Aditya Birla Nuvo Limited

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Management Team :

Mr. Sushil Agarwal – CFO, Aditya Birla Nuvo
Mr. Ajay Srinivasan – CEO, Aditya Birla Financial Services
Mr. Pankaj Razdan – Dy. CEO, Aditya Birla Financial Services
Mr. Manoj Kedia – President & Dy. CFO, Aditya Birla Nuvo
Mr. Ashish Dikshit – President, Madura Fashion & Lifestyle

Moderator: Ladies and gentlemen good afternoon and welcome to the Aditya Birla Nuvo Conference Call. We have the senior management of the company with us. As a reminder, for the duration of this conference, all participants' 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 any assistance during this conference, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Sushil Agarwal, who is the CFO of Aditya Birla Nuvo. Thank you and over to you sir.

Sushil Agarwal: Good afternoon, everybody. I am Sushil Agarwal. We welcome you to the earnings call of Aditya Birla Nuvo. With me, I have on the call, Ajay Srinivasan — Chief Executive, Aditya Birla Financial Services; Pankaj Razdan, Dy. Chief Executive, Aditya Birla Financial Services; Manoj Kedia — President & Deputy CFO, Aditya Birla Nuvo and Ashish Dixit — President of Madura Garments, our Fashion and Lifestyle business.

I believe you all have the results presentation with you and it is also available on the website. Though this presentation, we will cover Aditya Birla Nuvo's key highlights for the third quarter and financial performance. The Company's earnings during the quarter have shown robust growth. Our consolidated revenue posted growth of 12% at ₹ 4,563 Cr. EBITDA grew by 77% to ₹ 745 Cr. Net profit at ₹ 275 Cr. is significantly higher vis-a-vis ₹ 8 Cr. last year.

On 9 months basis, our consolidated revenue grew by 17% to ₹ 12,951 Cr. EBITDA is up by 64% at ₹ 1,922 Cr. surpassing 12 months earnings of the previous year. Net profit at ₹ 529 Cr. registered a swing of more than ₹ 550 Cr. over last year.

Consolidated EBITDA has shown a consistent growth trend and doubled in past one and a half year. ABNL has posted 8th consecutive quarterly growth in EBITDA.

This growth has been supported by improved profitability across the businesses, largest contributors being Financial Services, Fashion & Lifestyle and IT-ITeS businesses. The investments made in the past in these businesses are now yielding results consistently. This reflects the strength of ABNL's diversified business model and growth strategy which we will continue to pursue to further strengthen leadership position across all our businesses.

Our Balance Sheet is quite strong and there is sharp improvement in key financial ratios. Excluding working capital loans, net debt is ₹ 2,046 Cr. reduced from ₹ 2,617 Cr. in March 2010 and ₹ 2,743 Cr. in March 2009. Net debt to EBITDA is 3.1 times vis-a-vis 5.8 times in FY 09. Net debt to equity is 0.56 versus 0.87 in FY 09. Considering the company's business and revenue mix with strategic investment of about ₹ 5,400 Cr., financial ratios at such levels reflect strength of our balance sheet. Improvement during the nine months has been driven by cash flow generated by manufacturing and fashion & lifestyle business as well as promoter infusion of ₹ 426 Cr. in December 2010 on conversion of remaining warrants.

Coming to business-wise performance starting with **Financial Services**. We continue to strengthen our position as a large non-bank player with formidable presence across a wide spectrum of Financial Services businesses. Aditya Birla Financial Services today has combined Assets under Management of USD 18 billion. We are trusted by about 5.5 million customers. We have nationwide presence with more than 1600 presence points, about 2 lacs channel partners and about 15,000 employees.

During the quarter, revenue growth of Aditya Birla Financial Services business was impacted due to subdued ULIP sales across the industry. Though on 9 months basis revenue was up by 11% at ₹ 4,361 Cr. Aditya Birla Financial Services achieved EBITDA of ₹ 182 Cr. during the quarter and ₹ 358 Cr. during nine months. Net profit at ₹ 152 Cr. in nine months showed a swing of ₹ 5 billion over the previous year

Coming to **Life Insurance**, as we all know that the sector is revisiting its business model due to new regulatory guidelines. While medium to long term opportunity continues to remain attractive for the industry, during the short run sales growth remains challenging.

