Aditya Birla Nuvo Ltd.

Transcript of Q2FY12 earnings call held on November 2, 2011

Management Team:

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- Senior Management Team, Aditya Birla Financial Services
- Senior Management Team, Fashion & Lifestyle business
- Mr. Deepak Patel, CEO, IT-ITeS business
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Moderator Ladies and gentlemen good day and welcome to the Aditya Birla Nuvo Q2 FY12 results conference call. As a remainder all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to whole time Director and CFO – Mr. Sushil Agarwal. Thank you and over to you sir.

Sushil Agarwal Thanks. Good morning everybody. We welcome you to the earnings call of Aditya Birla Nuvo. With me I have on the call Pankaj Razdan, Deputy Chief Executive of Aditya Birla Financial Services and senior management team of our financial services business. Ashish Dikshit, President and S. Visvanathan, CFO of our Fashion and Lifestyle business, Deepak Patel, CEO of our IT-ITeS business and Manoj Kedia, President and Deputy CFO of Aditya Birla Nuvo.

Through this presentation we will cover Aditya Birla's Nuvo key highlights, business wise performance and financial result of Q2.

<u>Key highlights</u>

- Birla Sun Life Insurance improved its ranking amongst Private Life Insurers to 4th
- Birla Sun Life Asset management also moved one step up to rank 4th
- Idea continued to increase its market share which stands improved from 13% a year ago to 13.9%

- Having crossed 100 million subscribers base, Idea has built a strong platform for future growth
- Madura Fashion & Lifestyle continued to expand its retail presence to strengthen its leadership position.
  - Its retail presence is scaled up to 1,021 EBOs spanning across 1.5 million square feet.
- Aditya Birla Minacs built a strong order book in the first half year.
- Carbon Black and Insulators businesses witnessed lower off-take while textiles business supported earnings.

Consolidated earnings

While few of the businesses were affected by surrounding macroeconomic environment, ABNL's earnings growth was supported by Financial Services, Telecom and Fashion & Lifestyle. This reflects strength of its conglomerate model.

- Registering strong growth in earnings, ABNL's consolidated revenues grew by 18% to ₹ 5342 Crore
- EBITDA surged by 25% to ₹ 779 Crore

Strong Balance Sheet

- ABNL's balance sheet and financial ratios continue to remain sound.
- Excluding working capital borrowings, other loans have reduced year on year.
- ABNL's Net Debt to EBITDA at 3.5 and Net debt to Equity at 0.64 continues to remain in a comfortable zone.
- These ratios have increased compared to March 2011 due to rise in working capital borrowings, largely in the Carbon Black and Agri-business.

Coming to business wise performance.

Aditya Birla Financial Services (ABFS)

Aditya Birla Financial Services continues to strengthen its position as a significant non-bank financial services player. While the Life

Insurance and Asset Management businesses improved their rankings, the NBFC business scaled its book size.

- During the quarter, ABFS posted consolidated revenue at ₹ 1,680 Crore.
- ABFS displayed a strong growth in profitability.
- Earnings before tax more than doubled from ₹ 62 Crore to ₹ 138 Crore.

Birla Sun Life Insurance (BSLI)

- In the life insurance business, Birla Sun Life Insurance reported a lower de-growth during the half year, compared to private sector
- As a result, Birla Sun Life Insurance improved its ranking to 4th among private sector players and increased its market share from 7.6% to 8.7%.
- Particularly in September 2011, Birla Sun Life achieved year on year growth of 58% in new business premium.
- With the waning of base effect, de-growth in private sector's new business also reduced to 14%.
- In terms of individual new business growth also, Birla Sun Life outperformed private sector.
- The gross premium income of Birla Sun Life grew year on year by 6%.
- Driven by strong persistency, the renewal premium grew by 21% to ₹1,055 Crore.
- The 13th month premium persistency ratio stood at 82% as on 30th September 2011.
- The new business premium income at ₹ 479 Crore de-grew due to lower ULIP sales.
- However, non-ULIP portfolio has been strengthened. It has contributed to 44% of the individual new business compared to 8% in the previous year.
- During the quarter, earnings before tax surged year on year from ₹ 20 Crore to ₹ 97 Crore.
- Bottom-line growth was driven by the growing in-force book, balanced product mix and better expense management.

