Aditya Birla Nuvo Ltd.

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- Pankaj Razdan, Dy. CEO, Aditya Birla Financial Services
- Senior Management Team, Aditya Birla Financial Services
- Ashish Dikshit, CEO, Madura Fashion & Lifestyle
- Manoj Kedia, CFO, Pantaloons Fashion & Retail Ltd.

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Moderator: Welcome to the Annual Earnings Call of Aditya Birla Nuvo. The call will begin with a brief overview of 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 team. 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 the 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 over to Mr. Sushil Agarwal. Thank you. And over to you, sir.

Sushil Agarwal: Good Evening, and Welcome to the Earning Call of Aditya Birla Nuvo. With me I have Pankaj Razdan – Deputy CEO of Aditya Birla Financial Services along with the Senior Management Team of Financial Services Business; Ashish Dikshit – the CEO of Madura Fashion & Lifestyle, along with the Senior Management of Fashion & Lifestyle Business. I will take you through the key highlights of the company, then I will request Pankaj and Ashish to briefly talk about their businesses.

Aditya Birla Nuvo performed well across most of the businesses; however, Life Insurance, Pantaloons and Agri business have underperformed partly due to external factors and partly due to operational issues.

To ensure a greater focus on the leadership businesses, ABNL divested its Carbon Black and IT-ITeS business. The divestment proceeds have and will support growth plans of ABNL in other businesses. Normalizing the Carbon

Black divestment, consolidated revenue grew year-on-year by 10%. EBITDA rose by 19%. Adjusting for one-off items net profit surged by 16%.

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 of 25% p.a.

Fashion & Lifestyle business added one store per day to scale up its retail presence, and fortify its leadership position. It posted revenue of over USD 1 billion and EBITDA of about USD 100 million. It has generated RAOCE of 28% p.a. Madura registered all-round growth in earnings and cash flows. Louis Philippe and Van Heusen continued to be the best selling brands in the country. Pantaloons remained in the investment phase. While gross margin improved year-on-year, bottom line was strained reflecting full impact of organizing building cost when compared to the allocation of cost till last year. Next year as well Pantaloons will remain in the investment phase with a focus on Strengthening Merchandise, Brand Portfolio, Expanding Retail Presence, and refurbishing of key stores. We are evaluating options to strengthen its balance sheet. Led by expansion of Linen capacity, Jayashree posted its highest ever earnings. However, the complete benefit of Linen expansion will reflect in FY15.

Idea Cellular continued to be the biggest revenue market share gainer in India since past 5 years. With cash profit generation supporting its regular CAPEX and spectrum acquisition cost, its balance sheet remains strong. RAOCE has also improved to 12% p.a.

Rayon business posted its highest ever earnings. The new superfine unit is running at full capacity and its complete benefit will be recognized in coming years. In the Agri business, discontinuation of trading in imported P&K fertilizers have rationalized capital employed. Though this has lowered profitability at EBITDA level but saving in interest cost has compensated. A 41 days shut down was taken in Q4 for annual turnaround and also for implementing energy savings and debottlenecking. As guided earlier it has impacted Q4 profitability. However, energy savings and higher fixed cost reimbursement as per government policy will augment business earnings going forward. Earnings of the Insulators business improved led by better capacity utilization and higher realization.

The standalone balance sheet supported an investment and CAPEX outlay of around ₹ 2,500 crores during the year, yet achieved reduction in net debt by around ₹ 450 crores. Divestment of Carbon Black business, the balance equity infusion by promoters, and the release of net working capital were the key contributors.

If we look at past 5 years picture, ABNL has invested more than ₹ 5,500 crores as long-term investment, CAPEX and working capital to fund the growth of its businesses. Yet the net debt has remained at a similar level while the earnings have grown multifold leading to healthy balance sheet and a financial ratio.

For 2014-15, our investment plan includes funding growth capital in Financial Services business to the tune of around ₹ 350 crores. CAPEX guidance for the standalone business is around ₹ 460 crores. Higher production in Agri business and rise in natural gas price is expected to increase the working capital requirement towards the year-end. Proceeds from the divestment of Minacs will support these growth plans.

With this I hand over this call to Pankaj with the request to hand over to Ashish thereafter. Thanks. Over to you, Pankaj.