The private sector new business premium de-grew by 40% in Q3. Birla Sun Life was no exception. However, Renewal premium posted a strong growth of 55% to ₹ 893 Cr. This was driven by a strong 13 months persistency of 83%. AUM grew by 30% to ₹ 19,165 Cr. Led by growing size of in-force book, lower new business strain & better expense management, EBITDA posted a swing of more than ₹ 260 Cr. during the quarter and more than ₹ 525 Cr. in nine months. There was no capital infusion during nine months. In Q4 too, no capital infusion is estimated. BSLI is driving efficiencies across the distribution channels & areas of operations to emerge stronger out of this phase of muted growth.

Coming to **Asset Management** business. Liquidity pressure led to redemption in debt & liquid funds across the industry. Our average AUM at ₹ 61,532 Cr. de-grew by 9% during the nine months period whereas industry de-grew by 12%. However, in January, industry witnessed strong inflows of ₹ 85,000 Cr. - highest since last eight months. Equity schemes witnessed inflows of ₹ 900 Cr. in January. Birla Sun Life AMC's thrust is to increase share of Equity and alternate assets. During nine months, its average Equity AUM grew by 15% to ₹ 15,141 Cr., achieving 3rd best growth rate amongst top 10 players. Net redemption in equity category is significantly lower for us compared to industry average leading to consistent rise in equity market share. Our maiden Real Estate Onshore Fund collected ₹ 1,088 Cr. We are expanding our offshore presence to reach out and attract international customers. Quarterly EBITDA at ₹ 37 Cr. & nine months EBITDA at ₹ 110 Cr. grew considerably over the previous year.

In our **other financial services** business, average book size of Aditya Birla Finance grew 4 times year on year and by 90% q-o-q to about ₹ 2,150 Cr. We disbursed loans worth about ₹ 4,700 Cr. towards IPO funding. The business has a net worth of about ₹ 500 Cr.

In the **telecom** business, Idea Cellular's revenue grew by 26% y-o-y and 9% q-o-q to ₹ 3,953 Cr. Its net profit at ₹ 243 Cr. is up by 43% y-o-y and 35% q-o-q. Earnings growth has been driven by robust growth in minutes of use leading to scale benefit. This has compensated decline in average revenue per minute. Total minutes of use on network crossed 1 billion per day mark. Idea in next few months will launch 3G services in 11 service areas where it has won 3G spectrum. For remaining areas it is finalizing long term arrangement with select quality operators. Idea customers would enjoy what will be the Gold standard in 3G services. Idea ranks 3rd in terms of revenue market share at 12.8% up from 12.1% a year ago. These reflect competitive strength of brand Idea. This along with its service area specific growth strategy, ability to extract stable cash profit at the World's lowest price points and strong balance sheet well positions Idea to benefit in times to come.

In **Fashion & Lifestyle** business, our focus continues to be on capitalizing brand leadership and expanded retail space to achieve profitable growth. As a result our revenues grew by 60% to ₹ 504 Cr. while on 9 months basis it has grown by 46 % to ₹ 1,331 Cr. Like to like stores sales from our major brands (Louis Philippe, Van Heusen, Allen Solly & Peter England) grew by 35%. Improved customer foot-falls and increased spending is driving robust sales growth across the industry. Profitability improved considerably with EBITDA at ₹ 47 Cr. for the quarter while for 9 months its ₹ 111 Cr. posting a swing of more than ₹ 100 Cr. Retail channel achieved 55% overall growth, contributing to 45% of business revenue. We also launched 54 new exclusive brand outlets to reach a total of 506 EBOs across 9.5 lacs square feet.

Moving to **IT & ITeS** business, our thrust is on augmenting capabilities and building strong order book with focus on bottom line. Accordingly Aditya Birla Minacs increased its headcount by about 5,000 in past one year to over 18,000. More than 2000 headcounts were added in Q3 itself. During 9 months, it sold total contract value of USD 625 million which will get executed over a period. Out of this 56% is on account of new business. Its revenue grew by 14% to ₹ 428 Cr. while EBITDA is up by 29% at ₹ 40 Cr. In 9 months, IT&ITeS business posted net profit of ₹ 41 Cr against net loss of ₹ 11 Cr. last year. EBITDA margin at 10% stands enhanced by 300 bps during nine months.

In **Manufacturing** businesses, we stayed focused on capturing sector growth and realizing full potential. Combined together our manufacturing businesses have achieved revenue growth of 25% both in the quarter as well as in nine months. This was driven by expansion in carbon black business and strong volume growth in textiles business. However, EBITDA is lower at ₹ 197 Cr. in Q3. In the third quarter of the previous year, the Carbon Black business was benefited from low cost inventory while Agri-business received higher subsidy arrears. While steep rise in the input and fuel costs strained profitability adversely across the industry in the Rayon business, volume growth in the textiles business augmented profitability. In nine months all the businesses have performed well, especially, textiles, insulators and agri business. In the Rayon business, with the increase in VFY realization, sharp rise in wood pulp and fuel prices could be passed on partially and hence it pulled down the overall profitability. The combined operating margin at 17% and return on average capital employed at 27%, has been encouraging.

