Aditya Birla Nuvo Ltd.

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- Ajay Srinivasan – Business Director, Aditya Birla Financial Services
- Pankaj Razdan – Dy. CEO, Aditya Birla Financial Services
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Moderator: Ladies and Gentlemen, Good Evening and Welcome to the Q1 FY16 Earning Conference 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 the call today, Mrs. Pinky Mehta — CFO along with the 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 discussions on today's earning calls may include certain forward-looking statements and must be viewed therefore in conjunction with the risk and that the company faces. With this I would now like to hand the conference over to Mrs. Pinky Mehta. Thank you and over to you ma'am.

Pinky Mehta: Good Evening. On behalf of Aditya Birla Nuvo, I welcome all the participants to this earning call. With me I have Mr. Ajay Srinivasan — Business Director, Aditya Birla Financial Services, ; Mr. Pankaj Razdan — Deputy CEO, Aditya Birla Financial Services along with the senior management team of Financial Services business, Mr. Ashish Dikshit — Business Head, Madura Fashion and Lifestyle and Mr. S. Visvanathan, CFO, Apparels business. The Press Release, Investors Presentation, and Results have all been uploaded on our website and I hope you had a chance to go through the same.

I will briefly take you through the key highlights for the quarter.

ABNL has posted strong year-on-year earnings growth. The consolidated revenue of the company has grown by 10%, EBITDA is up by 31% and net profit has surged by 50%. All the business contributed to the earnings growth led by Financial Services and Telecom.

Aditya Birla Financial Services continues to rank among the Top 5 Fund Managers in India with a combined AUM of USD 29 billion, this has grown year-on-year by 29%.

The NBFC business continues to grow ahead of the market and posted 44% growth over last year to reach book size of USD 3 billion. Gross NPA at 0.84% has come down considerably year-on-year. This reflects our focus on writing quality book by growing the book at reasonably good pace. Despite increasing provisioning requirement in the current year, ROA has gone up from 2% to 2.2% and ROE from 13.9% to 15.3%.

The Housing Finance business which commenced operations in October 2014 has reported lending book at ₹ 450 Crore as on 30th June, 2015.

In the Life Insurance business led by growth in the Group segment, our new business premium has grown year-on-year by 6%. De-growth in Individual New business is due to exit of Citi as our bancassurance partner. On a like-to-like basis, excluding Citi, Individual New business premium is flat year-on-year while the growth in total new business is 16% compared to the reported 6%.

We have gained market share in Asset Management and General Insurance Advisory businesses. Asset Management business is consistently gaining market share; its domestic AUM share has increased to 10.22% from 9.98% a year ago. Domestic equity AUM has doubled year-on-year and equity market share has improved by 90 bps to 7.03%. Our focus in this business has been to grow our equity assets and business has attained good success on that account. Share of equity assets in domestic AUM has increased from 14% to 22% year-on-year.

Online Money Management Portal — MyUniverse continues to grow larger. As on date, we have 1.8 million registered users managing about ₹ 16,800 Crore of their personal finance portfolio. Recently, IFC has invested in this venture.

We have applied to IRDAI for obtaining Health Insurance license which will be a 51:49 joint venture with MMI Holdings Ltd. of South Africa.

In the Fashion and Lifestyle business, industry players continued to witness lower customer footfalls and consequential higher discounts. Amidst this challenging environment, our Fashion business has posted 14% growth in top-line and 37% growth in EBITDA. We continue to expand our retail reach added net 24 new stores during the quarter. Put together, now we have close to 1900 Stores spanning 4.8 million sq.ft.

Madura has posted 12% growth in top-line. Its retail channel sales grew by 10% with a like-to-like growth at 2%. Wholesale channel sales for Madura grew by 21% year-on-year.

The revenue of Pantaloon Fashion & Retail Ltd. is up by 14% at ₹ 439 Crore led by store expansions and like-to-like growth of 4.2%. It posted an EBITDA of ₹ 4 Crore against a loss of ₹ 4 Crore reported last year. As a result of its continued focus on enriching product portfolio, the revenue share of its exclusive brands has increased from 52% to 55%.

