



Aditya Birla Nuvo Ltd.

Transcript of FY15 earnings call
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Management team:

- Sushil Agarwal – Whole time Director & CFO, ABNL
- Pankaj Razdan – Deputy CEO, Aditya Birla Financial Services
- Senior Management Team, Aditya Birla Financial Services
- Pranab Barua – Business Director, Fashion & Lifestyle Business
- Senior Management Team, Madura and Pantaloons

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Moderator:

Ladies and Gentlemen, Good Day and Welcome to the FY15 Earnings 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 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 risks that the company faces. With this, I hand the conference over to Mr. Sushil Agarwal. Thank you and over to you sir.

Sushil Agarwal:

Thank You. Good Evening and Welcome to the Earnings Call of Aditya Birla Nuvo. With me, I have Pankaj Razdan — Deputy CEO of Aditya Birla Financial Services, Pranab Barua – Business Director, Fashion & Lifestyle business along with the senior management team of Financial Services and Fashion & Lifestyle businesses. I will briefly take you through the key highlights of the year, then I will request Pankaj and Pranab to talk about the Financial Services and Fashion businesses.

In line with its vision Aditya Birla Nuvo has been investing in promising sectors and has built a leadership position across its businesses over the last decade. Today, we are the 5th largest fund manager in the country through our Financial Services business. We are the largest branded menswear and womenswear players through Madura and Pantaloons. In the Telecom business, Idea is 3rd largest in India and has been consistently outperforming the industry and gaining market share. With the strong cash generation of close to \$1.5 billion, Idea's Balance Sheet is healthy and supportive of future growth plans.

Among our Divisions, Linen business continues to post superior profitability and is operating at a ROACE of 53%. With rising popularity of Linen, almost 70% of current linen yarn demand is imported. To tap this opportunity, we are almost doubling our yarn capacity to 6,400 tons p.a., by 2016 at a CAPEX of ₹ 220 Crore.

In the Rayon business, the new Super Fine Yarn capacity continues to drive earning growth in VFY segment; however, due to poor caustic soda realization across the industry, the profitability in Chemicals segment got impacted.

Led by improved energy savings on the back of energy savings project which we undertook last year, Agri business has made a strong comeback; however, still it has not reached to the normalized level of profitability as, due to existing unfavorable government policy on production beyond 100% capacity, Indo Gulf had taken 35-days shutdown in Q4. Going forward, government's gas pooling policy will be beneficial for the sector and will help in improving plants efficiency and reduce subsidy outgo.

Insulators business has posted improved performance with increase in volumes and realization. The long-term imposition of anti-dumping duty on cheaper imports from China for five years will provide sustainable relief to the domestic players.

Combined together, the divisions generated ₹314 Crore free cash flow – a growth of 36% over previous year. Supported by the strong cash flow generation, the standalone balance sheet remains healthy with current Net Debt-to-EBITDA at 3 times and Net Debt-to-Equity of 0.42.

The standalone balance sheet has been the growth engine for ABNL. Over the past six years, we have invested close to USD 1 Billion to fund growth across our businesses and yet kept this growth engine healthy and strong.

It has been our endeavor of the company to unlock value for the shareholders once a business attains a large scale and can stand on its own feet to meet its future growth requirements.

Consolidation of ABNL's Fashion business under one roof to create India's Largest Branded Fashion company is a move in this direction. It will unlock value for ABNL shareholders by giving them a direct access and pure play in the Branded Fashion company.

With this, I would like to hand over the call to Pankaj with a request to hand over the same to Pranab thereafter. Thank you. Over to you, Pankaj.

Pankaj Razdan:

I think we had a very good year. All our businesses continue to show robust growth across lines and our focus continues to grow organically and look at opportunities to go and strengthen our businesses, wherever we get a strategic partnership. Towards the end of the year, we forayed into Housing Finance business, which commenced operations in October 2014, and we ended the year with a closing book of ₹ 142 Crore as on 31st March 2015. We acquired Mutual Fund Schemes of ING to strengthen our Portfolio Management Schemes. IFC acquired a strategic stake in "MyUniverse" which is an online personal finance management platform from Aditya Birla Financial Services. We have also signed an MoU with MMI Holdings for launching Health Insurance business in India.