- No capital infusion was required during the quarter as internal accruals adequately met additional solvency requirement.

Birla Sun Life Asset Management (BSAMC)

- Coming to Asset Management business
- Birla Sun Life Asset Management posted 2nd lowest de-growth in domestic AAUM among top 5 players
- As a result it moved one step up to rank 4th with a market share of 9%.
- It posted revenue at ₹ 78 Crore and earnings before tax at ₹ 20 Crore.

Other Financial Services

- In other Financial Services, Aditya Birla Finance, the NBFC arm, diversified its portfolio adding infra financing
- This contributed to the growth in its book size.
- The closing book size grew year-on-year by 24% to around ₹ 2,500 Crore.
- Revenue grew from ₹ 32 Crore to ₹ 73 Crore in line with its average book size which has nearly doubled year on year.
- Earnings before tax more than doubled to ₹ 25 Crore.
- Having strengthened the management team, ABFL is focusing to grow the book profitably while managing risk optimally
- In the private equity business, out of the ₹ 881 Crore commitment received under first fund, about 40% has been deployed.
- The second fund 'Sunrise Fund' received commitments of about ₹ 225 Crore on its first closing. First investment has been made for about 10% of the corpus size.
- In both the Broking and wealth management businesses, losses have been reduced quarter on quarter led by revenue growth

Telecom: Idea Cellular

- In the telecom business, revenue grew year on year by 27% and EBITDA by 30%

- Strong growth in total minutes on the network and rise in average revenue per minute contributed.
- Net profit, however, de-grew from ₹ 180 Crore to ₹ 106 Crore due to additional expenses of amortisation of 3G spectrum fee and charging of related interest cost post roll out of 3G.
- Idea continues to have the highest active subscribers' ratio in the industry at 91.5% as on 31st August 2011
- It is also the leading net subscribers' gainer post launch of mobile number portability reflecting its brand strength.

Madura Fashion & Lifestyle

- Madura Fashion & Lifestyle achieved 24% growth in revenue supported by 28% volume growth.
- The retail channel attained 39% growth led by like-to-like stores sales growth & retail space expansion.
- It launched 90 Exclusive Brand Outlets during the quarter.
- EBITDA grew by 28% to ₹ 58 Crore driven by sales growth.
- Increase in volumes and apparel prices compensated cost push and higher discounting.
- Madura posted an annualized ROACE of 16% during the half year

IT-ITeS: Aditya Birla Minacs

- In the IT - ITeS business, Aditya Birla Minacs has sold Total Contract Value of USD 243 million and won 12 new clients during the first half year.
- Its revenue grew by 19% supported by conversion of order book and forex movement.
- EBITDA before one-off items remained flat at ₹ 42 Crore as slower ramp up in new contracts constrained margins.

Manufacturing Businesses

- The combined revenue of the manufacturing businesses scaled up by 25% to ₹ 1,469 Crore.
- However, EBITDA de-grew from ₹ 206 Crore to ₹ 191 Crore.
- Lower off-take from customers and higher production costs has strained profitability in the Carbon Black & Insulators businesses

- However, textiles and agri-business supported earnings.
- In the Textiles business, volume growth in the linen fabric segment and improved realisation across all the segments augmented earnings.
- In the Agri-business, increase in trading revenue contributed.
- In the Rayon business, rise in production cost was compensated by higher realisation and higher VFY sales

Coming to the financial performance

<u>Consolidated Revenue</u>

- Revenue growth during the quarter was largely driven by:
    - Growth in Minutes in the telecom business.
    - Apparel sales growth in Fashion & Lifestyle business
    - Higher trading revenue in the agri-business
    - Higher linen fabric volumes in textiles business and
    - Increase in realisation in carbon black, textiles, rayon and agri-business reflecting pass on of rise in input costs.

<u>Consolidated EBIT</u>

- Profitability growth was largely driven by Life Insurance, Telecom and Fashion & Lifestyle businesses.
- In the IT-ITeS business, delay in ramp up in new contracts strained profitability
- Lower volumes and rise in production costs affected Carbon Black and insulators businesses

<u>Consolidated Profit and Loss</u>

- Coming to consolidated net profit which grew from ₹ 105 Crore to ₹ 214 Crore.
- Last year one time exceptional loss of ₹ 104 Crore was incurred.
- Interest cost has increased largely on account of interest on 3G borrowings which is now being charged to profit and loss with the roll out of 3G services. This was being capitalised till last year.