Let’s now look at Financial Performance

Consolidated revenue growth was led by Manufacturing, Fashion & Lifestyle and Telecom businesses in 3rd quarter as well as nine months. Expansion in carbon black, robust volume growth in garments & textiles and strong MoU growth in telecom drove the growth. In the agri-business rise in natural gas prices also got reflected in revenue. In the IT-ITeS business, topline growth was prominent in the 3rd quarter. Revenue growth in the Financial services business was impacted in the 3rd quarter due to subdued ULIP sales.

Profitability growth was led by Financial Services, Fashion & Lifestyle and IT-ITeS businesses in the 3rd quarter as well as nine months. While Asset Management and NBFC business augmented the bottom-line considerably, life insurance business contributed the most. This was led by growing size of renewal premium and lower new business strain. Robust sales growth in the Fashion & Lifestyle business and thrust on cost rationalization efforts in the IT-ITeS business led to improved profitability across all the three quarters. Profitability in the Telecom business was subdued in nine months due to competitive pressure on average revenue per minute and launch of new service areas. However with the reducing losses of new service areas and scale benefit of growing MoU, profitability in the 3rd quarter improved y-o-y as well as q-o-q. In the rayon business, rise in input and fuel costs could not be passed on fully leading to strain on overall profitability of manufacturing businesses in Q3 as well as nine months.

Coming to net profit walk which shows a swing of more than ₹ 250 Cr. during Q3. The largest contribution to the net profit growth has come from operations. During nine months, interest expenses decreased largely in the Standalone financials, driven by improved earnings and promoter infusion this year and last year. While interest expenses increased in NBFC business in line with book size, IT-ITeS business achieved interest savings. During the 3rd quarter, interest savings in standalone financials was set off by increase in interest expenses in NBFC business in line with growing size of business. Depreciation grew largely due to expansion in the Telecom business.

Financial Services, Telecom and Manufacturing businesses, in that order, are the largest contributor to the consolidated revenue. In terms of profitability, Manufacturing is the largest contributor followed by Telecom and Financial Services.

The results have been encouraging quarter after quarter barring few sector specific challenges which we believe will be short lived. We are determined to maintain this trend of strong earnings growth. I would like to share key action points which we are pursuing in each business going forward.

In the **Life Insurance** business, focus is on completing product basket and driving efficiencies across the distribution force and areas of operations.

In the **Asset Management** business, thrust is on increasing share of higher margin assets.

Expanding book size is the focal point in the **NBFC** business.

In the **Telecom** business we will continue to increase revenue market share while exploiting 3G spectrum to enrich customer experience.

In the **Fashion & Lifestyle** business, focus will be on enhancing retail productivity for higher sell through, capitalizing on expanded retail space and extending range of merchandise for superior shopper experience.

Growing high margin non-voice business will be the key in the **IT-ITeS** business.

Last but not the least our prime focus across the **Manufacturing** businesses will be to increase margins by maximising operating efficiency and passing on rise in input and fuel costs.

With this we conclude the presentation and we can move to the Q&A session.

Moderator: Thank you very much, sir. Our first question is from the line of Anubhav from Morgan Stanley. Please go ahead sir.

Anubhav Adlakha: Sir, I just want to get some color on the Life Insurance business. My first question is basically regarding your persistency ratio. You said that your persistency ratio is now 83%. What was your persistency ratio historically? And secondly, when I see the profits from the Life Insurance business, because you have not disclosed the entire numbers, the major movement comes from the change in valuation of liability, so what has changed there that it has substantially come down from ₹ 1228 Cr. to ₹ 469 Cr.?

Ajay Srinivasan Our persistency has always been around the early 80s, I don't think there has been a big change in that. Our persistency has been in the upper quartile of the industry and this trend is continuing. If you can just repeat your second question, please?

Anubhav Adlakha: When I look at the consolidated numbers, the change in valuation of liability in respect of Life Insurance policy in this quarter has come down to ₹ 469.08 Cr. from ₹ 1228.39 Cr., so what has changed there?

Ajay Srinivasan: That is due to lower premium income and the mark-to-market impact on our unit-linked policies.

Anubhav Adlakha: So that is the investment losses which you have marked-to-market, but this change is basically in valuation and liability.

Ajay Srinivasan: It includes that.