Pankaj Razdan: Thank you, Sushil. Since Sushil has covered most of the important highlights I would just reiterate the same. Financial Services actually witnessed a growth across all its business verticals except Insurance which showed a little de-growth compared to last year. But despite a de-growth on full year basis, we had a very good quarter where our overall new business premium market share moved from 7.9% to 9.4%. This I just wanted to put in a context that the industry has been seeing a slowdown for the last couple of years and that continues to be there in the Insurance industry, but our growth in the market share has been our focus and would continue to do that. Our performance overall across businesses have been very stupendous, primarily led by NBFC book, which has seen a growth of more than 44%. Our Asset Management company which has grown the asset by more than 16% and a substantial market share. As Sushil mentioned, this makes us one of the Top-5 Fund Managers in the Country, totaling our assets to more than ₹ 1,22,000 crores. Across our businesses we have seen both growth in the business, market share and also in our profitability. Our aim of growing business with profitability has been the focus and would continue to do that. We would really continue our focus for the year coming over here for our Insurance business to increase the market share not only in the quantitative term but also in the qualitative term. Our business growth will be driven purely by quality of sales and an efficient distribution network. We are going to look continuing our growth in Asset Management business by focusing on high margin assets. We have seen a traction in the last couple of quarters in the Asset Management business both in terms of the quantum of sales and the quality of high margin assets. And NBFC would continue to lead our business growth by managing risk at acceptable level and growing our book on the overall side. As I mentioned that the growth focus continued to remain across all our businesses along with the profitability. So growth with profitability has been our part of the strategy and would continue to be that. We believe that with the stable government and with more focus on the growth and stability in the markets, Financial Services growth, which is actually is a reflection of the overall GDP growth, would start reflecting positively on the growth of the Financial Services. With this I would leave it to Ashish, and would be happy later on to take questions on the subject.

Ashish Dikshit: Thanks, Pankaj. Our Fashion & Lifestyle business has two organization engaged in retailing of branded apparels - which are at very different stages of their lifecycle. Madura Fashion Lifestyle has been a market leader and has had a very solid foundation of both business and brand. This year has been extremely good year. We have been growing very-very steadily. At the end of the year we have grown by about 28%; Q4 leading that growth with about 34-35%. The growth has been very organic and extremely democratic across both the channels as well as brands. Our Top-4 brands continue to grow very rapidly, and therefore in some ways we are firming our strategy of focus on our brands. Each of the brands has grown between 23-24% to about 30% odd.

In terms of ‘Channel’ we continue to drive our retail expansion. We believe in India the opportunity for further penetration continues to grow as smaller markets aspire for premium aspirational brands, we continue to find market outside the main cities as well. Of course, the big cities are growing largely driven by new malls and other retail properties coming up. Our overall retail channel grew by about 27% which is in line with this and wholesale growth which is a combination of both multi-brand outlets as well as department stores grew a little faster than that. We will focus this year on continuing to strengthen the profitability of business, and both enrich product mix, control on discounting, and better channel mix has led to almost 58% growth in EBITDA to ₹ 388 crores. We have built a business which is optimized for capital, both in inventory management and overall working capital management. The capital investment is optimized through a mix of franchisee and own investment, and all that has led to a remarkable growth in return on capital from close to 30% to upward of 60% this year.

On the other hand for Pantaloons business this was more a year of transition; this is the year in which we actually took complete control over the business towards the second half, and it is only in this spring/summer which is just about 3-4 months back that we actually started selling the products that we had designed ourselves. So this year I think lot of focus was really in building organization ensuring that there is a stable structure to the whole business, reenergizing both brand Pantaloon and the individual brands in it. We expanded our brand portfolios through expansion of in-house brands and focusing on gross margin improvements. Much of this work is actually more foundational in nature and perhaps will take longer time to show in results, but from what we see in terms of response to the merchandise we are on the right path as far as Pantaloons is also concerned. That is it from my side as far as these businesses are concerned.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from Reena Verma of DSP Merrill Lynch. Please go ahead.

Reena Verma: Firstly, I wanted to get your thoughts on which of your businesses you think may be sensitive to the new government formation and you see them as possible reform players or when you feel particularly hindered by what was seen as a sluggish macro environment for the last 2 years, if you can share some thoughts there please? My second question is on your balance sheet. Would you say that your restructuring efforts are now more or less complete? Would you like to take the 2.6x debt-to-EBITDA down further? And finally just wanted to get some color from you on Pantaloons top line performance in the fourth quarter; that seems to be quite disturbing, I can understand that you are having a restructuring cost, etc., but if you could share with us some thoughts on how we should look at Pantaloons revenue and margins for the next 12 months?

