



Aditya Birla Nuvo Ltd.

Transcript of Q3FY14 earnings call held on 11th February 2014

Management Team:

- Mr. Sushil Agarwal – Whole time Director & CFO, ABNL
- Senior Management Team, Aditya Birla Financial Services
 - Pankaj Razdan, Dy. CEO, Aditya Birla Financial Services
 - Mayank Bathwal, CFO, Birla Sun Life Insurance Co. Ltd.
 - Rakesh Singh, CEO, Aditya Birla Finance Ltd. (NBFC)
- Senior Management Team, Madura and Pantaloons
 - Ashish Dikshit, CEO, Madura
 - Shital Mehta, CEO, Pantaloons

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Moderator

Ladies and Gentlemen, Good Day and Welcome to the Q3FY14 Earnings Conference Call of Aditya Birla Nuvo. The call will begin with a brief overview of quarterly earnings by the management followed by a question-and-answer session. We have with us on this call Mr. Sushil Agarwal – Whole Time Director and CFO of Aditya Birla Nuvo along with other senior management.

I want to thank the management team on behalf of all the participants for taking valuable time to be with us. Participants are requested to focus on key strategic questions to make sure that we make good use of the senior management's time. I must remind you that the discussion on today's earnings call may include certain forward-looking statements and must be viewed therefore in conjunction with the risk that the company faces. With this I hand the conference call over to Mr. Sushil Agarwal. Thank you. And over to you, sir.

Sushil Agarwal

Good evening and welcome to the earnings call of Aditya Birla Nuvo. With me, I have the senior management teams of financial services and Fashion & Lifestyle businesses. I will take you through the key highlights for the company before we get into Q&A session.

Aditya Birla Nuvo performed well across most of the businesses. However, Life Insurance, Pantaloons and Agri businesses have underperformed.

Normalizing for carbon black and Pantaloons transaction, consolidated revenue in Q3 grew year on year by 5%, EBITDA surged by 22% and net profit rose by 18%.

Financial services business continues to rank among the top 5 fund managers in the country. We are actually among top 2 if we exclude bank backed players. It posted strong ROACE at 27% per annum.

Fashion and lifestyle business continued to scale up its retail presence and strengthen its leadership position. It has recorded operating ROACE of 31% per annum. Madura registered all round growth in earnings and cash flows. Pantaloons remained in the investment phase. Led by expansion of linen capacities, Jayashree posted its highest ever quarterly earnings.

Idea Cellular is constantly expanding its revenue market share and ranks 3rd in the country. With cash profit generation outpacing its regular capex requirement, its balance sheet is strengthening quarter on quarter. ROACE has also improved to 13% per annum.

IT-ITeS business reported steady growth in profits and cash flows. You must be aware that ABNL IT & ITeS Ltd., a wholly owned subsidiary of ABNL, has entered into an agreement to divest the IT-ITeS business at an Enterprise Value of USD 260 million subject to working capital & other adjustments. The transaction is expected to be completed in 2 to 3 months, subject to the requisite customary and regulatory approvals.

The divestment proceeds will support growth plans of ABNL and ensure its greater focus in the other businesses.

Rayon business posted its highest ever quarterly earnings. The new superfine yarn unit is running at full capacity and contributing to the earnings. In the agri business, exit from trading of imported P&K fertilizers has rationalized capital employed. Though this has lowered profitability at EBITDA level, but savings in interest cost has compensated. To implement energy saving and debottlenecking project, a 35 days shutdown is planned from the first week of March 2014. This will impact Q4 profitability; however, it will benefit going forward. Earnings of the Insulators business improved; however, industry still continues to witness sluggish demand.

ABNL has strong balance sheet and cash flows to support its growth plan. Standalone financial ratio and leveraging position has improved with net debt at less than ₹ 2,700 Crore and net debt-to-EBITDA at 2.1 times.

In next 3 months, our investment plan includes funding growth capital in NBFC business based on lending book growth and sponsor commitment towards private equity funds. CAPEX target for full year was about ₹ 600 Crore. We have spent ₹ 313 Crore in the first nine months. Out of the balance capex, we expect some deferments. Slight increase in outstanding subsidy is also estimated in Q4. Our endeavour is to close Minacs transaction before year end to realize divestment proceeds. Considering all these, on a net basis, we anticipate standalone net debt to increase slightly in Q4.