Throughout the year if you look at the top highlights, we have grown by 35% in terms of assets under management which makes us one of the top five fund managers in India, excluding LIC, but our growth continues to be equally focused both on the top line and the bottom line. We grew our lending book by more than 52% year-on-year, and managed to grow the book with a high quality by decreasing our nonperforming assets. Revenues of Aditya Birla Financial services grew by 19% compared to last year, with earnings before tax growth of more than 17%. Last quarter, specifically for our Insurance business also has been good as, though overall we have always been showing growth, but if you divide the new business between Group business and Retail Individual Life business, after many quarters of stress on the Retail Individual Life, in the last quarter we saw a marginal decline in new business, and this is despite having 20% less sales force compared to last year. And overall on a year-on-year basis all the business have continued to show a robust growth. As I said that our focus will continue to on growing the existing lines of businesses, by individually focusing on the key strategic growth drivers. With this I would like to hand over to Pranab.

Pranab Barua:

Thanks and Good evening, this is Pranab Barua here. I will take few minutes time to cover two broad areas, first the way the market has behaved over the last quarter, and second on the performance of Madura brands and the Pantaloons format.

I think at a very broad level, the overall consumer sentiments have remained quite subdued right through the second half, in fact, in the first half we had very robust growth, but in the second half it has been rather weak. So, Q4 has also been impacted by the huge deep discounting across the industry both by the online players on one side as well as the offline players to match that. The festive season earlier also got impacted due to lower retail off-take in the industry and so, there were a lot of stock accumulation at the end of Q3, which led to higher discounts in the End of sales season. So, the combined impact of the overall macroeconomic conditions on one side and specific industry factors on the other, has resulted in a muted Q4 growth. So that is on the overall industry.

If you look at our performance, I think as far as Madura is concerned, we had a growth of 10% for the quarter, and 16% for the year, and like-to-like marginal growth of 1.5% for the year. In Madura, all the brands have performed really well with main brands like Louis Philippe growing by about almost 18%, Van Heusen growing by 15%, Allen Solly which got turned around last year and in the current year grew by almost 30% and Peter England which is our medium priced brand grew by about 14%.

Channel wise as well, because of the strength of our brands, we performed well not only in Retail but also in trade where we grew in strong double-digits as well as in the Department Stores. So, overall while the performance has been very encouraging, I think the market sentiment is still very weak.

As far as Pantaloons is concerned, we had a growth of approximately 12% in Q4 which is quite good with a like-to-like growth of almost 5%. In the Women's Ethnic Wear, we grew in Q4 by almost 36% and in the full year by about 23%. If I look at the

Zonal performance in Pantaloons, North and East performed well; North has been quite outstanding, growing at 19% in Q4, taking the year's growth to 12%, and East zone grew at about 8.5%.

Overall, in terms of Store roll out, we added at a gross level, approximately 340 odd Stores in Madura, having about almost 5 lakhs square feet, this was both what we call EBOs, which is our own launches as well as buy and sell stores. In Pantaloons also, we added a record 25-Stores, adding almost 3.8 lakhs square feet.

So with that I hand over the call back to Sushil, and we can take specific questions thereafter. Thank you very much.

Moderator: Thank you very much, sir. The first question is from the line of Deepanshu Madan from Locus Investments. Please go ahead.

Deepanshu Madan: My question is to Mr. Pranab. Sir, just wanted to get a sense of the 1,735 EBOs that we have in Madura, could we get a sense of how much is for each of the brands?

Pranab Barua: So, Largest is Peter England with 640 EBOs, then you have Van Heusen with 270 EBO's, Allen Solly is around 220, and Louis Philippe is 250. Then we have Planet Fashion, which retails our own brands through about 225-odd stores, then we have collective and People stores and in total all adds up to 1735.