Sushil Agarwal: I will pick up the first two of your questions and will ask Manoj to pick up Pantaloons one. The point you are making is, “Is there any sensitive business?” As you know, our portfolio has lots of businesses having consumers at the center. General improvement in the confidence of the customers with the expected improvement in the economy, will have its positive impact on our businesses, be it Financial Services or fashion retailing. As you know, in Financial Services, the confidence level of the customers was very low in the past few years, which has reflected in de-growth in retail participation across the Financial Services space. And I think general improvement in that sentiment itself will help the entire Financial Services space. The same is the story for Fashion & Lifestyle business because the consumer spending as reflected in like to like stores sales growth has moderated in past couple of years. Although performance of Pantaloons business is partly due to transition and business building exercises, but I would also say that partly the past performance is also on account of low consumer confidence. So point I am making is general improvement of the sentiments will reflect positively in overall performance around various sectors of the company in which we operate.

Second question was on the balance sheet. Portfolio rationalization and evaluating options is an ongoing exercise. I do not have any specific plan to share with you at this stage. The current net debt to EBITDA of 2.6 should not be read in isolation particularly for a company like Nuvo, where long term investment form a large part of capital employed. As you know that we have been investing in Financial Services particularly in NBFC company. Pantaloons balance sheet which is slightly stretched at this stage may also need some support. And we are constantly incurring CAPEX around various businesses including Fashion & Lifestyle. The ratios should be in a comfortable zone given the structure of the company. I will request Manoj to respond on Pantaloons.

Manoj Kedia: Overall growth in Pantaloons for the quarter and the year was around 5%, but on like-to-like stores basis there was a de-growth of 1.6% primarily because of the merchandise related issues which was not being managed by us. We got full control of the merchandise procurement and designing in April 2013 for SS14 which has hit stores in the mid-March only, and the response we are getting for this merchandise is encouraging. Going forward, definitely, we are very hopeful that it should give us better sell through and margins, and ultimately will reflect in EBITDA. But for FY14, merchandise was a major issue which has an impact on our overall growth as well as like-to-like growth, and the gross margin.

Reena Verma: Are we done with all the past inventory or you still have to take any write down now that you are redesigning the product?

Manoj Kedia: We had not taken over the old inventory at the time of acquisition and given back to the Future Group. But there are certain inventories relating to discontinued brands, which will be disposed off in the EOSS period. These are not the material ones.

Moderator: We will take our next question from Rajiv Verma from Bank of America-Merrill Lynch. Please go ahead.

Rajiv Verma: Just wanted to ask a few questions on Insurance; are you giving any feedback in terms of how are the margins playing out especially on the NBP margins both for the quarter and for the year, and especially post-October regulations how are the things shaping up? And also any guidance that you may have looking forward into fiscal 15?

Amit Jain: We are still finalizing our margins, but in terms of outlook, as you know that large proportion of the products have now shifted to par post the regulatory changes in September, where the margins are at least 300 to 400 bps lower than the other ULIP and non-par products. Margins are being targeted to range between 14% to 15% depending on how the mix pans out as we move forward.

Rajiv Verma: In terms of growth what is the kind of growth you are looking at – are you expecting any pick up in growth for fiscal '15 and are all your products being filed etc., is that done?

Amit Jain: We have filed majority of our products and close to 70-80% we have already launched. Some of the products which are not yet got approved from IRDA, we are expecting to get approval in Q1 most likely by June-July and those products will be launched in the market. In terms of growth, it is a function of how market environment changes both in terms of GDP growth and the capital markets. So it is linked to how investor confidence changes along with the savings rate.

Rajiv Verma: On the NBFC obviously that has been growing very strong. Looking ahead are you looking to a) either see any change in the loan mix there and also there are you looking to sustain the growth that you have been seeing?

Sachinn Joshi: This is Sachinn here. Basically, the focus would be going forward on the Mortgages business which has been doing well, we have actually doubled the book in the last financial year, and also the CFG business. Rest will depend on the macroeconomic environment. In fact as the stalled projects start going online, we hope to do better even in the infra financing going forward.

Rajiv Verma: One last house-keeping question; how much is the loan mix today and where it was already in terms of how much is housing and the rest of the key sectors?