With this, we can now move to the Q&A session.

- Moderator Thank you very much sir. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from Amar Mourya of India Nivesh Securities. Please go ahead.
- Amar Mourya Sir, I wanted to know more about this Minacs deal. Are we looking to get out from the whole IT-ITeS business? I believe Minacs is one of the subsidiaries of IT-ITeS business, right. So just wanted to understand more on the deal.
- Sushil Agarwal We are exiting from the entire IT-ITeS business.
- Amar Mourya So any specific reason for this sir?
- Sushil Agarwal As we had mentioned in the past that relative to the size of other large businesses of ABNL, IT-ITeS business is subscale. Ideally, atleast one billion dollar is the right revenue size for a business like Minacs. However, considering the capital commitments of ABNL in other businesses which are giving higher return, in normal course without any capital allocation, it was extremely challenging for Minacs to achieve one billion dollar revenue size from current 450 million dollar revenue. And hence as a part of strategy we exited Minacs.
- Amar Mourya The deal which we had struck, it is round about ₹ 1,500 Crore, right?
- Sushil Agarwal Enterprise value of Minacs is USD 260 million as I mentioned in my opening remarks.
- Amar Mourya So the total proceeds from this particular deal is USD 260 million, right?
- Sushil Agarwal That is right, but there is debt in books of Minacs, net cash flow to ABNL will be net of debt.
- Moderator Our next question is from Manit Varaiya of Vallum Capital. Please go ahead.
- Manit Varaiya Sir, I have a two set of questions. Firstly, regarding the Pantaloons business. Sir, if you could just explain us how like exactly the turnaround strategy for Pantaloons business is proceeding, because as I see on an operational level, like our cost structure is quite high, so just wanted to understand, on an operational level, how we are going to turn around Pantaloons as a business, and how the integration will happen with Madura business?
- Shital Mehta As far as the Pantaloons is concerned last 6 to 8 months lot of focus has gone into completing the entire aspects of the organizational building,

restoring the merchandise availability and sorting out some of the transitional issues which we had. However, in midst of that we have made a significant progress towards what we are calling a transformational program and there are 4-5 components to it One, is the creation of merchandise on our own because starting from spring/summer 2014 the entire merchandise which is going to come into the market will be created by us, and we are going to focus on creating many more new exclusive brands for the Pantaloons format. Out of this, 3 brands are going to be launched in summer 2014 and couple of more brands in the autumn/winter as well. So this is on the merchandise assortment improvement which is a very very crucial aspect of the performance enhancement. Second is the margin expansion aspect, and there is a lot of work which is being done on that aspect as well, which also has the component of overall portfolio mix, how do we steer towards more profitable brand, how do we fundamentally improve our operational efficiencies in the full price sell-through. So the margin expansion planning is also underway. Third is the network expansion per se. This year we are on our track in terms of the goals which we set for ourselves. We should be opening 12-13 stores for the financial year 2013-14 and we could expect that in the next year as well. So driving inorganic revenue growth through the expansion is also part of the plan. The last component is organic growth, that is, the same-store growth which is an area of concern as of now and it has two components to it – first is the merchandise aspect of it which we believe starting from summer 2014 should be put in place – second is overall refurbishment and enhancing the look-and-feel of some of our key stores which are fairly old. For the renovation and refurbishment project which we kicked off, we were anticipating that it should take 18 to 24 months. In current financial year we will complete half the task, rest of it should get completed in the next financial year. So if I were to sort of sum up, essentially we are talking about driving the organic growth through the entire merchandise focus as well as the store refurbishment, margin expansion through enriching overall portfolio mix and launch of some new brands which we are going to be rolling out from summer 2014. All these along with the expansion should help accelerating the overall growth itself. So driving the growth and margins are the key focus areas going forward and we are quite confident that that should happen.

Manit Varaiya So once we have done it in the 18-24 months, those refurbishment costs would not be recurring to that extent?

Shital Mehta Yes, that is right.

Manit Varaiya Just one more point, you mentioned about the organizational rebuilding. Currently, we are running at around 9%-9.5% of employee expense, like

9.5% of sales. So would those kind of costs would be also like non-recurring and they would be a little lower in the coming year?