In the direction of value unlocking for the shareholders and consolidation of fashion businesses under one roof, court convened meeting of shareholders and creditors will be held on 7th and 8th September by PFRL and ABNL.

Idea continues to outperform the industry revenue growth and gain market share, driven by strong data volumes and voice minute growth, quarter-after-quarter, EBITDA margin is expanding. Idea's consolidated revenue jumped by 16% to ₹ 8,795 Crore and EBITDA is up by 32% at ₹ 3,351 Crore. Led by the post-tax cash profit generation of ₹ 2,553 Crore during the quarter, standalone Net Debt to EBITDA remained comfortable at 1.49 times.

Among our divisions, led by strong volume growth, all businesses have delivered an improved performance. Combined together the revenue at ₹ 1,434 Crore was up by 16% and EBITDA at ₹ 196 Crore surged by 41%.

Driven by 19% growth in urea volumes, improved energy efficiency and higher share of value added Neem Coated Urea, EBITDA of Indo-Gulf has more than doubled to ₹ 59 Crore. In the first quarter of the previous year, Urea volumes were impacted on account of a 15-day plant breakdown / shutdown.

EBITDA of Indian Rayon grew by 10% to ₹ 60 Crore, spurred by growth in VFY volumes and higher share of superfine yarn.

Aditya Birla Insulators saw its EBITDA at ₹ 8 Crore to ₹ 26 Crore largely because of a 64% rise in volumes and improved yield. In the first quarter of the previous year, operations of Rishra plant were disrupted / suspended for 42 days due to labour unrest.

On the Balance Sheet front, led by realizations of subsidy in agri business and operating cash flows, net debt has reduced by ₹ 382 Crore from March 2015 levels. Standalone balance sheet remains healthy with a Net Debt to EBITDA at 3.1 times and net debt-to-equity at 0.37 as on 30th June '15.

With further recovery of subsidy in July'2015, net subsidy outstanding has further reduced by ₹ 250 Crore. The company plans to incur CAPEX of ₹ 300 Crore in FY 2015-16, invest ₹ 600 Crore in the Financial Service businesses, majorly NBFC and Housing Finance businesses, and fund equity in the recently announced foray into the Solar Power business.

With this I hand over the call for Q&A session. Thanks.

Moderator: Thank you very much, ma'am. Ladies and Gentlemen, we will now begin the question-and-answer session. We have our first question from the line of Nishchint Chawate from Kotak Securities. Please go ahead.

Nishchint Chawate: My question pertains to your embedded value. Maybe if you could just give a little bit of a comment as to how the movement was during the year?

Amit Jain: The embedded value which we are reporting for FY15 is ₹ 3,260 Crore and last year we reported a number of ₹ 3,225 Crore, so there is an increase of around ₹ 35 Crore in the financial year.

Nishchint Chawate: Could you give a little bit of a color as to what would the investment variance be for the year? The reason why I am asking is that most of your peers have reported fairly strong number out here. So, I was just wondering, how would this number look like for you?

Amit Jain: The major variance is on account of unwinding of profits from in-force business value to adjusted net worth and there is a reduction in in-force business value mainly because of reduction in in-force policies and also there are some adjustments we have done in our surrender assumptions which has led to some reduction in embedded value.

Nishchint Chawate: Any color on what the investment variance would be?

Amit Jain: Investment variance I do not have the numbers right now.

Nishchint Chawathe: If you could give some color on the post-overrun margins?

Amit Jain: So our pre-overrun margins are around 14.1% and our expense gap will be in the range of around ₹ 290 Crore to ₹ 300 Crore which has reduced from last year.

Moderator: Thank you. The next question is from the line of Atul Mehra from Motilal Oswal. Please go ahead.

Atul Mehra: I have a question for Mr. Ashish Dikshit. Just on the Madura business, in terms of the CAPEX guidance that we have about ₹ 160 Crore, so can you just break that up between the three formats that we would have in terms of how much would be on, say, a COCO kind of stores and how much would be on general renovation that we speak of? Can you break that up in terms of number of stores and the mix between them?