- Depreciation too is higher on account of amortization of 3G spectrum fee with the roll out of 3G services.

Coming to consolidated earnings mix – Financial Services, Telecom and Manufacturing businesses are the three top contributors to the top-line and bottom-line.

As reflected in the operating and financial performance, Aditya Birla Nuvo has strengthened its leadership position in Financial Services, Telecom and Fashion & Lifestyle businesses.

It also continues to generate strong cash flows, despite earnings pressure in some of the businesses. Standalone balance sheet and financial ratios continue to remain sound.

With this I come to the end of my presentation. We can now open lines for Q&A. Thanks

Moderator Thank you sir. Ladies and gentleman, we will now begin the question and answer session. Anyone who wishes to ask a question, may press * and then 1 on your touchtone telephone. Participants are requested to use only handsets while asking a question. Anyone who has a question at this time may press * and 1. The first question is from Reena Verma from Merrill Lynch, please go ahead.

Reena Verma Hi good morning and thank you for the call. I have just 2 questions. One is on your balance sheet. Can you just explain the up take in net debt and in working capital and also may be give us some context of where your borrowing costs are today overall because the reported numbers at least based on my calculation seem to suggest a fairly low cost of borrowings. That’s my first question and my second question is on the overall highlight that you have made about the prevailing macroeconomic environment, can you please share with us which businesses you think are most vulnerable to the macroeconomic environment. Thank you.

Sushil Agarwal Thanks Reena. First of all, the average interest cost is at sub 8% level which is a combination of short term and long term borrowings. Net debt is around ₹ 3575 Crore. Let me give you a break up of, it is 50-50% between working capital borrowings and other loans. This is net of cash surplus of around ₹ 527 Crore. So that possibly answers your first question.

Reena Verma Sir if I may just follow up there. So when you say you have a sub 8% borrowing cost, do you see that trending up because that doesn't seem to time with what we are hearing from other companies and is it all fixed cost? And on the debt, I am really keen to understand the rise in both working capital and debt, not so much the composition.

Sushil Agarwal Yeah Reena, working capital has increased from last year as well as last quarter. If we look at some of the macroeconomic factors, the second question of yours about increase in working capital will get answered. Particularly there are two businesses where the larger impact has been seen during this quarter. One is the Carbon black business, where there has been a slowdown in off take from tyre customers due to lower demand as well as rise in imports. This has reflection of the macroeconomic situation where the interest rates and fuel costs are at higher levels. And presently we are actually carrying some inventory for next 3 and half months production which is reflected in the rise in working capital. If we compare from March 2011, there has been around ₹ 175 Crore additional working capital built in the carbon black business. And the second largest component of increase in working capital is on account of agri business. As you know that in agri business, the subsidy is received from government at a later date and since March there has been an addition of around ₹ 135 Crore in working capital. This is due to slower recovery of subsidy from the government.

Reena Verma Sir thank you very much. Sir just on the borrowing cost please is this reflecting your marginal cost of borrowing or should we expect the 8% number to trend up?

Sushil Agarwal Reena, possibly you will be surprised. If I look at March 2012, our interest cost should actually be down by 50 bps because I would expect the interest cost to remain in the range of 7.5% compared to currently sub 8%. This is because some of the recent long term debt tie ups have been at attractive rates, the reflection of which will happen in coming months. So my sense is that by March end our average interest cost would actually go down by 50 bps.

Reena Verma Thank you very much sir.

Moderator Thank you. The next question is from Priya Rohira from Enam Securities, please go ahead.

Priya Rohira Hi. Good morning to the management team and congratulations on good set of numbers. My first question related to Madura Fashion and Lifestyle, just wanted some color on the volume growth which you would have seen say towards September – October because you had mentioned that July was end of season sales. So that leads to good volume growth. Second thing, how is the working capital to sales ratio in this particular segment?