Shital Mehta As far as the people costs are concerned, I think with the overall revenue growth coming, it should surely fall as a percentage of sales, as we go forward. But it is not something which is one-time in nature. This consists of employees in the head office, which we take into account as overheads and secondly store employees costs, where the operating team is there in the stores. I think as a percentage of sales, the key component here is not to look at the cost, but to drive the revenue and that is what is essentially going to lead to the reduction in cost as a percentage of sales as we go forward.

Manit Varaiya So my next question is relating to the NBFC business. Sir, if you could briefly explain to us, right now we are standing at around 13.3% of RoE (Return on Equity). For an NBFC to reach 18% of ROE, how can we arrive at those RoE levels, because a normal NBFC size of ours, like we are at ₹ 10,000-odd Crore of book size and growing. So what kind of steps will be required for us to reach that kind of RoE?

Rakesh Singh Hi, this is Rakesh here. If you see we have expanded in terms of the geographical distribution, we have gone from 8 cities to 21 cities, and in the last 18 to 24 months we have invested in building the team, process and infrastructure. As we get scale, we will start generating returns on these investment, and RoE will improve. About 16-17% is ROE target range which we are currently looking at. Our investment made in expanding geographical branches, manpower etc, has capacity to manage double the current book size, let's say around ₹ 18,000 to ₹ 20,000 Crore of portfolio, it should start delivering results in terms of ROE improvement.

Manit Varaiya And also sir, on the operational expenses, this quarter it is around 29% from 41%. So just wanted to know, what kind of operating expenses ratio is sustainable?

Rakesh Singh These are cost-to-income ratio or OPEX efficiency ratio. If we look at last year, business was in investment phase and we had started building and investing in the systems, IT systems platform. So opex ratio was higher. This year during nine months, opex ratio was in the range of 29-30% since the investment has yielded return in terms of expansion of book and revenue size. In Q3, we have added more manpower in our core businesses. So we should be in the range of around 30-32% opex to net interest income.

Manit Varaiya I was just trying to understand, because we are also going to increase our geographical reach. So this kind of cost-to-income ratio is sustainable, if that is correct?

Rakesh Singh The cost to net interest income ratio of 32-33% definitely is sustainable, and we are below that range at this point in time.

Manit Varaiya If you could give us a break-up of the cost structure for NBFC, what is the cost of lending for funding for us?

Rakesh Singh Cost of liabilities is around 10%.

Moderator Thank you. Our next question is from Abhishek Ranganathan of Phillip Capital. Please go ahead.

Abhishek Ranganathan Sir, a couple of questions. We will start with Pantaloons. Sir, if I just look at the balance sheet, we are running on a negative working capital this quarter. Is this something which is going to be a sustainable basis? One. And the second is on the revenue mix of Pantaloons also. We have introduced the Louis Philippe and the other Madura range here. Do we see that the Menswear category will start inching up the share, maybe say about another 4-6 quarters down the line?

Shital Mehta Let me answer the second question first which is the introduction of the Madura Brands which we have done. So far our experiment, which we have done, is fairly limited. We have rolled out Peter England across the Pantaloons branches. For rest of the brands, we have just made limited experiment, and placed only on a selective basis wherever we felt appropriate that those brands should be put in. But yes, overall, I do believe that menswear contribution should increase as we go forward on account of this.

Abhishek Ranganathan And would we be looking at going full throttle with the other brands – the Louis Philippe, Van Heusen, Allen Solly?

Shital Mehta I think we would be really looking at from the consumers point. Wherever we believe that we have a scope and the consumer profile in that catchment is of that kind we would be able to obviously go and introduce all the brands of Madura Garments, but there are stores in the markets where probably we need to restrict it to only Peter England or some of the other brands, so it is going to be 'Horses for Courses' and the selective experimentation has already started, and I think in the next 6 to 8 months things should become a lot more clear in terms of the scale of introduction of these brands across the network is concerned, but I would believe that across the network applicability would be limited only to Peter England, rest all will be still at selective place as of now.

Abhishek Ranganathan Basically I am trying to assess, our offering would still remain more of value fashion rather than these premium end, possibly like other departmental stores, multi branded outlets?