Ashish Dikshit: First of all, this is not just the Retail CAPEX, so it includes everything; admin, office, manufacturing and everything else that goes on in the business. I do not have the exact breakup but I guess the Retail CAPEX which is related to opening of new stores and renovation of existing stores and which is what you are probably referring to would be closer to about ₹ 100-odd-Crore. We invest in two kinds of stores — one is our own COCO Stores where our investment in CAPEX is directly done by the company; the rest of the store formats which is COFO and FOFO are basically invested by franchisees. So our investment from CAPEX point of view is limited only to COCO Stores which is what is covered here. Additionally, we invest on shop and shops at large multi-brand outlets and large department store chains. That is another thing that we factor in this CAPEX and this is a combination of therefore new store retail investments in COCO format, investments in shop and shop and department stores and renovation CAPEX in existing stores.

Atul Mehra: In terms of COCO specifically, what will be the store addition that you would be looking at?

Ashish Dikshit: So our COCO store addition typically is about 40 to 60 Stores in a year, it is difficult to project at this point because we are reasonably neutral in terms of split across, we are opening close to 200 plus stores every year and more often than not we get franchisees to invest in wherever either the property is very strategic or we do not get a franchisee, that is the only place where we go ahead and invest in COCO stores and that is roughly about between 25% to 35% of our total network.

Atul Mehra: So the overall store additions should be about 200 stores like we have been maintaining over the past couple of years?

Ashish Dikshit: Yes.

Atul Mehra: Secondly, just one question in terms of on the ground environment in terms of brands business, so you have spoken about excessive discounting happening in terms of this season, and this quarter perhaps, so what is the sentiment like on the ground and when do we perhaps see any signs of L2L picking up?

Ashish Dikshit: I think it is at least some distance away. I think for much of Q2 until the festive season comes in and this year festive seasons are more in Q3 than Q2, Diwali is around November and some of the other preceding festivals are more in Q3. So we will have to wait and see for overall sentiment and market pickup closer to Diwali, I do not see the picture significantly changing in the interim period.

Atul Mehra: In terms of discounting, it has been more across the board or is this also led by e-Commerce to a certain extent, so what has been the key reason for this?

Ashish Dikshit: So undoubtedly, e-Commerce is a big factor, they are setting the standards as far as discounting is concerned and therefore in retaliation retailers have also upped the scale although they cannot really match the level of discounting that e-Commerce players are doing. So yes, overall industry is seeing a much higher level of discounting than it has ever seen before.

Atul Mehra: Just one question on a more strategic bit. In terms of brand additions we have seen one of our peers typically being aggressive in terms of brand additions. So at a strategy level now we have just carved it separately into a demerged entity. So do we look at focus perhaps coming to brand additions also in some sense from a next 2-3-year perspective?

Ashish Dikshit: At a very big level it will remain a part of our overall strategy but I do not think in the short to medium term that is going to tilt the scales for us. We have a strong focus portfolio of powerful brands which contribute close to 90% of our revenue. So even if we do add a few brands here and there that is not going to dramatically change picture for at least next 3 to 5 years. But, yes, we will look at opportunities and wherever relationships are enduring and we think there is value for us in the longer term in those partnerships we will look at it, but we are very-very selective about that.

Atul Mehra: Any update on Pantaloons, if you like to comment in terms of the way the strategy is playing out in Pantaloons?

Ashish Dikshit: I think Pantaloon results reflect pretty much the whole recovery story that we have sort of played out since its acquisition, over last 2-years or so.

There is a focus on increasing store productivity through a combination of refurbishment of stores, enhancement of overall gross margin mix through addition of private label and in-house brands. And that is really what is reflecting in the numbers that you see, this is a pretty subdued first quarter for the industry as a whole, but in the wake of overall market I think Pantaloon has continued to improve the organic health of the business.

Atul Mehra: In terms of the tie-up that we have with Flipkart for Pantaloons, so if you could just talk about the contours of what exactly would this be and what is the kind of traction you would expect out of this?