Sushil Agarwal: The investment income or loss on policyholders' funds belongs to policyholders and hence change in valuation of liability in respect of life policies increases or decreases with the investment income or loss.

Anubhav Adlakha: Okay, that's included, but why that number has come down substantially, so what has changed there that number has come down so much?

Sushil Agarwal: Because of market correction investment income has come down substantially, secondly premium income is also lower compared to Q3 last year, that's another factor which impacts change in valuation of liability in respect of life policies.

Anubhav Adlakha: Okay. Thank you.

Moderator: Thank you. Our next question is from the line of Nitesh Goenka from Microsec Capital. Please go ahead.

Nitesh Goenka If I talk about the quarter-on-quarter profitability of the company, I see that there has been decrease in most of the businesses, except Life Insurance, Telecom, and Textiles. Can you give me a specific reason why all the businesses have gone down in terms of, if I talk about EBIT?

Sushil Agarwal: There is a quarter on quarter profitability growth in the Life Insurance, Telecom, Fashion & Lifestyle, and textile businesses. In IT-ITeS business, we were in ramp up phase during the 3rd quarter. Out of 5,000 headcounts added in past one year, 2,000 headcounts were added in the 3rd quarter itself. In Carbon black, since rise in raw material is passed on with a time lag, margins were lower q-o-q due to rising crude oil prices. In the Agri-business, q-o-q profitability is lower since subsidy arrears were received in the previous quarter, which is not reflecting in this quarter. In the Rayon business, profitability was lower due to 21 days maintenance shutdown in the caustic soda plant.

Nitesh Goenka: Right. With this, two more questions occur here; one would be the acquisition of Colombian Chemicals by the group, will this affect the Carbon Black business of yours?

Sushil Agarwal: As you must have read the related press release, Nuvo had no role in the acquisition. However, Nuvo will be benefited from a synergy point of view in terms of raw material procurement and technology of specialty carbon black.

Nitesh Goenka: Alright. My other question would be the same as what the person from Morgan Stanley had, the expense which accounts for the change in valuation of liabilities, was ₹ 1228 Cr. in Q3 last year which has come down to ₹ 469 Cr., it has come down significantly. I would like to know what kind of affects have happened here.

Sushil Agarwal: Amit, are you going to take this up?

Amit Jain: Yes, the change in valuation of liability is the function of top line growth as well as mark-to-market gain or loss on policyholders' funds and if there is any benefit / claims which has been paid to policyholders. During the quarter, we had lower premium income as compared to last year. Also the mark to market investment income was lower than last year in line with movement in financial markets which reduces policyholders' investment income as well as valuation of liabilities. As any investment gain /loss on the ULIPs belongs to the policyholders, investment income and valuation of liabilities are both increased/decreased by the same amount, and thus does not impact the bottom-line of life insurer.

Nitesh Goenka: So does that mean that the fund reserve has gone down?

Amit Jain: You can say that reserving requirement for liability in respect of life policies was lower compared to Q3 last year due to aforementioned reasons.

Nitesh Goenka: Okay, right. My last question would be related to Insulators and Fertilizers business, these businesses have not really been affected, so is there some kind growth story coming forward or something?

Sushil Agarwal: In the insulators business, clearly the expansion which we did last year is getting reflected into the revenue and the bottom-line. And so far fertilizer business is concerned, still 25% of India's urea demand is met through imports, which is costlier than producing locally. So if government comes out with clarity on availability and pricing of natural gas, we are keen to expand our urea capacity.

Nitesh Goenka: But in the Insulators space, you are the leader, so why revenue and profit are flat.

Sushil Agarwal: We had expanded capacity in Q2 last year full impact of which was already reflected in Q3 last year. That's why 5% y-o-y volume growth seems marginal. Bottom-line is flat due to rise in fuel costs.

Nitesh Goenka: Alright. Thank you. Thanks Sushil.

Moderator: Thank you. Our next question is from the line of Manoj Jethwa from Modern Shares. Please go ahead.

Manoj Jethwa: Sir, a couple of questions on the Manufacturing front. Looking at your nine months revenue, manufacturing accounts for 26% and at the EBIT level these account for around 42%. The company is expanding more in the Financial Services, where it is growing from revenue point of view but margins are lower. So are we increasing our Financial Services business at the cost of the Manufacturing businesses?

