seems to be pressure in two businesses where we saw a big impact last year, which are Carbon Black and Insulators businesses. We are hoping that there would be safe guard duty and antidumping duty in place sooner and level playing field will be restored. Consequently we will be able to increase our domestic sales which are currently under pressure. So while in the short run these businesses will remain under pressure but the moment we get these duties in place, we will be able increase our capacity utilisation. Remaining businesses will continue to do well.

Priya Rohira Okay, thanks.

Moderator Thank you very much. Our next question is from Manish Bhandari of Vallum Capital Advisors, please go ahead.

Manish Bhandari My first question is on NBFC can you tell me yield and as well as the cost of the fund?

Ajay Srinivasan Margins in the NBFC business are in line with the last year which is close to 5.5%-5.75%, this is in spite of the cost of funds going up. So we have managed our pricing quite well while the cost of funds have gone up.

Manish Bhandari My next question is on the manufacturing side where you said that there has been increase in Chinese imports in the insulators business. I wanted to understand that since currency of China has appreciated versus India by close to 20% so are the Chinese products still cheaper and do you see a scenario where despite having some kind of anti-dumping duty that you could see impact of the Chinese imports or this anti-dumping duties will solve our problem?

Sushil Agarwal I don't think that the whole problem will get resolved by safeguard or anti-dumping duty in case of Insulators business. It will definitely help and improve our position in terms of off-take as it will restore level playing field to some extent. But the macroeconomic scenario is also very adverse right now which has slowed down investments in power sector impacting demand also. Once this situation corrects, business condition will also further improve.

Manish Bhandari So the business will generate a return on capital employed of 12% to 14% for the next two years and gone are those days of 30% plus - which we have seen for the past years?

Sushil Agarwal I don't want to be pessimistic for coming years but certainly for the short-term – coming 6 months - there seems to be pressure. There are businesses which are showing very good ROCE, even in this environment. In case of Insulators and Carbon Black businesses, this year was bad due to rise in imports coupled with cost pressure. So what we are saying that in short term pain will remain but with the levy of appropriate duties situation will improve and once the macro-economic scenario also improves, returns in these businesses will further improve.

Manish Bhandari In BPO business, despite witnessing a flat employee's strength in last one year, we have seen an improvement on the top line as well as some improvement on the other metrics, so what has led to this and how sustainable is this?

Deepak Patel We have a mix of business verticals and geographies - we support India domestic business where the revenue productivity is the lowest. Then we have businesses of supporting the international customers out of Philippines and India where the revenue productivity is the next lap higher and lastly we have about 89% of our revenues delivered from near-shore or onshore location where the revenue productivity is the highest. So as the mix of business continue to evolve, our headcount has not grown proportionate to the revenue growth this year as we add capacities ahead of the demand. And we did added employees in the previous year. Revenue grew by 23% in INR terms partially due to the impact of currency but even on constant currency basis the revenue had a significant growth because of very strong performance in our competitive takeouts delivered out of near shore-onshore locations. And we are hopeful to continue to outperform the market growth rates going forward too. Market in the onshore type of business has grown by low single digits to mid-single digit. So organic growth of double digit is what we expect to sustain.

Manish Bhandari What kind of mix change would have seen between 2011 and 2012, if you would have had this, if you could break-up the mix change as well as the currency change?

Deepak Patel What has really changed is that we had a substantial amount of business of over 50% coming from the automotive industry three years ago. Automotive industry went through a significant restructuring in past three years. That's why overall growth looks slow in past few years otherwise even in the last few years, if you take out automotive business, we have recorded double-digit growth in the rest of the verticals. The automotive business is now stabilized and has started to grow again and that was the one change. The second change is that the company has made significant investments in industry based sales efforts and we are upgrading our sales. So majority of the growth that you are seeing in revenues this year is because of the sales that we did last year and the growth that we will see in fiscal year FY13 will be based on the sales we have incurred in the fiscal year FY12, because in BPO business unless you take over clients operations overnight the revenue accrual does take some amount of time as we transitions the work to our facility. Also a part of the growth during the last year is also due to accounting conversion.

Manish Bhandari Is there any impact of the currency on the top-line growth what you're seeing?

Deepak Patel I don't have the exact numbers; we can probably off-line connect with you. But the financial impact of currency movement was not material because we do hedge our revenues plus about 80% of our revenue is onshore / near-shore, i.e., serviced through US and Canada locations. Yes, there is accounting conversion on this on-shore / near-shore business which is reflected in earnings. Even if we exclude the conversion impact our growth would still be in high teens.

Manish Bhandari My last question is to the corporate finance team, if can you just elaborate on the dividend policy of the company which looks quite low versus what we have been earning. Now for three or four years most of our growth business has come to a profitable level and are generating enough cash. So can we see a significant change in the dividend policy of the company?