Shital Mehta To put it in a better way, we call it accessible fashion because there is a mass value play which is happening, we are not really into the mass end of the business, nor are we there at the very high end of the market. So essentially our endeavor is that how can we provide consumers choice of brands and fashion and make it accessible and that is the position of Pantaloons and our intent would be to stick to that and further strengthen and sharpen that position.

Abhishek Ranganathan Sir, on the working capital?

Management On the working capital, currently our inventory days are around 110 days, and simultaneously our payable days are around 110 days. So right now whatever you are seeing that net working capital negative or breakeven, our effort will be definitely to continue with that.

Abhishek Ranganathan That is pretty much actually very similar to what Madura has, so that is pretty commendable. And sir, a question on Madura. I mean if you just strip off the Esprit business for last quarter, actually you would have still done economically well in terms of growth. If you just look at that base adjusted for that, it would have grown 26%. On a like-to-like, Retail has gone about 4%. So really how was the Wholesale and the other MBO channel has performed?

Ashish Dikshit Ashish here. I think the growth has been fairly organic across all channels, while the same-store has grown by only about 4%, the overall retail channels grew by about 20%, and rest of the wholesale channel growths are closer to about 24%. Lot of it is driven by continuous expansion, exploration of new territories and new markets that we have been consistently doing.

Moderator Thank you. Our next question is from Hardik Shah of Birla Sun Life Insurance. Please go ahead.

Hardik Shah Sir, I would like to ask about the NBFC business. Around 23% of the assets is in Infra financing. So, I would like to know how is the loan book panning out in terms of stress?

Rakesh Singh In terms of our 23% exposure in Infra, most of our exposure is last mile funding. So there is not too much of stress on portfolio. On the entire portfolio we have one account which is bad, otherwise all other accounts are performing quite well.

- Hardik Shah And sir, in terms of restructuring, what is this as a percentage of total book?
- Rakesh Singh We have not restructured any accounts.
- Hardik Shah And as per standalone results, the profitability as compared to previous quarter has gone down, what will be the reason for that?
- Sushil Agarwal In Q2, ABNL standalone results include dividend income from Birla Sun Life Insurance, so that is the reason.
- Hardik Shah Finally, just wanted a comment on the ongoing auction. What do you see the impact on Idea?
- Sushil Agarwal I think, we will have clarity on this particular question once the auctions are complete. We are still in the process of bidding and hence can't share much details.
- Moderator The next question is from Reena Verma of DSP Merrill Lynch. Please go ahead.
- Reena Verma I just wanted to understand a couple of issues. Firstly, what are your spending plans for fiscal'15 in terms of CapEx? And how much have you spent in FY14, both at the stand-alone and at the consol level? My second question is on your NBFC book. You have shown extremely strong growth in the capital market and mortgage portfolio this quarter. Do you think this rate of growth is sustainable? And what are your expectations in terms of the growth driver for the book as we look forward on a full-year basis? Finally, Mr. Agarwal commented that he does not want to be in sub-scale businesses. I am sure the benchmark of USD 1 billion varies from business-to-business, but I am just curious whether you have a clearly articulated point of view with regard to VFY and Fertilizers as well?
- Sushil Agarwal Let me answer the last question first. Clearly, if you have seen in the last few years, as a company what we have done is wherever we believe there is a lack of scale and size, we made sure either we reach to a meaningful scale and size or otherwise exit. And that is what in fact we have even implemented. This is a constant exercise and it has to be seen in a context. I do not want to comment on a particular business which you have referred here. I think it has to be seen in overall context for both businesses. For that matter in Rayon, we are one of the largest players in the country. So I think this particular statement has to be seen in the context. And so far CAPEX is concerned, I think CAPEX what we had targeted for the year was around ₹ 600 Crore, out of which ₹ 313 Crore has been spent in the first 9 months and

out of the remaining amount I believe that there would be some deferment. And we will update you as we come close to the next financial year end.

Reena Verma Just to follow up quickly on the CAPEX, the investment in Financial Services out of the standalone books, there is no further investment that has gone this year, right, it has been a net cash accretion or net outgo?

Sushil Agarwal As I mentioned, we have already invested ₹ 250 crore in the first 9 months in NBFC business, and around ₹ 350 crore more is likely to be infused in coming months depending on how much lending book is being written. And there is an investment of around ₹ 46 Crore as sponsor commitment towards private equity fund in Q4. So these are the commitments on Financial Services business. Against this, we have received ₹ 294 Crore from Birla Sun Life Insurance in first 2 quarters as distribution of profit.