Deepanshu Madan: We mentioned in the annual report and in the last call also that EBO sales are about 40-45% of total sales for Madura. So, just wanted to get a sense that is there any particular brand where this number is higher or is this 45-50% is standard across all brands? For Louis Philippe or Van Heusen, would the contribution from EBOs be higher than 50%?

Pranab Barua: I think Louis Philippe, Van Heusen, and Allen Solly will be the highest in terms of ratios. Peter England has a wider distribution and here EBO sales will be slightly lower than average.

Deepanshu Madan: When you say slightly lower, meaning that these three brands the ones that are higher, these are like 50% and the Peter England is lower than that, right?

Pranab Barua: Peter England will be probably closer to the 40% number and the other three would be little higher than average which is 44%.

Deepanshu Madan: On the NBFC side: Could we get the gross NPA absolute number in the NBFC business?

Sachinn Joshi: Roughly about ₹ 150 to 153 Crores, is the gross NPA number and percentage is 0.9%.

Deepanshu Madan: Would you have the split between the segments, any sense of where this ₹ 153 crores is sitting?



- Sachinn Joshi:** It is not really specific to a particular segment; it is across all the four segments.
- Deepanshu Madan:** Any particular large slippage that you have seen through the year?
- Sachinn Joshi:** Not really, this year in fact if you look at the gross NPA number, we have actually come down from 1.29% to 0.90%, we have been having a pretty decent run.
- Deepanshu Madan:** What would be the total assets in the NBFC?
- Sachinn Joshi:** 17,550 is the total book.
- Deepanshu Madan:** That is the total lending of the NBFC, what would be the total balance sheet assets as a closing number?
- Sachinn Joshi:** Primarily, the NBFC book will be the asset side, adding the current assets, just about ₹ 200-300 more crores.
- Deepanshu Madan:** So, ₹ 18,000 crores, right?
- Sachinn Joshi:** That is right.
- Deepanshu Madan:** Mr. Pranab, what would be the sales and EBITDA for the Collective business, how is that doing, could you give some color on that business?
- Pranab Barua:** We are doing about ₹ 100 crores of sales in Collective and at the store level it is profit positive, but at the EBITDA level, with the overheads and marketing, we are still at a loss of around ₹ 10 – 12 crores.
- Deepanshu Madan:** The MGLRCL subsidiary which has Collective and then it has the other segment which had like ₹ 300 crores of sale last year, that is Planet Fashion, then right?
- Pranab Barua:** Yes, that is Planet Fashion.
- Deepanshu Madan:** What would Planet Fashion be doing in terms of sales and EBITDA?
- Pranab Barua:** Planet Fashion revenues are ~ ₹ 300 crores. This format retails Madura Brands Louis Phillipe, Allen Solly and Van Heusen. Normally we take the margins of sales from this format into the main brands, because this is a distribution channel for the main brands.
- Deepanshu Madan:** So, when the subsidiary is reporting numbers, the reporting is ₹400 crores of sales, but then at the EBITDA level we are only doing for Collective or we are keeping some distribution income in the subsidiary as well?
- Pranab Barua:** We are keeping distribution margins in Planet Fashion. It has EBITDA of ~ ₹ 3 Crores.
- Moderator:** Thank you. The next question is from the line of Abhishek Ranganathan from PhillipCapital. Please go ahead.