Sushil Agarwal Right now, Manish, we distribute around 20% of our standalone net profit as dividend. And as of now, we didn't have any specific discussions for future years so that's what we are presently maintaining.

Manish Bhandari Thanks.

Moderator Thank you very much. Our next question is a follow-up question from the line of Girish Achhipalia of Morgan Stanley, please go ahead.

Girish Achhipalia Just couple of them, firstly on the fertilizer side is there any plan for further capacity expansion?

Sushil Agarwal We have been talking about it. We are awaiting the government policy on this subject. Since there is a huge import of urea and other fertilizers happening in the country, we are keen to expand both in urea manufacturing and trading of other fertilisers. And presently we do are scaling up trading segment. But on the urea manufacturing front, as soon as we get clarity on the availability of gas and the price then we will be formally take a final decision.

Girish Achhipalia Secondly on the fashion business Madura Garments, I just missed it. What is the inventory turn number for the company?

Sushil Agarwal Three times that's what Ashish has mentioned.

Girish Achhipalia Just one admin question, how soon we are likely to have a call on the Pantaloon deal to throw some numbers at us and in terms of revenue margins synergies, etc.?

Sushil Agarwal It would be fair once we have done the Due Diligence, before that lots of your queries will remain unanswered. So my preference would be maybe couple of months later or hopefully when we come up with the 1st Quarter results, by then we would be fairly ready with most of the queries which you have in mind.

Moderator Thank you very much. Our next question is from Rishabh Bothra of Batlivala & Karani Securities, please go ahead.

Rishabh Bothra Just wanted to understand we are having a CAPEX outlay of ₹ 242 Crore in Agri, what this will be pertaining to, because urea expansion is not under process?

Sushil Agarwal There is energy saving and debottlenecking which is taking place.

Rishabh Bothra Another thing is I just wanted to understand we have acquired the stake of Pantaloons at ₹ 2600 Crore EV, so what will be the split on the asset side, is it largely inventory or something else? I know furniture and fixtures would be definitely there but what else are there?

Sushil Agarwal As we were mentioning to Girish just before your question that we have just started our Due Diligence. Actually some of these questions, we will be able to answer you in a better way, once we the Due Diligence is complete. So maybe along with the 1st Quarter results we will be able to give you a complete detail of our entire transaction.

Rishabh Bothra And in regards to dividend sir, Birla Sun Life declared its **interim** dividends so these dividends would be to our Aditya Birla Financial Services (ABFS)?

Sushil Agarwal No, in case of life insurance, Aditya Birla Nuvo owns stake directly into BSLI, it is yet to be transferred to ABFS. So the 74% share in dividend is received by ABNL.

Moderator Thank you very much. Our next question is from Abhishek Ranganathan of MF Global, please go ahead.

Abhishek Ranganathan Couple of questions on Madura, I wanted to understand, what was the like-to-like growth for this quarter?

Ashish Dikshit Like-to-like growth of this quarter fell down to single digit. It was 6% for the Q4.

Abhishek Ranganathan We actually witnessed about nearly 22% volume growth in this quarter vis-a-vis 4% in 3rd Quarter - would it be largely due to end of season sales?

Ashish Dikshit Yes, a large part of Q4 sales especially in the retail channel comes from the end of season sales. The other large part, as I mentioned in response to another question, comes from the fact that the wholesale channel partners pick up large part of the spring summer buys in the first half of the spring summer which falls in the Q4.

Abhishek Ranganathan You also mentioned in the presentation that your working capital turns are at 5.2, just wanted to get a sense of how it has moved over the last couple of years and if you could actually touch upon the key initiatives which would have actually contributed to this change?

Ashish Dikshit Working capital Turn has moved from 3 to 5 over a period of last three years. Inventory Turnover, which is a significant part of it, has moved from 2.3-2.4 to almost 3 as of now. Similar improvement has been achieved on the debtors and the creditor's side so actually it is a combination of all three factors playing out together for this kind of improvement.

Abhishek Ranganathan Any discoverable changes which we are seeing in the environment from various channels be it a retail, wholesale or anything, any particular channels which is actually outperforming or some are underperforming, any particular trends which we have spotted and would like to share with us?

Ashish Dikshit When the markets are good and which is been in the case for the large part of last two years it tends to reflect across channels. Our own same store sales growth over last 18 to 24 months has been pretty strong. So has been the case with the growth that other retailers are experiencing, which in turn has resulted into a fairly rapid roll-out and store expansions for large chains. So, department stores have expanded fairly rapidly in the last two years - that has also added to our growth. Many of our smaller wholesale partners have also moved into multiple formats so I would say, it's been an all round growth across channels. We, however, continue to drive our own retail quite aggressively because in the long run we believe that the true consumer experience for our brands will come through these EBOs and therefore retail channel has continued to grow its share in our total revenue a little faster than all other channels.