Sushil Agarwal You had a question on NBFC, Rakesh can you take that?

Rakesh Singh You mentioned about two businesses which is a Capital Market business and the Mortgages business, and both these businesses are very much sustainable, they have been growing over the years. As on 31st March 2013, we had capital market book of around ₹ 2,700 Crore and we have gone to ₹ 3,050 Crore so there is around ₹ 350 Crore addition in the first 9 months. So this is very-very sustainable segment and is in line with our growth plans. In terms of the other business – the Mortgages business, we have put up a team, the entire team and infrastructure in place, and we have been sourcing close to ₹ 150-200 Crore month-on-month and that again is a very sustainable business. We will see that Mortgages business keeps on growing at that rate. So both the businesses are very-very sustainable.

Sushil Agarwal Reena, I just want to add one more line on this expansion of NBFC business. Actually, we are growing, but given the macroeconomic environment, we are growing cautiously. So one should completely be comfortable that we are growing, but keeping in control the associated risks.

Reena Verma I had a couple of follow-up queries on the book. One is that, I thought you wanted to shrink your capital markets book in line with your banking license aspirations. Is my understanding wrong there? And what exactly is the nature of your capital market loan book, meaning, what is this financing of promoters against shares?

Sushil Agarwal From a strategic point of view, that is what we are eventually going to do of the banking license is allotted to us and hence Capital Market book has to shrink, but in absence of that, we will continue to grow, as this is one of the key business portfolios in our NBFC book, and wherever we saw

opportunities, we have been participating in that. But I do not think our strategy is going to change, and it is all dependent on if we get the banking license. And regarding nature of book, primarily it is loan against shares, promoters funding. Rakesh, you want to add?

Rakesh Singh It is a very profitable business and the quality of portfolio is very-very good. So we want to keep the business growing, and as Sushil mentioned that when the banking license comes, we will take a call which is more strategic in nature. In terms of the portfolio composition and mix, it is a very-very diversified portfolio, we have high net worth individual, we have retail customers, we have brokers, we have employee-related ESOP portfolio, we have margin funding, and we have promoter funding. So there is not one business which is sitting lumpy in the overall Capital Market portfolio.

Moderator The next question is from Kuldeep Khanapurkar of Kotak Asset Management. Please go ahead.

Kuldeep Khanapurkar Just a question relating to capital employed on the Garment business. In the segmental, what we see is the capital employed is about ₹ 2,580 Crore, and whereas if we see the investor presentation, Pantaloons' capital employed is about ₹ 1,650 Crore, so the balance ideally should be Madura. But Madura capital employed is about ₹ 450 Crore, what is this gap, I am not able to reconcile the capital employed. And that is question number 1.

Management In the capital employed, if you add Madura and Pantaloons capital employed, the difference which you are getting is the goodwill on consolidation. ABNL has made investment in Pantaloons and when we consolidate it, there is goodwill on consolidation which gets created. So difference is on account of goodwill on consolidation.

Kuldeep Khanapurkar Ok. In Madura, you have shown that capital employed is about ₹ 446 crore, and for the nine months we have EBIT of about ₹ 206 crores. So this capital employed is a net number or it includes all the investment into EBOs, stores, working capital?

Management Yes it includes all, fixed assets as well as working capital.

Kuldeep Khanapurkar So you are probably the most profitable garment brand owner I guess?

Management Yes, the ROCE numbers are quite impressive.

Moderator Thank you. The next question is a followup from Amar Mourya of India Nivesh Securities. Please go ahead.