- Abhishek Ranganathan:** My question is to Mr. Pranab Barua. If you could actually share the break-up of the own brands; one is the own brands of Pantaloons plus Madura, and also the channel wise break-up how it is looking like for Madura?
- Pranab Barua:** Let us take the Pantaloons question first. Excluding Madura, own and licensed brands constitute 52% of our sales, this is excluding Madura. Madura is 10%, and the total is around 62%.
- Abhishek Ranganathan:** What can we take this number to as a blended basis both put together over a period of next 2-3 years?
- Pranab Barua:** My own sense is that Madura has got limited potential in this format because Pantaloons is a value proposition, so I don't think Madura's share in Pantaloons sales will increase, in fact, it may even come down, as Pantaloons is developing its own brands and pushing them into the format and many of them are very successful. My own sense is that this private brands figure excluding Madura could go up, difficult to judge right now, because it will be a consumer issue more than our intent, but I think probably between 60% to 65%.
- Abhishek Ranganathan:** A couple of numbers which I missed out in your opening commentary. You mentioned Louis Philippe grew at 18%. How much is Van Heusen and Peter England growth?
- Pranab Barua:** Van Heusen grew by 15% y-o-y and Peter England by 14%.
- Abhishek Ranganathan:** Basically, just wanted to understand in terms of brand growth, is it because of some brands getting more EBOs or which one is because of more like-to-like growth, Allen Solly growth led by more like-to-like growth or expansion?
- Pranab Barua:** In terms of L2L growth, Peter England grew the highest at about 5.5%, Allen Solly at 4.3%, Van Heusen and Louis Philippe has been closer with 1.5 to 2%. When we talk about like-to-like growth, we are really talking about the Retail part of the business, but since the other channels are also there, overall growth was what I talked about by the earlier numbers, while this is the like-to-like growth in the Retail channel.
- Abhishek Ranganathan:** Share of non-apparel in Pantaloons Fashion has basically been coming down, I presume this quarter also would be around 5 or 6% because just by calculating the number given. That is quite a drastic drop what we have seen?
- Pranab Barua:** I think it is basically a management decision to actually look at this much more closely. So Q4 non-apparels was around 13.5% of the mix and for the full year it is about 14%, but going forward, I think it will be probably not more than about 10% or so, because our overall strategy is that we will focus on the areas that we can actually create a distinctive offering. We are looking basically around the Footwear business both Men's and Women's, Handbags for women, all the other stuff like Glasses, Watches, all the various accessories that you have, there is no distinctive proposition here, and margins are low. So we are actually curtailing space and giving it to our Apparel brands as we launch more and more of these private label spaces or

the premium offerings and we therefore deal with a high margin business. So that is why you will see our margin increases also coming quite dramatically, if you take the FY14 gross margin it was around 41.5% and this year it is 340 bps higher. So this is our whole idea. Every area that we are in, every category and every brand that we are in, we want to have a distinct proposition. So non-apparels, you will see it probably coming down to a mix level of around 10%.

Abhishek Ranganathan: Sir, in terms of CAPEX of Pantaloons Fashion what we have seen here is that, we have had a significant CAPEX adding ₹ 40 crores plus in the fourth quarter. Could you give us a breakup for the year, how the CAPEX has been in New and Refurbishment? Are we done with most of the Refurbishment? And largely, also the fact that the acceleration depreciation, would it be more or less behind us going ahead and what will be our normal level of depreciation going ahead?

Pranab Barua: First, I think we would probably spend around about ₹125 crores in CAPEX this year in Pantaloons and out of this about ₹70 crores will go for new store CAPEX, about ₹16 crores for renovation, there is also Refurbishment that we are doing for new brands as we are putting them, that is about ₹30 crores, and there is a IT CAPEX of around 16 crores. That is the broad mix of the overall ₹125 crores. Going forward, I think our overall challenge is to go for aggressive growth in Pantaloons and therefore this year we launched 25-odd Stores and we will target probably higher number than that in the coming year. So our CAPEX accordingly for next year would be probably reflect that in terms of new stores, it would be closer to the ₹ 80 - 100 crores mark for new stores. So that is broadly in the new store area. On refurbishment I think most of the work has been done and completed.

Abhishek Ranganathan: You are done with refurbishment and renovation largely?

Pranab Barua: There would be a few stores here and there, and there will be fixtures that will be spent for new brand launches, we always keep about ₹10 - 15 crores for that, but bulk of the thing has been done.

Abhishek Ranganathan: Because the accelerated depreciation which we have taken on our books, how does it change because, we see practically half of our depreciation is accelerated depreciation for this year, so how the normalized depreciation looks for us going ahead in the company?

Pranab Barua: I think what is happening on this accelerated depreciation is we are closing stores on one side and we are also having renovation on the other and this is actually necessitated. So we are seeing accelerated depreciation is taking overall number up. We probably have few stores which we have to do in the next year. Once that is done, I think that will complete the picture.