Sushil Agarwal: Aditya Birla Nuvo has provided growth capital to each of the businesses wherever there were opportunities. If you look at Carbon Black we have almost doubled its capacity in past 4 years. We are planning to further expand carbon black capacity by 85,000 TPA each at Patalganga and in Southern India. In the Insulators business, we have expanded capacity last year only. As I mentioned earlier, we are keen to expand our urea capacity, if government comes out with clarity on availability and pricing of natural gas. We are expanding caustic soda capacity from 250 TPD to 375 TPD. Revenue and EBITDA of manufacturing businesses have grown at a CAGR of 15% and 20% respectively in past five years, which is commendable. But of course, financial services business has grown faster than this and hence has larger share in revenues today.

Manoj Jethwa: Sir, regarding your Fertilizers business, government is really gung-ho about decontrolling the Fertilizers policy and to do away with the subsidy burden, which is increasing the fiscal deficit of the country. So do you have a plan to become a very big player as far the Fertilizers business of the company is concerned?

Sushil Agarwal: As I earlier mentioned, cost of importing urea is much higher than cost of producing in the country. And you are right, there is a large subsidy burden, to reduce which government had come out with expansion policy as one step in this direction. But there is no clarity on availability and pricing of gas. In absence of such clarity, it is not prudent for any player to commit large investment plan. So if government comes out with clarity on availability and pricing of natural gas, we are keen to expand our urea capacity. We are looking at it closely, and tracking developments.

Manoj Jethwa: Relating to your Asset Management business, company is very keen to grow their Asset Management business as far as Mutual Fund business is concerned. Right now if you see the whole Mutual Fund industry is at around ₹ 6,73,000 Cr. and it is expected to reach $1 trillion in next few years. How do you see your Asset Management business growing? Also which category you are more focused on, is it going to be fixed income, debt, or equity AUM, which is going to be the focus area of the company?

Sushil Agarwal: I'll leave this question for Pankaj, but we did mention in the highlights that our focus is on increasing alternate assets and equity assets. Pankaj, you want to take up this question?

Pankaj Razdan: Yeah, I think as Sushil said in the beginning structurally, the long-term opportunities in the financial services space still remain intact. We did have some challenges and it is only about a year back that new regulatory regime came in place. But if you really see that in the first two quarters, the growth in the retail segment was much lower than what we observed in the last two quarters. So our focus still remains to go and get the retail savings and equity in higher margin assets still remains our focus both on a domestic front as well as on the international front. In the highlight, Sushil mentioned that we have already opened our office in Dubai and we are getting an in-principal approval from Singapore Monetary Authority for opening our offshore branch and those will be two base which we will use to go and explore opportunities for off shore businesses. In terms of the industry growth prospect, we still believe that savings opportunities are still very large in the country and will continue to grow. If we believe GDP will grow as historically it has grown in the range of 8%, we still believe that long-term potential of 15% plus growth still remains for this industry. And strategically, as I said, for retail and for equity, we have built distribution, we have built offshore. As much as domestic is an opportunity, international will also remains an opportunity for us.

Manoj Jethwa: Sir, as far as the Aditya Birla Nuvo is concerned, it is like a GE of India. If you see the analysis of General Electric, they have shed some of their business where they will are having a low EBITDA or they were making the losses. What will be the focus areas for the company? Is it going to be the Financial Services, the Manufacturing or the Carbon Black or whether IT, ITES which is having a drain on the balance sheet of the company?

Sushil Agarwal: First of all, leaving aside shot term hiccups, our Financial Services is growing and we are increasing our presence in that space. That continues to remain main focus for the company. So far the IT/ITES business is concerned I do not think that it is a drag any more. EBITDA margin in that business has grown by 300 bps during the nine months from 7% to 10%, and this is growing. It is positive on net profit level. In manufacturing businesses we are leaders in India. So every business is a focal point for us, each has an individual business head who run it as CEO. The point is wherever we see the opportunities, where we have a presence I think we'll continue to capitalize on those opportunities.

Manoj Jethwa: Coming to your broking business of Aditya Birla Money. In a population of around 1.2 billion, there are hardly say around 3.5 to 4 crore DEMAT accounts and active accounts are around 50 lakhs. Still people are averse to having exposure in the equity market. What synergies do you expect from the Aditya Birla Money, as you are focusing more on the Financial Services business?

Sushil Agarwal: Pankaj, may be you can just briefly touch upon and we can take up such questions offline.

Pankaj Razdan: I just want to say that Aditya Birla Money still remains our focus. Its is our customer facing business for all our Financial Services business Our business model is that, along with broking, Aditya Birla money is a frontline door for acquiring customers for all the Financial Services product which are either manufactured by Aditya Birla Group or outside, the third-party products. The broking-cum-distribution point for all Financial Services product. And you are absolutely right, the growth in the DEMAT account has been lower in this country, so it is a case for all the financial services product. We all know opportunity is are very high and the growth in all the financial services is much lower as compared to the opportunity. So it is as much as the case which is there for insurance and mutual fund, it is time for even Aditya Birla Money. Because it's ultimate job is to go and distribute the financial products. We do believe but at the end of the day opportunity is one which drives the businesses. So we are very confident and we are bullish that this would be our basic point for us to go and be a third-party distribution point for any product, any geography, for any set of customers. So that still stands there.