Ashish Dikshit: So it is too early to talk about it frankly, it's just about a month old tie up, but essentially Pantaloon has a large number of its own in-house brands which have potential to grow outside the store format and that is the business that we are taking out to multiple horizontal players like Flipkart.

Moderator: Thank you. The next question is from the line of Resham Jain from B&K Securities. Please go ahead.

Resham Jain: A couple of questions: First is on brands. Last year, during the festive time we have seen there was lot of disruption caused because of the e-tailers due to their sale offer and industry was worried about it. How is the industry basically combating that thing this year?

Ashish Dikshit: I think last year when it happened there was obviously a bit of a shock factor; it was a massive disruption in the middle of what we would call a full price season and where most retailers actually make money. I think over a period of time there is a fatigue, some bit of novelty that purely discounting was leading to customer migration, is beginning to flatten out but I do not think the phenomenon is yet over; I would be very surprised if something similar does not happen this year. To that extent I think the industry as a whole will have to get used to operating in an environment where one part of the business would continue to be driven by fairly aggressive promotion discounting. Over a period of time, as market matures and some of these players also start to look at their profitability, hopefully, the extent of discounting would come down and we are beginning to see first signs of it, but too early to say anything further on that.

Resham Jain: But, are we doing anything specific to basically reduce this impact?

Ashish Dikshit: I think most of our actions in business or brands will have to be long-term if we were to survive. Tactically, the only way to respond is to play the game the same way and which is really not the healthiest way to counter this. We are very careful in terms of protecting our brands and therefore the extent of participation that we have is fairly controlled and limited and we manage to make sure that at least the consumers who are buying our brands get more consistent and similar experience both online and offline. To that extent we probably do compromise a little bit on potential of higher sales, but in the long run it is going to payout well, I guess.

Resham Jain: Just to extend this further, do you see more impact of this on your brand business or on Pantaloons?

Ashish Dikshit: I think it is difficult to say at this point. Clearly, the impact is higher on more value products and categories which are younger. To that extent the portfolio of our brands which is more premium is relatively lesser impacted, but having said that, the propositions are sometimes attractive enough to downgrade and cause a shift in consumers from premium-to-sub-premium categories. So I would say it is similar across the price points.

Resham Jain: Recently, we have heard like Shoppers Stop tying up with Snapdeal exclusively. Are you also planning something on that direction if you get such kind of tie-ups?

Ashish Dikshit: So that is easy to do. We are in the business of brands and online is just another channel. We started with the wholesale, built up department stores and over last 10-years built a formidable network of our own exclusive retail stores. e-commerce is another channel and we are happy to partner and we do partner with most of the leading players. The extent of play that we have in this channel is currently constrained by the primary behavior that this channel seems to be thriving on which is a very high level of discounts and promotions. So our play is smaller, but it continues to be a channel and we are either already working with almost every player of any significance or pretty much in line to work with them.

Resham Jain: Have we started test running our omni-channel model, which we were talking about earlier?

Ashish Dikshit: No, not yet. The first part of omni channel is to build e-commerce business itself which is to build that channel which is what we have done. Amongst the brick-and-mortar players, e-tailers or brands we were the first one and we are the largest in terms of our own E-Commerce business, it is pretty small compared to the numbers that you hear around but we have at least got the technology capability and ecosystem to build our own e-commerce business and that is how we began. The overall journey to omni channel retailing involves fairly significant reinvestment in IT infrastructure, redesigning of processes, that is a project which is underway. I think only by about Q1 next year you would begin to see actual roll out of that.

Resham Jain: On the Solar business, which we are getting into, if you can just give some color on it, how we are going to go about it?

Pinky Mehta: We have plans to have 500 MW solar power capacity in the next 3 years. This year we will be bidding for around 100 MW capacity, next year ~150 MW capacity and then ~250 MW in year 3. So that is the way we are planning to go.

Resham Jain: It is a purely EPC project, is it?

Pinky Mehta: No, it is not a purely EPC project, in the sense, we will be entering into PPAs with the government for the long term say 15-20 years.

Resham Jain: Basically you are setting up this plant on your own, is it?

Pinky Mehta: Yes.

Moderator: Thank you. The next question is from the line of Dhananjay Bagrodia from Enam Holdings. Please go ahead.