Abhishek Ranganathan: Once the transaction between Madura and Pantaloons is consummated, we foresee there will be a significant amount of goodwill possibly getting generated, we have seen capital employed for Madura and the value at which it will demerge into Pantaloons Fashion. Any thoughts on how would it be accounted, in the sense that

the capital employed is going to have a significant amount of goodwill, any plans as to whether we are going to impair it over a period of time?

- Sushil Agarwal:** So actually we are still in discussions with our auditor and you are right actually some goodwill will get created and the accordingly accounting treatment will be done.
- Pranab Barua:** Actually, what will happen is, the new accounting system once it comes in place, we will have to fall in line with that.
- Moderator:** Thank you. The next question is from the line of Pritesh Cheddha from Emkay Global. Please go ahead.
- Pritesh Cheddha:** I missed out on the brands growth number, so Allen Solly was 30%, Louis Philippe was 15% if I got it right?
- Pranab Barua:** Louis Philippe was 18%, Van Heusen is 15%, Peter England is 14%, and Allen Solly is 30%.
- Pritesh Cheddha:** My second question is with respect to the channel mix that we have on the Madura side of the business, 45% is EBO, how much is wholesale?
- Pranab Barua:** There are two parts to wholesale; one is what we call the Trade and one is the Department Stores.
- Pritesh Cheddha:** Then MBO would be another part to the channel mix or you ...?
- Pranab Barua:** MBOs, which is part of Trade as well as the Buy and Sell Stores we call it as Trade, we do not consider as Retail sales, and then there are Department Stores.
- Pritesh Cheddha:** I got a little bit confused; EBO plus you say Trade is 45%?
- Pranab Barua:** EBO by itself last year was 44%, then Buy and Sell and MBOs what we call as Trade is 25%, Department Stores approximately around 16% these are the main ones and then there are exports and depletion channel sales.
- Pritesh Cheddha:** So we do not have Wholesale in any part?
- Pranab Barua:** We club Trade and Department Stores under Wholesale channel.
- Pritesh Cheddha:** So that would be a part of Department/Trade?
- Pranab Barua:** Yes, but I will just give you the numbers of different channels; one is 44% of sales which is from our Retail channel or EBOs, then Trade channel which comprise of MBOs, that is 25%, Department Stores which is sales through Shoppers Stop, central, Pantaloons etc., which is 16%.



- Pritesh Cheddha:** So which means we actually do not have much of a distributor-driven sales, we largely have direct sales?
- Pranab Barua:** There are two parts to it; whether we would like to call it Wholesale or not, the fact on that in only one brand Peter England we have distributors, so we sell them and then they sell to the MBOs. So, that is about 30% of our sales for Peter England, but not in other brands.
- Pritesh Cheddha:** What explains the 40 bps change in margin on the Madura side of the business for FY15?
- Pranab Barua:** I think this is the mixture of our cost cut program as well as the product / brand mix change that has happened.
- Pritesh Cheddha:** In your growth plan, do you foresee further change in mix and channels?
- Pranab Barua:** Broadly speaking, the Retail channel will continue to gain share in the mix because that is where we are aggressively pushing, we are opening about 200 odd EBOs every year. So that is one big point. The sales from Department Stores come out of the number of doors that we open in each Department store or the number of outlets they open. So the main change will be driven by the EBOs.
- Pritesh Cheddha:** Generally, what is the payback that you experience in EBOs?
- Pranab Barua:** When we put in an investment we look for a nominal payback of five-years.
- Pritesh Cheddha:** Is it cash breakeven in year-1 or it is not?
- Pranab Barua:** I would say 70 to 80% of the outlets that we launch are cash positive in year-1.
- Pritesh Cheddha:** Which means there is a margin tailwind on account of mix itself?
- Pranab Barua:** That is right.
- Pritesh Cheddha:** On the Insurance side, I was going through the presentation, I could figure out the incremental equity invested in NBFC, but I could not see the incremental equity invested in insurance if any or there was not?
- Sushil Agarwal:** There was none actually.
- Pritesh Cheddha:** Till Last year ₹1751 crores of capital was invested in insurance, that stays as it is?
- Sushil Agarwal:** Yes. Life Insurance business did not require any capital infusion in past 5 years
- Pritesh Cheddha:** I can figure out in finance. But, is there capital needs in Insurance?
- Sushil Agarwal:** No.