Manoj Jethwa: What is the genesis of starting real estate fund under the Birla Sun Life asset management company? When you see a lot of developments that are taking place in the real estate companies, the land evaluations are at a sky rocket high. So how do you see the genesis of starting a real estate fund?

Pankaj Razdan: See this is again one of the investment opportunity. As I said, that again the valuations are not restricted to real estate. You see the similar kind of cycle or valuation in stock market. The ability of a fund manager is to go and buy right asset at the right point of time. In life you always get the cycles of good and bad valuations, good and bad assets. Markets may be up and markets may be down either in stock market or real estate. The job of a good fund manager is to go and ensure that they will be able to buy right asset at right price. For that you need a good team, you need good processes to go do that. I think offline I can take you through that. We are very confident that real estate as an asset to us is an important piece for our overall financial services and what team and processes do you apply to go and deploy them.

Manoj Jethwa: And do we have the regulations or law which is existing in the US or any European country where we have real estate funds?

Pankaj Razdan: It is a very different. Those regulations are not in India but you see our particular fund, is a pure venture capital. So it is a regulated entity, venture capital, which is a regulated entity by SEBI, so our fund is not under any PMS or any other company. It is a pure venture capital fund which is under SEBI regulations. So as much as SEBI regulates our as a capital market participant, we also get regulated by that.

Manoj Jethwa: Thanks a lot. All the best for your future endeavor sir.

Moderator: Thank you. Our next question is from the line of Sachit Motwani from B&K Securities. Please go ahead.

Sachit Motwani: Can you tell me, in the Life Insurance business out of your new business premium, how much would be single premium?

Ajay Srinivasan: About 5% in Q3FY11.

Sachit Motwani: 5%. Okay. Another thing, what has been the cost reduction, like in your Life Insurance business in terms of fixed cost during this quarter?

Ajay Srinivasan: During this quarter savings of more than ₹ 60 Cr. was achieved in opex compared to last year.

Sachit Motwani: Okay. 38% of the new sales have been from non-ULIP business. Sir, have you launched or do you have any plans of coming up with this variable Insurance policies, looking at LIC's new product has come, on the face of it looks to deliver good margins. So any plans on that?

Ajay Srinivasan: The variable insurance plan is a variation that IRDA approved only recently, so it is in our product list but it is not going to be this quarter, it will probably happen sometime next fiscal.

Sachit Motwani: Okay, so do you see more business coming from that product, because, as per the IRDAs draft proposal, premium allocation charges are very high in the first year or so in this product, do you expect insurance to chase that particular product and that would be replacing ULIPs going forward, something sort of that?

Ajay Srinivasan: It is a pure debt product plus treat it like ULIP and traditional put together, so commissions are slightly different. I think it will have a space but I don't know how much of our total business will be from that.

It will be a good product to have in our range, but I don't expect it to be a huge contributor.

Sachit Motwani: Sir how much margins would be there on such products?

Ajay Srinivasan: It is about 20-22% VNB. Broadly like a traditional product

Sachit Motwani: Okay, sir, another question was regarding your NBFC business, there has been a disbursement of ₹ 4,700 Cr. in your IPO financing, but the loan book has grown by about ₹ 1,000 Cr., so is it because sooner recovery of it has happened?

Ajay Srinivasan: The whole IPO period has reduced significantly right. So IPO financing cycle has also reduced.

Sachit Motwani: Okay. The main business is loan against shares and IPO financing right?

Ajay Srinivasan: No, main line of business is loan against shares and corporate financing. We use the opportunity in IPO financing to capitalize on the IPO boom in a quarter, but it's an opportunistic play. I mean this quarter we may not have IPO financing, so we will continue to be in our core business which is capital market lending and corporate finance.

Sachit Motwani: Okay sir. That's it from my side.

Moderator: Thank you. Our next question is from the line of Shazia Naik from CRISIL Limited. Please go ahead.

Shazia Naik: My question is very specific to the Carbon Black business. The EBIT margins for Carbon Black in the third quarter have declined significantly on a year-on-year basis. So I just wanted to know what proportion of this can be accounted for by the low cost inventories. What proportion would it be?