Sachinn Joshi: The mortgage piece is about ₹ 3,000 Crore. We have totally about ₹ 11,500 crores, out of which about mortgages as of March is about ₹ 3,000 crores. Capital market is close to ₹ 3,200 crores and Infrastructure is about ₹ 2,500 crores, Corporate Finance is roughly ₹ 2,700 crores – that is the mix.

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

Abhishek Ranganathan: I have a couple of questions; one is the operations of Madura for the fourth quarter vis-a-vis that of Pantaloons are quite contrasting. Is it the reflection of strength of the brand or is it that the merchandise availability weighed a lot more than consumer sentiments in the fourth quarter? And also if you could help us with Madura in terms of how the channel wise – retail, wholesale and other verticals – share today stands?

Ashish Dikshit: In terms of the difference between Madura and Pantaloons, as I said first of all these two organizations are at very different stages of lifecycle in terms of where they stand today; Madura has had a very stable base of strong brands which have been there around for close to two decades, have built relative market leadership in each of their segments, and over the years have established a very strong base of multi-channel distribution. For Pantaloons, on the other hand, as Manoj talked about it, this year was really a year of transition and investment. Therefore, in many ways Pantaloons was trying to rebuild both the organizations and the stores and merchandises. Coming to your second question around channel mix of Madura, little less than 50% of Madura's revenue comes from retail channel, which would be in the range of mid-40s. We get close to 15% of Madura's sales from large format stores which are department stores and others. We also have around 25% coming from multi-brand outlets across the country large number of them, and the remaining is depletion and other channels which are basically liquidation channels.

Abhishek Ranganathan: The other thing which I wanted to ask is that you mentioned that the power brands margins have improved to 12.5% for the year?

Ashish Dikshit: That is Madura business as a whole. We have 4 key brands which contribute to a large part, close to 90%, of our revenue and more than all of its profit. We have a few small businesses which are in early stage of development. So most of what you see is really the outcome of what we have done on these four brands.

Abhishek Ranganathan: Including collective?

Ashish Dikshit: I would say collective and another small retail format called "People" which is the lower end of the value chain. These two are new businesses and still really very small compared to the rest of the brands.

Abhishek Ranganathan: And fastest growing brand at the higher end continues to be Louis Philippe and how about Peter England?

Ashish Dikshit In terms of growth as I started the discussion, the good part of our growth has been that it is a truly democratic growth. We are seeing growth upward of 25% across all brands. So you would find a quarter in a year where one brand grows more than 30% and another brand would come down, but all our brands have grown in excess of 20%, and if you look at our last couple of quarters it is only varying between 20% to 30-35% depending on the brand and the quarter.

Abhishek Ranganathan: In the opening remarks you mentioned that you are evaluating balance sheet funding options for Pantaloons, could you just throw some light on that?

Sushil Agarwal: As I mentioned, Pantaloons is in investment phase, and currently has around ₹ 1050 crores debt on its balance sheet. Some of the financial ratios are clearly out of shape and the company is negative on cash flow side. Given that in the current year also, Pantaloons would be in the investment mode, we believe that cash infusion is inevitable. At this stage, we have not taken a final view on the mode of infusing funds in the company, but appropriately we will come back, as soon as we decide the mode of investment.

Abhishek Ranganathan: What is the CAPEX requirement of Pantaloons, for FY15?

Manoj Kedia: ₹ 150 crores.

Moderator: Our next question is from Amar Mourya of IndiaNivesh. Please go ahead.

Amar Mourya: I wanted to know about your outlook on the Fertilizer business and considering that there is El Nino which people are talking about, so what is your view – how this year is going to pan out for Fertilizer and considering that the new government which is perceived to be more focused on the Agri side?

Sushil Agarwal: We need to wait for clarity on Government policies and I can tell you a couple of things in the context of what we experienced in our business in the previous year. Our volumes got impacted by a plant shut down of 41 days. That clearly will not be there in that current year. So to that extent volumes will be higher and you can see the revenue growth. On the profitability front, the government has already increased reimbursement of a higher fixed cost. So to that extent our profitability will be better. These will have a positive impact. And we will wait for the direction from the new government on the subsidy front. In last couple of years, if you have seen more particularly in the fourth quarter, the subsidy outstanding actually increases and we will wait for a positive step in this direction. And you are right that there is a high expectation that government will deal with the subject, and hopefully the level of higher working capital which industry had experienced in last few years should gets corrected going forward.