- Moderator:** Thank you. The next question is from the line of Girish Achhipalia from Morgan Stanley. Please go ahead.
- Girish Achhipalia:** Three questions: Firstly, on the NBFC book, if you can provide some guidance as to what kind of growth are you expecting next year and if you could break that number up into different segments?
- Sachinn Joshi:** This year we have grown by about 50% because the base was lower, but as the base starts growing it will be difficult to maintain the similar kind of growth rate, but, Yes, there will be still focus on mortgages as well as the Corporate Finance business, which is in a channel and supply chain financing which is really doing pretty well for us. So, we would be concentrating more on those.
- Girish Achhipalia:** So growth would be how much?
- Sachinn Joshi:** At this point of time difficult to really talk about, but, Yes, it will be market-driven, we cannot share the exact numbers with you.
- Girish Achhipalia:** Second question again on the NBFC business, we have spoken about unlocking of businesses once they achieve significant scale. What is the good number to look at because we have already reached ₹ 18,000 crores?
- Sushil Agarwal:** That statement has to be read in context because I also added that when the business is able to sustain on its own and they may not need further capital from parent for the growth purpose. So still the NBFC business needs capital and I think we still believe that we will nurture this business to become grow more on a scale. So we have not really kind of decided anything around that business as of now.
- Girish Achhipalia:** On the Fashion business, if you can share the growth outlook separately for Madura and Pantaloons for next 2-years on the top line, and especially given the light of the fact that you see subdued environment on macro and you have spoken about online taking share, deep discounting and similar number on the margin side for both Madura and Pantaloons for the next two years?
- Pranab Barua:** We do not share the earnings guidance, but we can share the guidance on number of store additions which we are planning it do in both Madura and Pantaloons, so in Madura we are planning to add 250 to 300 more Stores next year on a base of 1735-odd Stores today, so that will be the expansion growth which will come in the Retail segment, and in the Pantaloons we are targeting to add 30 plus Stores next year on a base of 104 Stores today. The expansion growth will come from these stores which will get opened next year.
- Girish Achhipalia:** How one should look at the margins – should it be flat to up or should it be flat to down given the mix issue that could come up near-term?
- Pranab Barua:** In Madura, clearly, we are a large scale player, we have operating leverage in Madura and that is clearly visible from the historical performance. So on a like-to-like growth ranging in mid-single to high-single-digit we have shown improvement in

Madura and that will continue. In Pantaloons, as we have earlier said that, there were a few initiatives which we had taken in terms of new store openings and we have also launched new brands. So there is upfront cost which gets built up when the business is in the investment phase. So now we are getting benefit of these new stores which got opened up and are now generating normalised revenue. Also increase in share of private labels will drive margin improvement in Pantaloons going forward.

- Moderator:** Thank you. The next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.
- Saurabh Kumar:** I am just referring to your Slide #40, your fee to AUM, so your fee to asset number if you calculate has gone up less than the AUM, your AUM has gone up by 39% for the full year and the equity mix has even improved.
- Pankaj Razdan:** Fee is the function of the mix of the assets, so there will be also a lot of assets besides equity we should have grown up along with this which includes short-term debt and liquid funds. So, some mix of assets which reflects over here.
- Saurabh Kumar:** Domestic equity and alternate assets, which was ₹13,000 odd crores has also growth faster. So the mix will be better, right?
- Pankaj Razdan:** Yes, it should happen because the whole year impact of the equity will be for the 12-month when it is there, because you calculate fees on a monthly basis, equities that would have come in last quarter would have an impact for only three months' time. So as of the time progresses, you will see the impact of the equity assets.
- Saurabh Kumar:** On the NBFC, this Infrastructure Finance book, what kind of sectors does it comprise of and what is like the yield on loans which you have on this book?
- Sachinn Joshi:** Our yield actually on all the different lines of businesses that we have, we have around 13% plus overall yield. The net margins are about 4.5% to 5%.
- Saurabh Kumar:** But 13.5% including fees?
- Sachinn Joshi:** Yes.
- Saurabh Kumar:** This Infrastructure business will be what sector mostly we do?
- Sachinn Joshi:** Sector wise if you look at, we are into Power Generation Renewable, Thermal, Roads, Healthcare.
- Saurabh Kumar:** What percentage will be Power generation?
- Sachinn Joshi:** Power Generation like Renewable will be about 15% odd, Thermal will be about 7%, Power Distribution will be 2%. So it is a very well diversified kind of portfolio, it is not really a one particular segment which really we are focusing on.