Ashish Dikshit Okay. Very quickly as you can make out from the presentation, H1 revenue growth rate is close to 30% where the volume growth is slightly higher than the value growth. This is despite the price increase that happened across the industry primarily on account of cotton price increases in the first half. Due to higher discounting, price rise was not fully reflected in value growth. Your expected question is trying to understand what's happening off late which is in the last 2 months or so. This time there was an early Diwali in October compared to last year. So like to like numbers for September 2011 look very strong. But the fair picture would emerge, maybe a month or so down the line, where the impact of actual retail off take and down stocking or up stocking by the retailers will be seen post Diwali. That becomes clearer. At this point of time, off take growth seems to be lower compared due to firstly, the base effect and secondly, increased apparel prices affecting consumer sentiments. Still, as of now, we are targeting about 15% growth for the second half year – in the organic like to like stores. So that continues till now. In fact the October month was little higher than that primarily because of early Diwali. So I think, may be in a month or so, growth trend will become clearer.

Priya Rohira Sure if you could just throw a little bit light on the working capital to sales ratio and what were your long term targets?

Ashish Dikshit See we track at a consolidated level net working capital as a sales percentage. That historically has been in the range of 19-20% over the last one year and a half. We have worked hard on it and at this point of time, I think we are closer to 17%. Long term ambition is to take it to 14-15% kind of level in next 12-18 months.

Priya Rohira Sure. And you have indicated 200 odd EBOs to be launched in 2011-12. We have done the 160 in the first half itself. Is that 200 target likely to be revised upwards or do you think you have done a good chunk in the first half itself?

Ashish Dikshit We can stay on track. I think it may be marginally ahead of 200 but it will be pretty much similar to the numbers that we have indicated beginning of the year.

Priya Rohira Sure. And in fertilizer segment is it possible for you to share the subsidy element of it?

Sushil Agarwal What I mentioned earlier was that there has been a rise in working capital due to slower recovery of subsidy from the government and if we see this number, in comparison with March 2011, about ₹ 135 Crore has been the rise in outstanding subsidy.

Priya Rohira Sure. And just the last question from my side. In the manufacturing business as a portfolio which quarter do you see volume off take based on your feedback from the field level team where you would have the impact of both price hike as well as volume increase percolating?

Sushil Agarwal I think part impact we have seen in this quarter particularly in the businesses like carbon black and insulators. We believe this trend to continue at least in the current quarter which is the third quarter because macroeconomic situation in an indecisive mode – led by higher interest cost and high inflation scenario. So I expect this to continue in running quarter as well.

Priya Rohira Sure. And no change in the capital side so what we had given the start of the year.

Sushil Agarwal The CapEx?

Priya Rohira The CapEx numbers which you had shared for FY12 and FY13?

Sushil Agarwal Yeah. Actually so far in the first half year, we have incurred a CapEx of around ₹ 125 Crore. Though CapEx spent so far has been lower than planned, overall capex commitment broadly remains same at ₹ 650 Crore which we believe would get incurred may be in next 18 months or so.

Priya Rohira Sure. That's very helpful and I wish all the best to you and your team for good set of numbers once again. Thank you.

Sushil Agarwal Thank so much.

Moderator Thank you. The next question is from Rajiv Varma form Merrill Lynch, please go ahead.

Rajiv Varma Hi. A couple of questions. One is on the life insurance business, if you can help explain why this trend in Profits numbers of life insurance is showing a sequential drop if you look quarter-on-quarter and second, whether a lot of contribution is coming from foreclosure charges and AUM fees

Mayank Bathwal Rajeev, Mayank here. About the sequential drop in net profit quarter on quarter, reason is primarily due to one-time impact in both the quarters attributed to the change in service tax rules. In the budget, service tax was made applicable on all the charges. So in the first quarter we had a one-time unutilized service tax credit of about ₹ 20 Crore and in Q2, the service tax rules restricted the input credit close to 80% where we had a negative impact of around ₹ 15 Crore. So about ₹ 35 Crore is the one time impact of service tax regulation which should now stabilize on a quarter to quarter basis. So, that explains majority of the change in net profit. The other reason was due to marginal change in the product mix in favor of ULIP in this quarter to about 56% from about 52-53% last quarter. ULIP is bit more strenuous in terms of new business strain than traditional which led to a decline in profits by about ₹ 6-7 Crore. Hence, these are two key reasons that explain the difference in profits, Rajiv.