Sushil Agarwal: I did mention that in the previous year, there has been a benefit from low cost inventory; y-o-y decline is mainly on that account. Another thing is Patalganga where we just commissioned the capacity. So that also has some stabilizing cost. So these two put together has reflected a bit of reduction in their margins.

Shazia Naik: Okay sir. And going ahead, how do we see this? Do we see margins stabilizing at 13-14% levels? Because CBFS prices are expected to increase going ahead. So are we looking at just maintaining the margins or can we expect to improve realization and improve margins also?

Sushil Agarwal: If you see on an average basis, if we remove abnormal events like input price advantage, stabilization costs etc., EBITDA margins remains in the band of 16-18%. So I would believe that our margin would remain in that range going forward.

Shazia Naik: Okay, and sir one last question, what percentage of raw materials, as a percentage of sales would be in third quarter? Also what was COGS as a percentage of sales?

Sushil Agarwal: About 80%.

Shazia Naik: Okay. That would be it from my end sir. Thank you.

Moderator: Thank you. Our next question is from the line of Reena Verma from Merrill Lynch. Please go ahead.

Reena Verma: Just a few questions. One is, do you see any impending cash call from the Telecom side and is there a back up plan of how you would fund such a cash call, given what's happening in terms of spectrum valuation and the regulatory changes? And my second question is can you comment on the possibility of a spin-off of your Carbon Black business given the increasing size of privately held operations elsewhere in the group? And how should we look at valuations in that scenario?

Sushil Agarwal: On your telecom, I think as we have kind of maintained all along that from Nuvo's point of view, by and large, we don't expect any further capital infusion on Telecom business. With a strong balance sheet, Idea will be able to fund its requirements at its own. So far as Carbon Black business is concerned there are capacities outside Nuvo, but Nuvo is presently focusing on India. India itself has huge growth opportunities. So at this stage, Reena I don't think we have any specific plan to hive it. Instead, we are looking to further expand our capacities at Patalganga considering domestic growth opportunity. We are also looking at putting up capacities in South India. So I think from Nuvo point of view we still believe that Carbon Black business will be a growing business for Nuvo.

Reena Verma: So, basically, there are no plans for spin-off. Is that what you are saying?

Sushil Agarwal: No such plans in near future.

Reena Verma: Please pardon my ignorance, but how should one look at the valuation of this business, just based on benchmarks, even assuming you are looking at some of these overseas deals, so what kind of valuation benchmark do you think is attractive?

Sushil Agarwal: Reena, you know this answer fairly well, but if you ask me 7 to 8 times of EBITDA would be definitely a kind of range one has to see in a normal course.

Reena Verma: Okay. Thank you very very much.

Moderator: Thank you. Our next question is from the line of Anubhav Adlakha from Morgan Stanley. Please go ahead.

Anubhav Adlakha: Just had a few more questions. Basically, on the AUM in the Life Insurance business, would you have any idea how much would be the break-up in equity and how much would be in debt?

Ajay Srinivasan: About 55% of ULIP AUM is in equity.

Anubhav Adlakha: Okay and one more thing, you have not disclosed your embedded value and your new business margins this time. Approximately, what kind of growth would be there on embedded value in the last quarter and what would be your approximate NBAP margins this quarter?

Ajay Srinivasan: We will disclose it with the March 2011 results.

Anubhav Adlakha: Okay, so this quarter you are not disclosing that?

Ajay Srinivasan: We don’t disclose it quarter-by-quarter?

Anubhav Adlakha: No, last quarter you had, so that’s why I was asking.

Ajay Srinivasan: No, we disclosed FY10 EV and VNB in Q1FY11.

Sushil Agarwal: We have been disclosing this annually and we will continue with that practice.

Anubhav Adlakha: Okay and one more thing, were there any reserve releases in this quarter from the Life Insurance business? Because again I am stuck at this when you see at the change in valuation of liability in respect of Life Insurance policies because if you take the mark-to-market thing, that is basically the investment loss or in the policy holders funds but this change in valuation of liability, its come down like one-third, your premium income has come down by like only 16% but this number has come down substantially. What's the key reason behind that this number coming down substantially?

Ajay Srinivasan: We can discuss this in detail offline. I will add just one thing; change in valuation of liability is a function of premium growth, any mark-to-market gain/losses during the period due to movement in financial markets and any benefits paid out. In our case, the lower valuation of liability for Q3 is primarily a function of mark-to-market movement in investment income/loss which is borne by the policyholders and lower premium income. Combined together these have resulted in lower valuation of liability.

Anubhav Adlakha: Okay, thank you so much.