- Saurabh Kumar:** You are on what NPL provisioning here, what is the standard you apply here, 150-day or?
- Sachinn Joshi:** No, right now it is as per RBI, but we have additional contingency provisioning which we do which is in the region of about 0.05% to 0.35% depending on the asset class.
- Saurabh Kumar:** If I can ask in other way, if I calculate the coverage right now, so what will be a 90-day NPL for this 0.9% if one were to look at, what will be your estimate?
- Sachinn Joshi:** We are actually moving in line with the RBI regulations and progressively we would be making the provisioning as and when it comes. If you look at the overall provisioning itself, gross NPLs are at 0.9 and net at 0.32. So we have been making significant provisions already in the book as required, sufficient cover.
- Saurabh Kumar:** No, I am not asking quality of assets. I am just trying to understand this 0.9% will be based on 180-days, how does this number moves on 90-days basis, since this is mostly corporate and infrastructure, impact should not be high?
- Sachinn Joshi:** We would not really have a major significant change.
- Moderator:** Thank you. The next question is from the line of Namesh Chhangani from Axis Capital. Please go ahead.
- Namesh Chhangani:** A couple of questions on the NBFC side: So firstly, on this Infra, when you spoke about that the Renewable is 15, Thermal is 7, so going forward, which would be a focus area for you in this Infra piece or it would remain like this with the years? On the mortgage side, we also have this Housing Finance piece. So, are our team different for originating Housing Finance as well as this mortgage loans or there are other similar teams? My third question is on your borrowings. What is the total borrowings in the NBFC? What would be the mix like – how much it is from banks and from others?
- Sachinn Joshi:** The first question on the Infra, Yes, till the time the economy really picks up and new projects start coming in, we would be very selective in terms of taking exposures in this particular segment, and last year you have seen that Wind and Solar has reasonably been buoyant. So we had some exposures taken to that. On the Housing Finance and the Mortgages in Aditya Birla Finance, teams are completely different, well segmented, they are two different entities actually running the business; Housing Finance company is completely different, we have a separate set of people running the show over there. On the borrowing side, we have about 55% from bank loans, NCDs are about 28-29% and rest is commercial paper.
- Namesh Chhangani:** In this quarter we have also seen a significant growth in the Corporate Finance side, like it has grown 30% on a sequential basis. Are there short-term loans or is this thing sustainable kind of performance or ...?
- Sachinn Joshi:** If you look at corporate finance portfolio basically 30% is from channel finance and vendor finance segments, i.e, about ₹1200 Crore. So our focus would be on this



particular segment. We have term loans which are about 50% of the overall corporate finance book and the rest is WCDL at 20%.

Namesh Chhangani: So 50% of your corporate finance is your term loan is what you are saying?

Sachinn Joshi: Yes, that is right.

Namesh Chhangani: Is it particular to the Aditya Birla Group's vendors or is it across?

Sachinn Joshi: Channel finance, Vendor finance, yes, we started off with the Aditya Birla Group vendor, we have taken a couple of exposure with others outside, but very limited.

Namesh Chhangani: Primarily to the ecosystem?

Sachinn Joshi: Yes, that is right.

Namesh Chhangani: In your Life Insurance business, what is the persistency ratio?

Amit Jain: Our 13-month persistency by premium is around 62% which we have reported as on March and it has grown by around 200 bps compared to last year.