Moderator: Thank you. We will take our question from the line of Sangeeta Tripathi of Sharekhan. Please go ahead.

Sangeeta Tripathi: I just have two quick questions; one is on the capital infusion in NBFC, this year, we have infused around ₹ 525 crores. What is the plan for FY15 – what kind of infusion are we going to do?

Sushil Agarwal: The capital infusion is a reflection of how the lending book grows and what kind of leverage is kept. But generally I think at this stage we are targeting around ₹ 300-350 crores additional infusion of the capital, and if you have seen leverage trend, it is around 5.5 to 6 times of our net worth, which has a reflection on the infusion of the capital.

Sangeeta Tripathi: We still maintain that 5.5 to 6x leveraging?

Sushil Agarwal: Yes.

Sangeeta Tripathi: On the CAPEX and the expansion plan for Lifestyle business; you gave a CAPEX of ₹.150 crores, that is purely for Pantaloons or for the entire Lifestyle business?

Sushil Agarwal: That was only for Pantaloons.

Sangeeta Tripathi: Can you give a breakup of the expansion plans and CAPEX guidance for the entire – Lifestyle, Madura, and Pantaloon?

Sushil Agarwal: CAPEX guidance for Pantaloons is ₹ 150 crores for FY15. And ₹ 160 crores for Madura, which is largely for opening of new stores and refurbishing of existing stores.

Sangeeta Tripathi: So overall Rs.300 crores?

Sushil Agarwal: Around ₹ 300 crores, yes.

Sangeeta Tripathi: And finally, I understand that a lot of transition is happening in the Pantaloons at various levels, so internally what are our targets – when would Pantaloon start giving positive returns to the EBITDA?

Manoj Kedia: As we have mentioned that last year was a year of transition, and this year we will be focusing on laying foundation for achieving next level of the growth, and therefore we believe that we will need about 2 years to reach to the industry level of EBITDA margin.

Sangeeta Tripathi: So you are saying that even if there is a buoyancy in the economy in the second half of FY15, wherein the same-store sales growth would be somewhere around, let us say, just a hypothetical example, 8% to 9%, despite that we will see Pantaloons bleeding?

Manoj Kedia: I am not talking about cash burn, but I am talking about reaching to the industry benchmark, in terms of EBITDA margins.

Sangeeta Tripathi: So you mean to say industry benchmark what I understand is 12% to 13% margin.

Manoj Kedia: I believe 12% to 13% EBITDA margin is not right benchmark for all apparel retail players, because there are two or three different models, some models are purely private label, some models are largely on the third-party brand, but industry average we believe is around 6% to 7%.

Moderator: Thank you, our next question is from Priya Rohira of Axis Capital, please go ahead.

Priya Rohira: My first question relates more on the manufacturing business side. Where do you see the economic growth kicking in, in terms of both volume and pricing, participating and cost being much lower, where you could actually see margins keep coming in? And secondly if you could also help me with the number of business outlets you are planning for expansion in FY15 for the Madura Fashion & Lifestyle.

Sushil Agarwal: Yes, I think in general, as I was mentioning in my opening remarks, that all the businesses broadly should see a better performance in the current year, be it Rayon where we have added the Superfine Yarn capacity, which got implemented last year, but the full benefit should accrue in the current year. Same is the case for Linen capacity which got commissioned in the last year, and we should see complete benefit in the current year. And as I mentioned, in Agri business, volumes got impacted due to shutdown last year, which will not be there in current year. Plus the higher fixed cost reimbursement will improve the profitability in Agri business. Again in the Insulator business since the power sector, which till now is struggling on due to liquidity crunch, we should see a better time ahead which would have a reflection on the profitability of our business.

Priya Rohira: On the number of MBOs you have planned for the Madura Fashion & Lifestyle?

Ashish Dikshit: We have been opening between 250 to 300 EBOs in past couple of years, the number would be similar this year as well.

Priya Rohira: Do you see an acceleration because of the economic growth?

Ashish Dikshit: I think early days; Consumer businesses take time to both go down and go up, and while sentiments should improve, and in general help us, but both in terms of the pace at which this will reflect into the business, I think it is going to take some time.

Moderator: Thank you. Our next question is from Sumit Choudhary of Standard Chartered, please go ahead.