Rajiv Varma Okay thanks. You just mentioned that you had the service tax impact of ₹ 20 Crore in first quarter also, right?

Mayank Bathwal That was the positive impact in Q1. We were able to take the entire input credit because the new service tax regulations increased our output service tax. So we were able to utilize all our input credit or service tax assets. Whereas in the second quarter, there was a negative impact was about ₹ 15 Crore as service tax regulations have restricted the input credit to 80%. For instance, in banks the regulations disallow 50% of input credit while in the insurance, 20% of input credit is disallowed. So overall that's the big reason.

Rajiv Varma Right okay. Looking ahead obviously from September onwards we have seen some uptake in growth although with base effect coming through. In the next 6-12 months if you see growth returning to the industry and also for yourself, is it fair to assume that your headline earning should start to trend out both because you have seen higher strain and I guess growth in the ULIP business?

Mayank Bathwal No we don't expect to see such an impact on our bottom line based on our current product strategy. The new business strain on the new unit-linked products is very low and traditional products do not have strain on profit. Hence, based on our current mix, we don't expect the strain to be of any material impact going forward given our current non part product strategy. However, If there were to be a change in the regulation, we don't know what the impact would be. Also, the profits arising from increase in renewal premium should broadly compensate for any increase in the new business strain because of new sales. Our target is to keep the product mix of 50-50 in ULIP and Non-ULIP and if we are able to manage that, we should be able to sustain margins.

Rajiv Varma Sir just one last thing. On the original question, the contribution to your profits from foreclosure charges like other insurances. Whether still a large chunk of these charges contribute to your earnings?

Mayank Bathwal We had informed in the past that most of our products were ULIP products. In fact we were primarily selling long–term products and our acquisition costs were slightly higher than other competitors. Our foreclosure rate was fairly aligned to the kind of acquisition cost we were incurring. Hence, we were not making any undue profit through that route. And if you refer to our annual report in 2010-11, it gives the details of the foreclosure charges, and that does not contribute materially to our profitability. And I can share that number separately with you.

Rajiv Varma Alright thanks a lot.

Moderator Thank you. The next question is from Ritesh Nambiar from UTI Mutual fund, please go ahead.

Ritesh Nambiar Good morning sir. Could you give the book breakup of Aditya Birla Finance?

Sushil Agarwal Yeah. Our closing book is around ₹ 2,500 Crore of which broadly around ₹ 300 Crore is infra book which we have created in last few months. Out of the remaining book size, about 60% is in the capital market segment and balance 40% is in corporate finance segment.

Ritesh Nambiar How much cover do you take on LAS?

Sushil Agarwal It is approximately 2 times.

Ritesh Nambiar And sir wanted clarity on the real estate fund which you have in fact, could you charge the whole expenses last year itself or this year we may see some more revenue coming from that ₹ 1,088 Crore?

Sushil Agarwal Bala you want to take up?

Balasubramanium Yeah. The total expense last year of course got added to the both the top line as well as bottom line, the part of which we bring in the revenue in top line and expenses in bottom-line. From this quarter onwards it will only have the accrual of incomes. It is the recurring fees, which is charged on a yearly basis.

Ritesh Nambiar How much is that actually?

Balasubramanium It is close to about 2%

Ritesh Nambiar Okay, in the last year ₹ 43 Crore was the revenue from Real Estate. How much was the expenses on account of that?

Balasubramanium I think the equal amount was the expenses.

Ritesh Nambiar Okay. Thanks a lot

Moderator Thank you. The next question is from Rishab Bothra from B&K Securities, please go ahead.

Rishab Bothra Congratulations on a good set of numbers overall. I would like to know how are we going to tackle input cost pressures in the manufacturing vertical because this has been a key concern as of now?

Sushil Agarwal That's something which is a market driven situation. So we will not guide you specifically about what will be the business wise strategy but surely we will have to play on cost rationalization – which as a group and as a company is a strong area for us.

Rishab Bothra Do we see volume off take in both carbon black and insulator business where we had lagged behind in Q2?