Moderator: Thank you. Our next question is from the line of Rajeev Varma from DSP Merrill Lynch. Please go ahead

Rajeev: Hi, this is Rajeev. Actually, just again on the same part of the valuation of the liability, I just want to understand one aspect. Assuming this is obviously your new business has come up very sharply; you know what's happening in the industry. Let us assume next year industry stabilized, we see growth returning, can you expect this number to really go back up? Is that a fair assumption? And secondly, I am just trying to understand where you see margin stabilizing over the next 12 to 15 months as the industry goes through the whole change. I mean how much of a drop do you anticipate in margins?

Amit Jain: Yeah, it will go back up if new business grows also coupled with how the market behaves because around 55% of our ULIP AUM is invested in equities.

Rajeev: Sure. My next question is really looking out beyond this next six months, as you are obviously trying to manage the new environment, how do you see growth panning out relatively for fiscal '12 and also how much of a hit do you think margins will take before they probably start to stabilize?

Ajay Srinivasan: Difficult to answer at this point, Rajeev. I think lots of things are going on, new products have really come from September onwards only, we are still waiting for some stabilization in products and the way distribution will pan out, so it's probably a little early, may be after one quarter we'll be able to give you a sense of how that it will work.

Rajeev: The thing I guess on the margin, lot of your peers have been mentioning that the drop in margins can be anything from 200 to 300 bps at one end and two, as much as 500 depending on what you are trying to do obviously with your product mix, which one do you think it is more likely for yourself…?

Ajay Srinivasan: So it really depends on the product mix because the traditional products have taken off quite well. If that continues, then I think we may be able to manage the margin reduction quite well. But if you don't get that mix right, some people are doing a fair amount of single premium, I think they will probably see more of an impact on margins than we will see.

Rajeev: And one last thing on that, how far are you trying to, again, it is probably a difficult, trying to stabilize and push back your costs, etc., and change your agent mix, etc., with the new evaluation, have you reached the half way through the process that you are attempting to do or how much time do you think….?

Ajay Srinivasan: I think we had a fair amount of rationalization that led to some cost cutting. It is a dynamic process. We will have to obviously look at how things pan out. If we see that efficiency, productivity and growth comes back, then obviously that's one approach, if not, then we'll have to relocate some of our cost basis.

Rajeev: Okay. Thanks.

Moderator: Thank you. Our next question is from the line of Nitesh Goenka from Microsec Capital. Please go ahead.

Nitesh Goenka: Is Aditya Birla looking forward to separately list its businesses or something?

Sushil Agarwal: What our consistent endeavour is that we work towards creating value for all the stakeholders. Now whether it happens by way of listing or it happens by way of some other routes, we continue to explore. We did mention earlier that in Financial Services space; we would be creating a separate Financial Services holding company, where value creation is possible. So those are the opportunities which do exist and will stay and we will see when is the right time to go ahead and implement some of these options.

Nitesh Goenka: So only about the Financial Services business and other businesses you are not looking forward to spin-off or something?

Sushil Agarwal: Garments and IT-ITeS business may be next opportunity. But definitely we will wait unless we achieve a right size in these businesses. Look at what we did in Telecom business, we raised our stake in Idea when mobile telephony was gaining momentum, when it grew larger and its capital needs also became huge, we listed it. It really depends on what stage and size the business is operating. So I think once any business attains a particular size, we certainly look at opportunities which can create shareholders value.

Nitesh Goenka: All right. Actually while valuing the company as a SOTP based model we discount the businesses. So that was the reason of asking this question. Because if you segregate the businesses, I mean a shareholder will get a better value.

Sushil Agarwal: It may be a mindset issue. We believe why one should give a discount to a company like Nuvo just due to its conglomerate and perceived complex structure. The company which has a leadership position in five promising sectors of Indian economy. And all the businesses are continuously showing a better improved performance. Rather we believe why not premium should be fetched, as in most sectors we are much ahead of competition in terms of profitability. To answer your question, structurally Nuvo will remain a conglomerate, we have no plans to hive off businesses for the sake of simplifying the structure, yes, as I mentioned earlier we can look for other routes viz., listing etc once the business attains right size.

Nitesh Goenka: Okay, thanks, Sushil.

Moderator: Thank you. As there are no further questions, I would like to hand the floor back to the management for closing comments.

Sushil Agarwal: Thanks, everybody, and if there is any further clarification which is needed, we will be happy to take those clarifications offline. Thanks so much for joining.

Moderator: Thank you very much sir. In case of any investor query please contact Mr. Romi Talwar or Mr. Saket Shah. On behalf of Aditya Birla Nuvo, that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.