Sumit Choudhary: This is Sumit Choudhary from Standard Chartered. Just a couple of questions, first if you could please split the capital expenditure of ₹ 460 crores which you have earmarked for 2015, I guess if you could split it out between the various divisions as to how you intend to spend this?

Sushil Agarwal: Sure. So breakup of capex guidance of ₹ 460 crores is : for Jayashree it would be around ₹ 80 crores, Agri business roughly ₹ 75 crores, Madura ₹ 160 crores, for Rayon its around ₹ 110 crores, and Insulator ₹ 30 crores,

Sumit Choudhary: This excludes Pantaloons?

Sushil Agarwal: That's right, Pantaloons will spent ₹ 150 crores on the top of it.

Sumit Choudhary: The second question is if I look at Slide #6 in your investor pack, basically in FY14 you funded ₹ 2500 crores of Investments and CAPEX, mostly through promoter infusion, dividend, buyback income, and release of working capital, which added to around ₹ 1200 odd crores, so did you fund ₹ 1300 crores from operating cash flows it seems in FY14? And your net debt went down by ₹ 450 odd crores, so I guess operational cash flow would probably add up to around ₹ 1600 odd crores. Can we assume a similar run rate of operational cash flow this year as well which would mean that your net debt could actually half this year, even if you assume like ₹ 700-800 crores of capital to be infused into Financial Services and for CAPEX, we are still talking a material reduction in net debt from these levels. So, are you comfortable reducing net debt to these levels or would you be happy to return some cash to shareholders in some form, if my math is right?

Sushil Agarwal: No, clearly there is a gap in your calculation. I believe you have excluded the cash inflow or debt reduction due to slump sale of Carbon Black business to the tune of ₹ 1300 Crore, which is where the difference in numbers are. In fact, the way we see the current debt levels which are around ₹ 3,200 crores in March 2014, the debt level may increase in current year. In the current year we are likely to invest around ₹ 800 Crore for capex and financial services plus there might be some investment required in Pantaloons. I do not want to sound negative, but in case if there is a working capital increase, what we generally see in Fertilizer business during the end of the financial year, then we may have another couple of hundred crores towards increase in subsidy outstanding. These factors may actually increase the debt level from current ₹ 3,200 crores level. So if we see numbers in that context.

Sumit Choudhary: But this year you will also have the proceeds of the ITeS sale of ₹ 600 crores?

Sushil Agarwal: That is true; if you put together the investment and capex for current year, the cash inflow of ₹ 500 crores and the current level of cash flow from operations should broadly meet up, and if at all there is some debt movement, it would all depend on working capital movement.

Sumit Choudhary: So we should expect a flattish overall debt level, even accounting for the sale of ITeS?

Sushil Agarwal: That is right; although I might keep a couple of hundred crores on a higher side only because of working capital, but looking at a couple of years trend, it looks like in the year end, the amount may increase. Actually; last year since in the Agri business, there was a 41 days shutdown, so volume will pick up this year and that in normal course also will require additional working capital requirements.

Sumit Choudhary: This shut down was towards the end of the year?

Sushil Agarwal: Yes, during the last quarter for 41 days.

Sumit Choudhary: On the Rayon, the ENKA plant is already up and running?

Sushil Agarwal: Yes, so as I said, full benefit will accrue in the current year. It is running at full capacity and the quality is at par what we have targeted. So that is complete from our point of view, and the plant is doing well.

Moderator: Thank you, our next question is from Girish Achhipalia of Morgan Stanley, please go ahead.

Girish Achhipalia: Just wanted to understand the turnaround strategy on Pantaloons. From where we have acquired the business and then we actually took control of the business in the half of the year, the business clearly seems to be struggling. So just want to understand the big picture, what is the road map here and how soon are we going to get to better growth on the top line because we have been talking about inventory for the last couple of quarters, in fact the revenue growth has been struggling for four quarters now. Even the margins, we are talking two, two and a half years from now. So just wanted your view as to what is needed to be done and how soon can we actually get there?