Sushil Agarwal I think I did mention in response to an earlier question that I would expect a similar kind of trend in one more quarter, that is the third quarter, because in the short term we don't see fundamental macroeconomic situation improving.

Rishab Bothra And in terms of agri, are we going to continue with trading activity as we have done in Q2?

Sushil Agarwal Yeah.

Rishab Bothra So agri activity will be more so growing well.

Sushil Agarwal Yeah. Actually just for a better understanding, there are 2 objectives. Firstly, we have farmers as our clients and we want to serve them all their agriculture needs from sowing to harvesting, in addition to urea. And secondly, we own a strong "Birla Shaktiman" brand and a wide distribution network. We want to capitalize on both these assets, and at the same time serving the entire need of farmers.

Rishab Bothra And in regards to any expansion plans for urea considering the policy changes?

Sushil Agarwal	We are awaiting the final guidelines from the government on this aspect.
Rishab Bothra	But any clue what sort of expansion will we be undertaking in terms of million tonnes or CapEx number?
Sushil Agarwal	It would be broadly a million tonne expansion with the capex requirement of USD 700-750 million.
Rishabh Bothra	Okay in fashion and lifestyle business, we have sold 6.8 million pieces in Q2. What would be the average realization for Q2 and vis-a-vis last quarter and last year same quarter, if you can share?
S. Visvanathan	We can calculate the average realization from the revenue.
Rishabh Bothra	I did do that but I saw a decline. So that's what I was wondering we are moving to premium segment or was the mix like?
S. Visvanathan	My suggestion is in isolation that number could be quite deceptive. In the quantity, we include a ₹ 100 socks as well as ₹ 20,000 Suits. So average realisation will vary also due to a broad range in the product mix, leave alone the brand mix that we have from Peter England to Louis Philippe.
Rishabh Bothra	But the number which you denote a million pieces sold, that is only for branded apparels, right?
S. Visvanathan	That's right.
Rishab Bothra	So for that particular segment what would be the realization or it would not be a better picture to look at?
S. Visvanathan	It is not a good number to look at. Because as I said - socks are sold at the lowest price point whereas suits are sold at the highest price point, but in quantity both are considered as one piece. So sometimes it could be fairy deceptive. The trend is what one needs to look at.
Rishab Bothra	And what would be the per store realization or per store growth number as we are expanding aggressively and where we could stop the expansion so that profit numbers look better?

S. Visvanathan I think 2 separate questions. One is what is our same store growth. Last full year we recorded same store growth in excess of 25%. This year in the first half our same store growth has come down marginally which is about 15-16% and which is a fairly robust growth by global standards in retailing. And I think this give us impetus to continue to expand our network. As far as your question seems to suggest that our retail expansion is pulling down our profitability, I would like to inform you that close to 60-70% of our stores become profitable in the year one. So to that extent while there is a strain in the first few months, it does not necessarily pulls down the overall profitability. We see fairly large opportunity to continue to expand as the market penetration is still quite limited.

Rishab Bothra Are you facing any redemption pressure in the asset management business?

Balasubramanium Just to give you a background, the industry of course remained more or less flat. As Sushil was mentioning that our de-growth was the second lowest among the top 5 players. As regards the redemption - on the contrary equity seems to have seen inflows to the extent of about ₹ 3,000 Crore in first half year. In the institutional segment, no major redemption pressure has been seen.

Rishab Bothra And second fund which we have kept aside for the real estate. Firstly, what are the investment avenues which we are looking at?

Balasubramanium The real estate fund has collected about ₹ 1,088 Crore and roughly about 20% has been deployed. In terms of deployment, the money is getting deployed in various projects which are in the nature of residential projects spread across Mumbai, Chennai, and Pune.

Rishab Bothra And regards to first one, what are the specific industries? This was the second fund for real estate.

Sushil Agarwal There is only one fund in real estate. It's largely residential focused on the metros minus Delhi.

Rishab Bothra Okay thanks a lot sir.

Moderator Thank you. The next question is from Nischint Chawathe from Kotak Securities, please go ahead.

Nischint Chawathe Yeah.Hi. I have 2 questions pertaining to the insurance business. The first one is your opex to premium ratio is now somewhere close to around 22%. If you could give any kind of guidance so as this ratio would stabilize may be in a couple of quarters out or may be end of this year?