Dhananjay Bagrodia: Just building up on one of the previous questions, wanted to understand a little bit, we have been hearing from some of the online players as well as other brands that brand itself have been asking e-Commerce players to sort of clamp down given the pressure from the other distribution channels. So have you actually seen sort of discounts come down and has that had some sort of positive spin effect on the business?

Ashish Dikshit: So we have been fairly consistent in our approach on this. We in fact put that as a primary condition to participate or deal with any of the e-Commerce players which is that we will control the pricing and promotions. So to the extent that we participate in this channel it is controlled and managed. Yes, across the industry I do feel several brands which have gone a little overboard in terms of specially ramping up volumes and business as fairly heavy discounts are beginning to climb back a little bit, but it is early days for industry as a whole. We are being fairly clear about it and we have been consistent right through.

Dhananjay Bagrodia: There has not been a significant sort of reduction in the discounting or at least to the level that, which you would hope to have seen, is that a takeaway for me?

Ashish Dikshit: I think there is intent and there are marginal signals but I do not think substantial change in what consumer faces in terms of discounting has really happened.

Moderator: Thank you. The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: Just wanted to get a sense of the significant loan book growth in the Infrastructure book, almost (+70%) while we are seeing no fresh projects coming up. Can you give us a sense of how this book is growing at such rapid pace?

Rakesh Singh: Actually, the Infra book space is reasonably small, so maybe we should not look at percentage numbers and the book really grew through the year. As far as we are concerned, we run a very careful credit process, all our loans are secured and secured not just by cash flows but by adequate other tangible securities. Our Gross NPA / Net NPA, in fact have actually fallen even in the Infra book. Although it sounds like Infra, I think the way we structure our loans is quite different to the rest of the market and therefore we do not have the same level of problems that other people have.

Amit Premchandani: In terms of the overall leverage in the NBFC business, what leverage you would like to raise capital? It is almost at 5.79.

Rakesh Singh: Between 5.5 and 6 I think that is the kind of level we would like to stay at.

Amit Premchandani: Any further growth would need capital infusion?

Ajay Srinivasan: Yes, we have been getting capital regularly from our shareholders as we grow. Even this year the plan is that our growth will be supported by fresh capital increases.

Amit Premchandani: Any tentative amount if you can share with us?

Ajay Srinivasan: It may be about ₹ 350 Crore to ₹ 400 Crore.

Moderator: Thank you. The next question is from the line of Tina Sekharan from BNP Paribas. Please go ahead.

Tina Sekharan: Could you give us an update on the status of your e-Commerce initiatives, whether it is the tie up with Zopnow or your Trendin, the e-Commerce website?

Ashish Dikshit: Our overall play in e-commerce consists of three progressive steps — the first one was to build our own in-house e-Commerce portal and Trendin was launched about 2-years back. It has begun to clock in e-Commerce terminology on a running rate basis perhaps close to about ₹ 80-90 Crore of revenue of our in-house business. So that is the first part of the strategy. We could grow that a little bit more rapidly, but I guess most of current e-Commerce growth is driven by discounts, which is something we do not want to bring back to our business. The second part is e-Commerce sales through other horizontal players like Myntra, Jabong, Flipkart, Amazon. As I mentioned in my previous responses, we have partnership with practically all of them. We are very careful to the extent that we play that game because typically these run on fairly large and extended periods of discounts and promotions, something which we are not comfortable with. So while partnership exists the business continues to be small. At an overall level our e-Commerce business was less than a percentage all of last year, it has grown to about 2.5-3% in the first quarter and I think we will end the year somewhere around a similar range. The final and the third step is to build an omni-channel program across our retail network combining physical and virtual shopping together. That is a process which is going to take time; we have laid out a blue print for it which envisages over next 12 to 18-months this being rolled out starting from Q1 next year.

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

Girish Achhipalia: Just a couple of questions to you: Firstly, on the Solar business. Basically what kind of ROE profile are we looking here, because the state electricity boards are really having serious issues, so getting into this business, I just wanted to understand the rationale and ROE expectations hereon. And secondly, if you could just break up the investment plan of ₹ 600 Crore that you plan to put in Financial Services into further buckets please?