Manoj Kedia: As we were mentioning that the last year was the year of transition, though we had done a lot of things in the last year, if I just mention those one-by-one. We had rebuilt the organization because only few people were transferred in the design and merchandize team. Then what basically we have focused, when the new team has come, we created the SS-14 merchandize, which was made available in the mid-March in our stores, and initial response is encouraging. The full benefit of this will be seen in the coming period. We have also developed the Autumn Winter 14 merchandize and that will hit somewhere in the month of August. Then what we have done we have revamped the store-layout of a large part of our square feet presence, to ensure that the like to like sales growth and margins can be improved, that job we have completed. Then, we have launched 14 new stores last year, and going forward next year our plan is that we should be opening around 18 stores. We have done renovation and the refurbishment of one-third of our store population in FY14 and further 50% of the stores will be renovated in FY15. This should also give us better consumer footfalls going forward. And one of the important things is the availability of the right merchandize. Therefore, what we have done, we have created the new vendor base for the SS14 and for Autumn Winter 14, to deliver the material on time and as per our standard quality and cost. On the top of that, we have initiated the IT migration. But these initiatives are not fully reflected in the overall sales growth of 5% achieved in FY14, and like-to-like sales degrowth was around 1.6%. These initiatives will benefit in the current year. Last year, there was a lot of heavy discounting because of the extended end of season sale period that has also eaten up our margins. So, if you see we have taken steps to increase the margins in terms of the pricing, in terms of selling the material, but because of the discounting and the organization rebuilding cost, our EBITDA margin was impacted. Going forward, we believe that this year is going to be the year where we have to lay the foundation, we have to connect with the consumers through marketing, strengthen the brand portfolio and merchandize offering. Then we will also be focused on creating Pantaloons as an exclusive brand destination, we have launched two brands – SF Jeans and Chirpie Pie, we are also going to launch around three to four more brands going forward. Then we are also focusing on improving the store performance in terms of optimizing the cost, whether it is store OPEX or rental. We are working on variabilising some of the fixed cost. These initiatives give us the confidence that going forward we will be able to increase the sales and margins. But the fixed cost base which has got created in terms of the organization building costs, that definitely will take us some time, that is why we are guiding that in the next 18 to 24 months we will be able to reach to the industry level.

Girish Achhipalia: I understand the comments, but what do you make at the PAT level in the next two and half years, because you actually break even at the PAT level in the next two years?

Manoj Kedia: Right now we are EBITDA positive, and going forward that EBITDA is there, but because of the high leveraging, interest cost is higher, therefore this coupled with depreciation is leading to loss at PAT level.

Girish Achhipalia: That is exactly my point. So what exactly is needed, because the interest cost would remain where it is?

Manoj Kedia: As Sushil was mentioned we are evaluating options to reduce the interest burden.

Girish Achhipalia: Currently, the interest cost is 10.5%?

Manoj Kedia: Yes, it is around 10.6% or so.

Girish Acchipalia: So how much can it come down to even if the restructuring goes through?

Manoj Kedia: In terms of the current quantum of interest cost, it will remain at these levels, but whatever the fresh requirement is there for CAPEX or loss funding there will be no incremental interest cost or lower interest cost.

Moderator: Thank you. Our next question is a follow-up from Reena Verma of DSP Merrill Lynch, please go ahead.

Reena Verma: Just wanted to understand on interest cost is something has happened, I am not talking about the NBFC interest, but your core interest cost seems to have gone up quite sharply even though the balance sheet is de-leveraged, if you can comment on that please? And also the write-off the impairment you have taken in the Financial Services business, can you please give us some color on what this impairment is all about, please?

Sushil Agarwal: Reena, both the items are exceptional in nature. If you recall, to support the balance sheet of Minacs, a sum of ₹ 250 Crore was raised through CCDs in January 2010. Owing to the divestment of Minacs, CCDs have been redeemed along with net redemption interest outgo for past years to the tune of ₹ 88 Crore. This one-time interest charge has been recognized in consolidated P&L in Q4FY14

Reena Verma: Out of the ₹ 2.6 billion of core interest cost, how much is the CCD cost?

Sushil Agarwal: ₹ 88 crores, Reena. And the second point you were making on the write off. Since Aditya Birla Money and Money Mart were making losses, we tested these investments for impairment. As per the external valuation, the fair value of investments in Aditya Birla Money and Money Mart is above the carrying value. However, on a conservative basis as a matter of abundant prudence, we have provided for a diminution in value to the extent ₹ 19 Crore and this is shown as exceptional loss in consolidated accounts in Q4.

Reena Verma: Which means you have written off more than what the independent valuer suggested?