Mayank Bathwal As the renewal book is increasing, as we move towards the end of the fiscal, our expectation and our endeavor will be to bring down the opex to premium ratio to below 20%. So our objective is to first reach that milestone. But I would say that you should not only look at this as measure of expense efficiency because what is more important to look simultaneously is what's the profile of the new business incl. the tenure and the product mix. Because just comparing this number with any similar number for other companies can sometimes be misleading. Having said that, our endeavor will be to get it down to below 20% by the end of this fiscal.

Nischint Chawathe And the commission ratio would broadly remain stabilize at the current levels.

Mayank Bathwal Yes, broadly.

Nischint Chawathe Okay I am just trying to understand in terms of the product mix, I guess non-par policies are now somewhere close to around 45% of the overall business. And I think the number was same plus minus 2-3% in the previous quarter as well. Last year this ratio was around 20%?

Mayank Bathwal At the end of H1 last year, the contribution from Non-ULIP products was close to around 8% obviously because the big shift started only post September. In the second half of the previous fiscal the contribution from Non-ULIP products was similar to what we have in current year i.e. around 45% of new business. Hence overall in fiscal 2010-11, it was close to about 25%. Our endeavor is to achieve a balanced mix of 50-50 in ULIP and Non-ULIP product category.

Nischint Chawathe Okay could you just now, I understand that you will not want to talk about margins at this stage but broadly just trying to understand that last year we were looking at a margin of somewhere close to 27% and this year you said that we have broad targeted somewhere in the 2 range. So is there any kind of a change that happened or given the fact that the product mix is not going to be very different between the second half of last year and during this financial year.

Mayank Bathwal If you remember our last conversation, I did mention that exit margin was in the range of 21-22% last year while 26-27% was the full year margin and therefore we would not like to really give guidance on the margins. We can say that our target margins will be more likely in the range of 20% as we have mentioned. So we will have to watch how the second half of the financial year plays out and also the some of the regulatory changes that may or may not happen.

Nischint Chawathe Okay thank you very much and all the best.

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

Girish Achhipalia Hi. This is Girish here. Thanks for taking my question. I may have missed this so just asking 2 questions. Firstly on CapEx for the manufacturing business - given what we have seen on the both the profits and revenue front. Is it fair to assume some of this CapEx is slightly going to be deferred or is there any change in the CapEx plans for the next 6 months and 18 months and secondly just wanted a sense for the insurance business, how's growth been for October so far. I mean is it continuing the way it was in September. Thanks.

Sushil Agarwal On the CapEx piece as I was earlier mentioning, spends have been slow. In first half, we have spent almost ₹ 125 Crore of CapEx and in next 18 months we believe that the remaining capex out of total plan of ₹ 650 Crore would get spent. Having said that, it would also depend on how the macro-economic environment shapes up.

Mayank Bathwal On the insurance numbers I would request you to wait for the IRDA disclosure but only one information that we would like to share is that volumes have become fairly predictable month-on-month. We used to earlier see substantial seasonality towards quarter end which we are not seeing. So there is some level of subduedness in the volume growth. The month of October in any case was a big festival month. So typically, this leads to multiple holidays and we have seen some impact on that account in the business volumes.

Nischint Chawathe Okay sir. Just one follow-up question if I may ask. Of your total new business premium, what percentage of that is coming from NAV guarantee products today and are there any chances of any tweaks by the regulators on this one that we will be hearing of, thanks?

Mayank Bathwal ULIP is about 55-56% and around 50% of out of that is from NAV product. You would have read a lot about some concerns being expressed on this product. We believe that there is nothing wrong in this product. In fact, we are very clear that this is a very good proposition for the customers especially given its core offering which manages the volatility in an environment we are seeing in India right now. I believe what is more important to see from regulatory perspective is the process around selling and managing these products. I think the important point that regulator is trying to understand how the companies manage the guarantees and the process of risk management. In fact we have shared our practices with the regulators and offer them to be positioned as best practice in the industry & our discussions have been reasonably good. So we are not extremely concerned about what you may have read in the press. And I think the regulators hopefully will be more concerned about the process because the product is good for the consumer.