Abhishek Ranganathan What would be the metro, non-metro split for our sales in Madura?

Ashish Dikshit If you were to look at Metro, non-metro split, let us say top 8 cities versus outside top 8 cities. In case of premium brands, we still have close to 45% of business coming from top 8 to 10 cities, so it is pretty metro concentrated. Peter England which is our mid-priced business has a far diverse spread of its revenue and close to 65% comes outside the top 10 cities.

Abhishek Ranganathan Last question is with regards to the Pantaloon structure. Since it offers a value retailing format or rather it is not as premium as Louis Philippe or Van Heusen, would you be looking at maybe retailing Peter England or maybe any such brands which are basically mid category brands through Pantaloon Retail, is that a thought which you would have evaluated?

Ashish Dikshit See at this point of time as far as the value segment or mid price segment is concerned, Peter England is the leading brand in the country. So there would probably be a strong rationale to see how it plays out along with Pantaloon business. We also have a much smaller business in a brand called People which we have started building over last couple of years that could perhaps also find a natural fit into it. But these are things that we will have to actually sort out with the management on the other side over next couple of months. As well we will have to figure out how best to synergize the strengths across the two businesses.

Abhishek Ranganathan You mentioned EV of about ₹ 2,600 Crore is what you were looking at for the Pantaloon format. This would be an EV which you have considered after the subscription of debentures?

Sushil Agarwal That is the Enterprise value of that business. The sum of ₹ 800 Crore which we are going to invest in PRIL will transfer to demerged entity along with the debt of ₹ 800 Crore.

Abhishek Ranganathan Would you like to explain the ad spends which would have for the fashion business. What typically will be your ad spend in this category?

Ashish Dikshit For Madura as a whole it is between ₹ 90 Crore to ₹ 100 Crore on a revenue of close to ₹ 2250 Crore. That means, our ad spends are currently is less than 4.5% of sales.

Abhishek Ranganathan You would be looking at maintaining this or increasing it as you are scaling aggressively in the coming years?

Ashish Dikshit We will have to see how market plays out and also our investment is spread over variety of brands which are in different phase of their growth. So it is difficult to put a number, but I do not think a dramatic change either on the upside or significant reduction.

Moderator Thank you very much. Our next question is from Nilesh Surana of Mirae Assets, please go ahead.

Nilesh Surana If you could articulate the thought process on the capital allocation over the medium term because what we could understand from the structure of the company is, we have a set of manufacturing businesses which do need capital as stated in your presentation - about ₹ 1,200 Crore capital commitment. And in some of the businesses where the ROI has improved significantly – I am talking about the fashion & lifestyle business - again there is a large capital commitment towards inorganic acquisition. And the payout ratio which you had mentioned is 20% of standalone PAT. If you look at on a consolidated basis the payout ratio is in single digit, so how do we sort of understand the overall capital need and how much be the payout ratio and capital commitment over the next 2-3 years?

Sushil Agarwal Regarding Capital allocation - whenever we look at any CAPEX or any expansion - we look at hurdle rate or IRR of around 18%. Also it depends on the market opportunities. Right now if we look at overall company point of view, within financial services, we don't see any further capital requirement going forward- except NBFC company as I mentioned earlier. Then in the fashion and lifestyle business continuously in some form or other there has been a retail expansion which is taking place – but the CAPEX commitment will not be large going forward since we are largely expanding through franchisee route. In Agri and all other manufacturing businesses, typically around ₹ 200 Crore p.a. is generally spent on normal maintenance capex. And we have separately given details of the projects going on. So these are the broad guidance on our capital commitments, which we have and so far the distribution of dividend is concerned as I mentioned we are distributing around 20% of our standalone net profit and as of now we will continue with these numbers.

Nilesh Surana Yes but if you look at the standalone profit now - you would agree that it is a small portion compared to the overall EPS numbers?

Sushil Agarwal Whenever rest of the businesses are in a position to declare dividend, they will augment the cash flows of ABNL and payout may go up - like currently there are two main businesses which are in a position to declare dividend. Birla Sun Life Insurance has already started paying dividend and Idea is another company, which has been generating free cash flows, for the past few quarters but still it is in the investment mode.

Nilesh Surana Okay. On the Pantaloon acquisition, any number on the EBITDA which has been disclosed?

Sushil Agarwal Not at this stage.

Moderator Thank you very much. Our next question is from Anubhav Adlakha of Merrill Lynch, please go ahead.

Anubhav Adlakha I have few questions pertaining to the insurance business. Firstly, if I look at the run rate for the past couple of months on the monthly basis the premium run rate is around Rs. 1 billion but in the month of March specifically they jumped up to Rs. 4.2 billion, was there any specific reason for the jump, any new products being launched or anything?