Sushil Agarwal: That is right, because we felt that in the past few years these businesses have not delivered as planned, thought largely due to industry related issue and macro-economic environment. Although third party fair valuation was higher than the carrying cost, we just provided ₹ 19 crores as prudence.

Reena Verma: At the consol level like excluding telecom, what is your CAPEX for fiscal '15 and what is the breakup?

Sushil Agarwal: So breakup of capex guidance of ₹ 460 crores is : for Jayashree it would be around ₹ 80 crores, Agri business roughly ₹ 75 crores, Madura ₹ 160 crores, for Rayon its around ₹ 110 crores, and Insulator ₹ 30 crores. This is the CAPEX at ABNL level. And we also talked about ₹ 150 crores Pantaloon CAPEX, which will happen out of Pantaloon's balance sheet. And then we talked about investments in Financial Services of around ₹ 350 crores, largely meant for NBFC company, depending on how the book grows in the current fiscal, but at this stage we have built in around ₹ 350 crores capital infusion.

Reena Verma: Just a very quick comment on two small issues; one is the insulator, you had some labor problems very recently at your insulator unit, is that sorted? And in the Corporate Finance segment of your NBFC book, you seem to be posting very strong growth, if you could give some color on what is happening there, please?

Sushil Agarwal: In Insulators business, there was a strike at west Bengal unit. We have a meeting with the workers tomorrow, hopefully that should get sorted out. On the Corporate Finance, Sachin, would you like to take up the question.

Sachinn Joshi: On the Corporate Finance, basically, the products that we have are channel financing, vendor finance, term loans, WCDL, and we have been focusing on the channel and vendor financing in the last financial year, where the growth has been substantial. Here we are basically dealing with vendors of Hindalco, Grasim, Ultratech. So the vendor financing is given to the vendors who have transactions with these corporates, and that has really increased in the book. On the term loan piece also, this year WCDL piece has grown substantially. The next year also the focus would be on these segments.

Reena Verma: Sachinn, two things I would just like to clarify, firstly the Vendor Finance, the risks in any way is held by the group companies? And secondly, what is the reason for your NBFC margins having fallen in Q4 – is it because you are growing in very-very competitive segments.

Sushil Agarwal: First of all, Aditya Birla group companies do not have any risk commitment on the vendor financing. Since some of these people have been dealing with the group for the last 30 to 40 to 50 years, the credit history is much better known, but the risk lies with the NBFC business, it does not get moved to any group company, but the only additional comfort what we have is, since these guys have been dealing with the group companies for the last 40 to 50 years, we have a much better credit history of these vendors.

Reena Verma: My question is that if you try to wean away customers or borrowers who already got 30 to 40 years track records, presumably you are having to offer them very fine rates in order to churn them out into your book, right – is that the reason why your margins are dropping?

Sushil Agarwal: Sachinn will talk about that in detail. Given whatever was happening in the last fiscal, the external environment was far more competitive. But I do not think that was the reason for drop in margins.

Sachinn Joshi: On the margins, if one actually sees the margins excluding the fee income, they are slightly going up, the margin is dropping slightly primarily due to the fee component going down. In the Mortgages business we are trying to go slightly retail, where the fee income is slightly lower compared to the non-retail business which we did earlier, like the ticket size earlier used to be about ₹ 15-20 crores, now we are trying to bring down the ticket size to about ₹ 8-10 crores. So the lower fee component is the reason why the overall margins are dropping, and not on the loan fees.

Moderator: We will take last question from Vipul Shah of Ripple Wave Equity, please go ahead.

Vipul Shah: I just want to ask is there any thought process at the strategic level of combining the Fashion & Lifestyle businesses, where the robust free cash flows of Madura could be of use to the other business in investment phase?

Sushil Agarwal: So Vipul, you bring up a very interesting point and I think at this stage I can only say that these are the options which we keep exploring to ensure better efficiency in the system, but today we do not have a ready answer. Appropriately as and when we have any development in this direction, we will come back to you.

Moderator: Thank you very much. I now hand the floor back to Mr. Sushil Agarwal for closing comments.

Sushil Agarwal: Thank you, everybody for participating. You can connect with Romi and Saket in case you have any further questions on this call. Thank you so much.

Moderator: Thank you. Ladies and Gentlemen, with that we conclude this conference call, in case of any further query, you may please get in touch with Mr. Romi Talwar or Mr. Saket Sah. You may now disconnect your lines.