- Amar Mourya Sir, my question is primarily related to the debt. Sir, currently, we are having a debt-to-EBITDA ratio of around 1.6. So what would be the target per se, because after the divestment of the ITeS business, some bit of cash is also coming, so are we looking to pay off some of the debt on this?
- Sushil Agarwal I think the final year end number would depend on how much investment is done by Telecom business for auctions and capex, but directionally if you see the numbers are only improving. Minacs itself had a debt of around ₹ 1,100 crores reflecting in consolidated books. With the Minacs transaction happening, this number will go off. So there is certainly a likely improvement in overall ratio.
- Moderator Thank you. Our next question is a followup from Manit Varaiya of Vallum Capital. Please go ahead.
- Manit Varaiya: Sir, on the Insurance business, the whole industry outlook has been a little subdued. Just wanted to understand like what is our view on how the insurance segment can pan out in next 12-15 months with regards to the profitability, which we are going to see, because like we are seeing a much more drop in the profitability than the revenues?
- Mayank Bathwal This is Mayank here. I will answer in two parts; one is how do we see the industry panning out in the next 12-18 months and in that context the second question of yours on profitability. I think the first one clearly as of 1st January, one positive change that has happened in the industry is that now we have a very stable product regulatory regime. So as a business, and as a company we are clearly in a position where we know what our product portfolio will look like for the next 12-18 months, and our current focus is on making sure that we have the entire product portfolio ready in the shortest possible time, and whatever gaps that we have today are filled up very soon. That will give us an ability to manage the distribution challenges that were there in the last 2-3 years during which all these product changes happened. Because especially in an agency environment the whole flux of product changes happening every 6-8 months was a big change to manage, and I think that itself should create a positive fillip in terms of managing the productivity of the large agency channels across the industry. I think the larger question on industry outlook, I would still say the broad economic outlook, and to some extent it would obviously depend on what happens post elections and some impetus which can come for the growth of the financial sector in particular and insurance in specific. Because in a regime, where interest rate continues to be very high, insurance as a product category does get impacted and when savings rate have got impacted, larger flow of money into fiscal savings is definitely impacting the financial

savings overall and long-term savings like insurance in particular. And I am sure that we will have this view in common in terms of what is happening on economy front, but I think the industry-specific, we do see the stability in the product regime a big positive. I think one other area that we see in the next 12-18 months where we are seeing action from the regulatory front is a distribution regulation and we are keenly watching that space because that can definitely open up some segments based on the discussions, and the white papers that have been floated by IRDA. On the profitability front, on your second question, I think, as you know, to a large extent, the profitability of Life Insurance Company depends on the kind of book that it is building up. Unfortunately, in the last 2-3 years there has been a negative growth that has led to the in-force book either not growing at the same pace or to some extent even falling, and that has obviously impacted the profitability from the in-force book. I think as the industry starts getting back into the growth mode, we will start seeing some positive outlook on profitability, till then there will be pressures on the profit from the existing book.

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

Girish Achhipalia Just one question on top-line for Pantaloons. Why are we struggling so much on same store growth, compared to other players like Madura etc., is it a problem on some of the brands being discontinued which were being sourced from the Future Group, or is it something more, how are we expecting the next six months to pan out?

Shital Mehta I think independent of Madura, because Madura and Pantaloons plays are very different. Madura is a multichannel play vis-a-vis Pantaloons which is pure-play retail. So in that sense these are two different things altogether. But as far as Pantaloons is concerned, for the last couple of quarters, we have been facing merchandise availability as well as the product performance issues. Few products have not performed in line with the expectation and that has been the primary reason that our performance has been below par industry for the last couple of quarters. Of course, the sort of relative weak consumer sentiments have definitely added to the situation, but the unique factor which has additionally impacted Pantaloons is the product performance and the availability issues, which I believe as we go forward should change from March onwards. We effectively took the control of the organization from April 2013 and started working on the products which would hit the shelf in next 3-4 weeks. So far we have been managing the products which were planned by the previous management and we have faced issues around that. But we believe that as we go forward, that should get sorted out. Apart from that, as I was mentioning earlier as well, the

network expansion per se should definitely add to growth figures. If you look at numbers, Pantaloons has opened 6 stores in FY12 and FY13. In the very first year of our taking charge, we are going to be opening 13 stores, which is the highest ever stores Pantaloons have opened in the last 16 years, and we believe that we should be able to accelerate that as we go forward. So putting both these things together which is getting the merchandise right and getting the network expansion and the pipeline expanding, both put together should really help us as we go forward.

Girish Achhipalia Sir, in your view, just a follow-up, what amount of inventory is an issue, which is obsolete, which is actually not taking off-the-shelf because of perhaps issues that the consumer have?