Jayant Dua There was a little capacity increase in the middle of the year which led to this growth. And some part of this growth is also driven, as always, by the tax savings role during the March month being the last month for investing in the tax savings instruments.

Anubhav Adlakha I understand because for the industry overall they were around 2x growth but for Birla specifically they were like 3x times so I was just wondering was there any specific thing or it is just the tax and everything, which has just happened, got accumulated in the month of March?

Jayant Dua Yes, you are right, in March our organization grew at a faster rate as compared to others.

Anubhav Adlakha Okay and secondly on the margins, I know you disclose it in the month of July but could we just get some guidance or some color on how the margins looks for the year and what are you expecting for the next year?

Ajay Srinivasan We will disclose our margins in July but to give you a color, I think our margins would be in the top quartile of the industry.

Anubhav Adlakha Lastly if I look at the revenue count basically, the revenues haven't jumped so much but at the EBITDA level we see a sudden jump in the profits. Is there any specific reason other than the commission ratio is coming down and expense ratio is coming down for the EBITDA to jump up?

Jayant Dua It is function of the growing inforce book and the cost efficiency which have been brought in.

Anubhav Adlakha Okay it is not due to the surrender charges or foreclosure charges?

Jayant Dua It is largely due to expanded in-force book and the rationalized cost structure.

Anubhav Adlakha The dividend which has been paid out goes from the policyholders account?

Sushil Agarwal No, it has goes out from the shareholder's fund.

Anubhav Adlakha It comes out from the shareholders fund?

Sushil Agarwal Yes.

Anubhav Adlakha Basically the P&L account of the life insurances?

Sushil Agarwal Yes, which is called the Shareholders' Account – Dividend comes as appropriation under that account.

Moderator Thank you very much. Our next question is from Rohit Sanghvi of Prime Securities, please go ahead.

Rohit Sanghvi I had one question relating to life insurance business, we had seen that the new business premium actually has de-grown for 2 years in a row. I just wanted to get a sense in terms of what is going forward are we going to see a trend or likely to change?

Ajay Srinivasan The business growth is dependent on both the investment climate plus the regulatory environments, it is difficult to put numbers but generally in normal environment such businesses grow at 2- 2.5 times of GDP growth. But as I said there are a number of other vagaries around it which makes it difficult to anything exact around it.

Rohit Sanghvi Obviously the regulatory changes have been one of the factors but do you think it will come back to improved growth going forward?

Ajay Srinivasan For instance, IRDA is still coming with the comprehensive policy on the products that you want in the business but the product approvals are slow. So that is likely to impact growth. Once the product approval process fastens, investment climate improves - we will see a more stable environment.

Moderator Thank you very much. Our next question is from Sudharkar Prabhu of Span Capital, please ahead.

Sudharkar Prabhu Just have one question, have all the contingent items being taken care of the liabilities?

Sushil Agarwal In this particular case, the provision was recognized as a part of contingent liability for many years and we felt it prudent to kind of provide the liability – but it does not mean that we agree with the liability –the case is still sub-judice, we will continue to contest it and final decision rest with the judiciary. Lot of other corporates having plants in UP have faced similar kind of issue and many of them have taken a different view but we felt it prudent to provide the liability. Once again, I want to clarify that it does not mean that we uphold the demand by providing it.

Sudharkar Prabhu Lastly, what kind of growth can be seen in your NBFC business?

Ajay Srinivasan We grew our book by 84% last year. We have plans to grow on the similar lines in the coming years too but a lot depend on the market scenario.

Sudharkar Prabhu What kind of capital infusion can you see this year, in the NBFC part?

Sushil Agarwal Since growth in book size largely depends on how actually the macroeconomic environment shapes up – capital infusion will also change with growth but hopefully around ₹ 200 Crore will certainly be required as a capital during this current year.

Moderator Thank you very much. Our last question is from Grishma Shah of Envision Capital, please go ahead.

Grishma Shah Sir, you said that there would be 200 store addition in Madura- will this be primarily on the franchise route?

Ashish Dikshit	Under our current mode of expansion, close to 20-25% of our new stores are through our own investments, remaining 75-80% of stores additions will largely be through franchisees route.
Grishma Shah	Okay the current mix would continue?
Ashish Dikshit	Yes, most likely this mix would continue.
Moderator	Thank you very much. In case of any investor queries please contact Mr. Romi Talwar from Aditya Birla Nuvo Limited or Mr. Saket Shah of Aditya Birla Group. I would now like to turn the conference over to Mr. Sushil Agarwal for closing comments.
Sushil Agarwal	Thank you everybody for participation in this earnings call, thanks so much.
Moderator	Thank you very much. On behalf of Aditya Birla Nuvo that concludes this conference call. Thank you for joining us.