Moderator: Thank you. Our next question is from the line of Sejraj Bariya from East India Securities. Please go ahead.

Sejraj Bariya: Just wanted to know, if you can give us some idea on Trendin how the performance is looking, some metrics if you can share?

Pranab Barua: It is still early days, as you are aware, we sell all our four Madura brands as well as pantaloons on the Trendin platform, not very large number, it is around ₹ 30 crores on an annualized basis today and all the KPIs at the moment I do not have in front of me, but I can separately share that with you. Currently TrendIN is less than 1% of Madura sales.

Moderator: Thank you. Our next question is a follow up from the line of Pritesh Cheddha from Emkay Global. Please go ahead.

Pritesh Cheddha: Sir, what is the differential gross margin between an EBO sale and a non-EBO sale?

Pranab Barua: On a gross margin front, since it is before any distribution expenses, so it does not matter which channel you are selling it. But if you look at the average selling price, the retail average selling price is much higher because when you sell to the trade or department stores, the trade margin is also deducted from MRP hence net sales value (NSV) booked in Trade & Department stores is much lower than MRP. So net of sellex if we see, you get about 40-45% margin in the trade or department store on a lower NSV and closer to the 20-25% margin on the higher NSV in Retail. But if you look at the per unit cost of margin that you actually make, not percentage wise, we still make a little bit more in trade but the differential is not that much higher. So

profitability wise, the trade looks much more profitable because of the fact that the Store costs are not there.

Pritesh Cheddha: Second, on the lending book side, how much is Corporate book and how much is Retail book?

Sachinn Joshi: Retail book, in case of Capital Market portfolio, about 40% is Retail and Corporate Finance it is more of Corporate and SME lending that we do. In case of mortgages, the ticket size has come down now overall, but I do not have the ready number for the mortgages piece. Infra is all Corporate.

Pritesh Cheddha: ₹17,550 crores lending book, we should read it as 40% Retail and 60% Corporate?

Sachinn Joshi: No, out of overall ₹ 17,550 Crore book, about ₹ 4,000 crores is in capital markets space, out of that ₹ 4,000 crores, roughly 40% or about ₹ 1300-1400 crores is Retail.

Pritesh Cheddha: About 10% on the total actually, and that is the only portion of the Retail?

Sachinn Joshi: Yes, that is a substantial one.

Pritesh Cheddha: And balance 90% that means becomes...?

Sachinn Joshi: Mortgages side, I do not have the exact number right now, but about 15-20% of mortgages book which is ₹ 5,000 crores portfolio, maybe out of this 15-20% is retail.

Pritesh Cheddha: It is like 75-25 type?

Sachinn Joshi: Yes, we can say that.

Pritesh Cheddha: On one side, we have an aggressive expansion plan in Pantaloons on a store base of roughly 100, we are adding another 25-30. So do you see one, any margin tailwinds in Pantaloons, number one? And question number 2, are there any synergy benefits on account of this whole merger transaction?

Pranab Barua: I will take the second question first; obviously, the synergy that will probably exist in the whole area of sourcing which we would probably combine with the companies come together. So we will get some synergy benefits on logistics and movement of stocks and sourcing and the vendor network. So that is the major benefit that we will get on the sourcing side. On the margin tailwind that you talk about, it is not necessarily related to the expansion, it is more related to the improvement in our mix of private label versus the external brands. And our intention is to, as I mentioned in the overall comment, we will probably go to 60-65% mix on our own brand vis-a-vis our current level of around 52%. So that should drive the margins up.

Moderator: Thank you. Participants, that was the last question. I now hand the floor back to Mr. Sushil Agarwal for any closing remarks. Thank you and over to you, sir.



Sushil Agarwal:

Thanks, everybody for the participation and if you have any further questions, you can get in touch with Mr. Romi Talwar or Mr. Saket Sah in our corporate office. Thank you.

Moderator:

Thank you. Ladies and Gentlemen, on behalf of Aditya Birla Nuvo that concludes this conference call. Thank you for joining us and you may now disconnect your lines