Nischint Chawathe Thank you very much sir.

Moderator thank you. The next question is from Manish Bhandari from Vallum Capital, please go ahead.

Manish Bhandari Good morning this is Manish Bhandari from Vallum Capital. I have 2 questions. First I am not sure if the detailed discussion has been done on the IT business. So if you could enlighten us what is the target to turn around the IT business which has got a return on capital employed much lesser than the overall conglomerate capital employed.

Deepak Patel Our plan is that we have integrated the IT business with our BPO business and as we build our BPO business we see us getting in to more and more IT integrated services type of opportunities. So we are already seeing a lot of business that we have signed up for international demand which include a significant component of IT. Our focus is to use IT as a strategic weapon to drive our growth in the BPO business and do more integrated deals in that space.

Manish Bhandari But then we have been talking about this for last may be couple of years and when I referred IT, I was referring to IT and BPO put together. If I look at the capital employed of ₹ 1,500 Crore in this business which is missing in the presentation, it is too huge to generate the kind of profitability what we are doing so if you could elaborate more on the turn around plan on this business or may be would it make sense to hive off this business or to sell out this business.

Deepak Patel Yes on the profitability front, the first half showed pressure on margins. As significant amount of new contracts were sold, it takes time for ramp up before the full revenue reflects in the topline and bottomline. But we see our profitability returning over the upcoming months as all these new contracts reaches to full production and steady state level. Over the next 18 months, we are targeting11-12% EBITDA margins.

Manish Bhandari ABNL's most of the businesses are operating at a good ROCE level-for instance, manufacturing businesses yield ROCE in excess of 20% and the financial services businesses have now become significant contributor to profitability. So having an IT business which will move to 11-12% EBITDA margin and still lower ROCE in next 18 months, does this meet the required rate of return criterion of a conglomerate like yours?

Sushil Agarwal Manish I clearly know. BPO business has been struggling. As management we are aware of what's happening in the business. We are not content with the level of return we are getting from this business and the present revenue which is around USD 400 million is not an ideal revenue number for business like this. We have been contemplating various options, how to get into a billion dollar revenue band and enhancing margins which is ideal for business like this. So at this stage I can't share more than this because we have not yet zeroed in on any concrete plan, which is being explored at this stage. We will come back to you as soon as we have a more specific plan to share with you.

Manish Bhandari Thank you and my last question is on the variance on the insurance business profitability which has happened on quarter-on-quarter.

Mayank Bathwal Yeah in the first quarter there was a one-time credit of ₹ 20 Crore and in the second quarter there is about ₹ 15 Crore debit because of the restriction of input credit to 80% which is more like a norm now from the second quarter. So if you add both these items it's about ₹ 35 odd Crore. There's an additional impact of about ₹ 6-7 Crore due to marginally higher ULIP strain in the second quarter. So these were the two big reasons and the balance is due to expense seasonality such as higher marketing expenses etc. Hence, major variance was due to a one-time impact of change in service tax regulations, which we will not be seeing from next quarter onwards.

Manish Bhandari Okay thanks a lot.

Moderator Thank you. The next question is from Rounak Agarwal from RBS, please go ahead.

Rounak Agarwal Good morning sir. Just wanted one clarification. As regards to banking license do we need all the finer conditions as laid out in the draft guidelines or do we stick to our original guidance that will go ahead and apply as and when the opportunity comes?

Sushil Agarwal Yeah Rounak, I think we do meet all the requirements as has been stipulated in the draft guideline and our objective remain the same.

Rounak Agarwal Alright sir. Any update on the restructuring plan in terms of value unlocking or any updates on that?

Sushil Agarwal As you recall that we did mention we are still awaiting final guidelines.

Rounak Agarwal Alright sir. Thank you.

Moderator Thank you. Ladies and gentlemen in case of any investor queries please contact Mr. Saket Shah of Aditya Birla Group or Mr. Romi Talwar from Aditya Birla Nuvo Limited. As there are no further questions, I would now like to hand the floor back to Mr. Sushil Agarwal for closing comments.

Sushil Agarwal Thanks everybody and we will be happy to take up any specific questions if you have on any of our businesses. Thanks. Bye.

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