Shital Mehta I think there are two components to it. One is the inventory which is totally obsolete, inventory which was 2 years and above, that as a part of the transaction itself we had shifted back to the Future Group, so issue is not that. Issue is the autumn winter'13 which is the festive season. The merchandise which was planned for it, we realized once we took over, there was considerable delay in managing the entire supply chain of that piece, apart from the fact that overall products which were designed, consumers have not really shown the kind of traction which one would have expected, and therefore it is not an obsolete inventory issue, it is an issue of last 6-8 months, merchandise availability, flow and the product performance, those are the issues which has really actually impacted the peak festive season that our same-store growth have actually fallen to -7% and that should get reversed. We have no doubt that situation should considerably improve once the new products starts coming in and that should happen in a matter of few weeks.

Girish Achhipalia What is the SSG then you would be targeting next year?

Shital Mehta I think a lot would definitely depend on what the overall market sentiments are, but I would believe that we should be at the higher end of the market in terms of same-store growth.

Moderator Our next question is a follow up from Hardik Shah of Birla Sun Life Insurance. Please go ahead.

Hardik Shah I just wanted to know what is the debt repayment for the next year?

Management Around ₹ 400 odd crore.

Hardik Shah And secondly sir, out of the total debt, how much would be foreign currency, and what is the hedging with respect to that?

- Sushil Agarwal In any case it is not large in foreign currency and irrespective of that as a policy, all the loans denominated in foreign currency are completely hedged, there is no open position from ABNL point of view.
- Hardik Shah Sir, with respect to the Fertilizer business, you have mentioned in the presentation that the last two installments have come through special banking arrangement. So, generally, how much would be the interest cost on that of this arrangement?
- Sushil Agarwal Around 2.5% p.a.
- Hardik Shah And sir, finally about the Textile business, what is the global price trends like of the VFY?
- Management That is around 300/Kg, and it also depends on the kind of denier and quality which we are selling. Currently the new capacity which we have put up, there realization is 40-50% higher than this average because that is into more superfine quality.
- Hardik Shah And finally, one last question about the Fertilizer business. The ROCE has gone down from 16% to 7%. So, what would be the steps taken for improving the profitability of the segment? And how do you see the delays in the receipt of subsidies, given the election season?
- Sushil Agarwal Outstanding subsidy is something which is beyond our control, Hardik, because delay in subsidy has been an industry wide issue. During the current year we have faced some challenges in energy efficiency, and have planned a 35 days maintenance shutdown from first week of March, and with the completion of that, which of course would help us improving energy efficiency, this will also help us improving our ROCE.
- Hardik Shah And sir, as a conservative estimate, where do you see the subsidy receivables to be at the end of the year?
- Sushil Agarwal Since we are going to be taking maintenance shutdown in March as I was mentioning, from current level of ₹ 1,098 Crore it should go up maybe by another ₹ 100 odd crore.
- Moderator Our next question is a follow up from Abhishek Ranganathan of Phillip Capital. Please go ahead.
- Abhishek Ranganathan Just a couple of follow-up questions. One is, do you think because of the acceptance issues in Pantaloon that we may have inventory issue at our

hand, not now but say about two quarters down the line, where we may have to start providing for?

Shital Mehta

As of now, to be honest, we have not really made up our mind but as we go forward, we will have to definitely think of these issues. As I was mentioning earlier as well, the issue is not of having relatively old inventory which is not moving because during the end of season cycle through the discounting it can always be cleared in the next round, so it is not much of an issue. Issue has been that in the full price season, consumers have really not picked it up to the extent it was planned. So the response has been lower than planned. So I would not really be worried from that situation in terms of inventory provision because we have a separate business format in the form of Pantaloons factory outlet and the overall business model is such that the unsold inventories of Pantaloons gets transferred to the factory outlet business and that business manages that. So the Pantaloons Format brings in the fresh inventory and whatever is unsold gets liquidated through the factory outlet business. So we really do not see that challenge as of now but probably a couple of quarters down the line, we will have to actually see what happens.

Abhishek Ranganathan Basically, it is more of acceptance of that particular price point of the product, more than anything else?

Shital Mehta

I think issue is not on the price point, but the critical issue has been the design which further got compounded by the fact that merchandise came little later. So for example if the extensive merchandise which ought to have come before Diwali, if it comes after Diwali, it is not going to move. So there were issues around overall availability in delivery schedule as well as the overall design aesthetic acceptance by the consumers. Price point has not been the issue. I do not think there is any cause of concern as far as the price points are concerned. So the unsold inventory we should be able to manage through our factory outlets. I do not really see a challenge as of now.