Pinky Mehta: Firstly, our investment plan of ₹ 600 Crore, will go basically in the Financial Services, majority in the NBFC and the Housing Finance businesses. Regarding the Solar Power investment, we have a hurdle rate of 17% to get the equity IRR. So we will be bidding according to our internal hurdle rate.

Moderator: Thank you. The next question is from the line of Sangeeta Tripathi from Sharekhan. Please go ahead.

Sangeeta Tripathi: I would like to understand the size of each of our Madura brands. if you could just tell us, I believe all our brands are quite sizable at this point in time?

Ashish Dikshit: So far, as a consistent policy, we do not divulge revenues across brands, but just to give you a sense of size three of the four brands that constitute our power brands are in and around ₹ 1,000 Crore of revenue in terms of net sales value. Our largest 2 brands are little higher and lower than that and the third brand just below ₹ 1,000 Crore.

Sangeeta Tripathi: These three brands are Van Heusen, Louis Philippe, and Peter England?

Ashish Dikshit: That is right, and Allen Solly just marginally below.

Sangeeta Tripathi: So each of the brands are ₹ 1,000 Crore with the highest being Van Heusen over ₹ 1,000 Crore?

Ashish Dikshit: No, our largest brand is Louis Philippe.

Sangeeta Tripathi: Secondly, the ₹ 600 Crore investment that you talking of, that is predominantly for the Financial Services business, right, that will go largely to fund the NBFC and the Housing business, right?

Pinky Mehta: Yes.

Sangeeta Tripathi: So, apart from that, as far as Retail is concerned, you said that you will be also putting around ₹ 100 Crore to ₹ 120 Crore in the retail channel. Am I right on that? So, what I was trying to understand is, our CAPEX for the entire consolidated entity would be in the range of plus ₹ 1,000 Crore plus for this particular FY16?

Pinky Mehta: As we have already announced the de-merger of Madura Garments to Pantaloons Fashion & Retail Ltd. and the scheme is effective from 1st April'2015. Nuvo's CAPEX plan of ₹ 300 Crore does not include the CAPEX plans of Madura & Pantaloons i.e. ₹ 160 Crore and ₹ 125 Crore what we have mentioned in results update. So Fashion capex will be in addition to ₹ 300 Crore capex of ABNL what we have presented. This ₹ 300 Crore will mainly go to the divisions — Textile, Fertilizers, Rayon and Insulators.

Sangeeta Tripathi: I need to understand, Madura Fashions Retail now will look like post the demerger getting listed up, glimpse of what the balance sheet would look like?

S. Visvanathan: I think it is difficult for us to give you that now. I think we will have to wait for some more time. Once the court order comes through we shall give you the consolidated financials.

Pinky Mehta: And we have also separately presented the results of Madura Garments and Pantaloons Fashion & Retail Ltd. along with the current quarter financials.

Sangeeta Tripathi: Because we just have the P&L numbers, we do not have the balance sheet number. I was trying to understand what happens with the goodwill and all those things.

S. Visvanathan: Yes, we will come back to you with that once the merger is announced. The scheme is in the court consideration. So once it is done we will present the same.

Sangeeta Tripathi: ₹ 473 Crore debt gets parted from ABNL towards the newly formed entity, right?

S. Visvanathan: Yes, that is coming along with the transfer of the Madura business - debt of ₹ 473 Crore.

Sangeeta Tripathi: What is the debt level with the Pantaloons business right now?

S. Visvanathan: Currently, it is ₹ 1,367 Crore.

Moderator: Thank you. Ladies and Gentlemen, this was our last question for the evening. I would now like to hand over the floor back to Ms. Mehta for her closing comments. Over to you, ma'am.

Pinky Mehta: Thank you for participating and if you have any further queries, you may please get in touch with Romi and Saket. Thank you once again. Have a good day.

Moderator: Thank you, ma'am. Ladies and Gentlemen, with this we conclude today's conference call. Thank you for being with us and you may now disconnect your lines.