Abhishek Ranganathan Couple of things; on the current quarter post the results and the end of season sale on both Madura and Pantaloons, could you just give a commentary of what do we see, how do we make this period as?

Ashish Dikshit

I think if you look at the long-term organic performance of the industry, typically, for last 12-18 months industry across formats has been operating close to single-digit and once in a while touching double-digit same-store growth, which to a large extent is symbolic of the larger macro situation that exists in the market. At Madura, because of multichannel strategy that we

have and our ability to continue to expand into new product portfolio with the existing brands and getting into deeper geographies, there is still continuing to be a larger inorganic growth opportunity and which is allowing us to actually ride through this period of somewhat slower consumer sentiment. End of season sale is a regular part of the business. I think it is fairly built into the cycles of both the companies and industry as a whole. It does not dramatically alter the situation in terms of either driving too much traffic or being too larger part of our sales as far as Madura is concerned.

Abhishek Ranganathan Discounted sale is not really material?

Ashish Dikshit It is far too large for us to say it is not material, but I think it is fairly static as you move from year-on-year. So there is no substantial change in the nature or the size of it year on year.

Abhishek Ranganathan That means share of discounted sales has not increased significantly or more or less remained stagnant?

Ashish Dikshit That is right.

Abhishek Ranganathan A lot of the brands are going online, do you see some kind of brand image being impacted because of the deep discounting which happens online?

Ashish Dikshit It is a matter of concern for us and this is something the industry as a whole is looking at and how to deal with this because in the online sales, the largest piece of allures for customers is discount. I do not think it is a sustainable model and to a large extent I also notice that most of the serious branded players will perhaps stay away from this.

Abhishek Ranganathan So, you believe that the brands will stop supplying?

Ashish Dikshit No, control the discounting. If it comes to stop supply that is a subsequent thing, but I think you have a fairly large sale in how your brand is positioned and how the promotions are decided. On that direct sense you will have to exercise and exert that control.

Abhishek Ranganathan Now, we are at a stage where we are bagging really superior ROCE, as Kuldeep mentioned, and also the fact that ₹ 250 crores of cash that we already generated from the first nine months. What is our long-term strategy with respect to the utilization of cash for this business – one, is going more investing more intensely in Retail or are we looking at acquiring some brands?

- Ashish Dikshit Sushil will be in a better position to answer from corporate point of view this question.
- Sushil Agarwal I think if you have seen on Fashion side, we are constantly adding our capacities. When we felt there was a gap in our portfolio, which was the value product offering, so we acquired Pantaloons. So that is a constant exercise and we keep looking for, if there are any gaps and if required we can do an inorganic filling up of these gaps.
- Abhishek Ranganathan Are there any missing gaps in your portfolio?
- Sushil Agarwal Not really because the value fashion was something which was missing and that is where we have got into the Pantaloons. And the point which you are making of the new brands acquisition, if there is any specific opportunity available to us, we will take appropriate decisions.
- Moderator We will take our next question; it is a follow up from Girish Achhipalia of Morgan Stanley. Please go ahead.
- Girish Achhipalia One question on cash flows going forward. Presuming that there is no clarity on Fertilizer expansion, that is the hypothetical situation I am building for you. And on the banking side, other than the NBFC and the debt repayment, are we expected to step up our dividend payout or are we expected to increase our CAPEX in the next 2-3 years? And if you are going to step up CAPEX, if you can just help us which would be the businesses?
- Sushil Agarwal As you yourself has pointed out, it is a completely hypothetical situation, so at this stage, it is very difficult to answer because whether we step up the dividend payout or CAPEX, currently there is nothing which is specifically planned other than we want to grow our NBFC book which we have committed. As and when the situation comes up, we will come and share those plans with you.
- Moderator Thank you. Ladies and gentlemen that was our last question. I now hand the floor over to Mr. Sushil Agarwal for closing comments.
- Sushil Agarwal Thank you for this earning call of ABNL 3rd quarter.
- Moderator Thank you. Ladies and gentlemen thank you very much for joining us on. In case of any further queries, you may please get in touch with Mr. Romi Talwar or Saket Shah. You may now disconnect your lines.