

Aditya Birla Capital Ltd. (ABCL)
Analyst / Investor Conference Call Transcript
March 11, 2024

Moderator:

Ladies and gentlemen, good day and welcome to the conference call of Aditya Birla Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Vishakha Mulye, CEO, Aditya Birla Capital Limited. Thank you, and over to you, ma'am.

Vishakha Mulye:

Thank you so much. Good evening and thank you for joining the call today at short notice. Joining me are Rakesh, Pinky, and Vijay on the call.

The board of Directors of Aditya Birla Capital and Aditya Birla Finance, a wholly owned subsidiary, has approved a scheme of amalgamation of Aditya Birla Finance with Aditya Birla Capital. The amalgamation will be subject to regulatory and other approval as may be required. As you know, Aditya Birla Capital is a listed systemically important non-deposit taking core investment company that is NBFC CIC. Aditya Birla Finance is a systemically important non-deposit taking NBFC that is NBFC ICC, a wholly owned subsidiary of Aditya Birla Capital. Post completion of amalgamation, the assets and liabilities and the entire business of Aditya Birla Finance will be transferred and vested with Aditya Birla Capital. The equity investment of Aditya Birla Capital in Aditya Birla Finance will be cancelled. There will be no issuance of new shares, hence there will be no change in the shareholding of Aditya Birla Capital. Aditya Birla Capital will be the surviving entity and will get converted from a holding company to an operating NBFC with listed equity shares. The proposed amalgamation will be tax neutral.

The rationale and benefits of the proposed amalgamation are as follows:

- 1) **Rationalization and simplification of a group structure:** The proposed amalgamation will result in reduction in the number of legal entities and simplification of the group structure of Aditya Birla Capital.
- 2) **Improved financial stability:** The proposed amalgamation will result in the creation of a unified large entity with greater financial strength and flexibility

with direct access to capital. It will also help the Company to maximize its share of opportunities by efficient utilization and allocation of capital.

- 3) **Likely stakeholder value enhancement:** The proposed amalgamation holds the potential to eliminate the holding company discount to the equity value of Aditya Birla Finance which is present in the equity value of Aditya Birla Capital today.
- 4) **Increased operational efficiency:** The amalgamation would lead to seamless implementation of policy changes and reduction in the multiplicity of legal and regulatory compliances.

I am also happy to state that the proposed amalgamation will result in compliance with the Scale based Regulations of RBI which require mandatory listing of Aditya Birla Finance by September 30, 2025.

Upon the scheme becoming effective, I will assume the role as MD & CEO and Rakesh will assume the role as Executive Director and CEO (NBFC) of the amalgamated company, subject to regulatory /statutory approvals as may be required for these proposed appointments.

Over the last one and half years, we have followed the strategy of “One ABC One P&L” approach. The three pillars of our approach are “One Customer”, “One Experience” and “One Team”. This approach has helped us to drive quality and profitable growth and expand our market share across businesses. Going forward, we will continue with this approach to sustain the growth momentum.

This concludes my opening remarks and now we will be happy to take any questions.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Anuj Singla from Bank of America. Please go ahead.

Anuj Singla:

Thank you. Good evening, everyone. So, Vishakha, the first question is on the capital requirements. So, we will see a 150 basis points increase in capital adequacy, and we recently raised capital as well. So, this will further supplement that capital raise. So, how do we look at the capital requirements and maybe the future capital raising outlook given the growth trajectory which we have projected?

Vishakha Mulye:

As you know, when we raised capital last time, which is ₹ 3,000 crores, we had said that that capital will be sufficient for us for 18 to 24 months. So, we would come back

to market probably in December this year or max by March 2025. This will give us headroom for another 12 to 15 months depending upon our growth trajectory.

Anuj Singla:

And in terms of the operating cost benefits, first of all, in the near term, any operational costs which you need to incur for this amalgamation to go through? And any long-term analysis you have done, what kind of benefit we can see in the operational cost maybe in terms of cost-to-income, or anything you can quantify?

Vishakha Mulye:

See, we have already said that the biggest cost in any amalgamation is that of a taxation outflow and we have said that this is completely tax neutral. So, to that effect, there will not be any major cost of amalgamation that we are foreseeing right now. As far as the operating efficiencies are concerned, as you know, Aditya Birla Capital is a non-operating company. So, we have all functional heads and most of the senior people who sit at the Aditya Birla Capital. So, when we merge the entity, of course, there will be a rationalization of people, our structure will get much more fine-tuned. So, definitely there will be a reduction that one would see. In terms of quantification, to be frank, we have not done that in minute detail as yet, but as you know, there is not many duplications at functions except the control function at Aditya Birla Capital level, but I'm very confident that we would be able to eliminate some cost and rationalize it due to this merger.

Anuj Singla:

Got it. Thank you very much Vishakha. Those were my questions.

Moderator:

Thank you. The next question is from the line of Nidhesh from Investec. Please go ahead.

Nidhesh:

Thanks for the opportunity. So, what will be the timeline for this to go through and what are the regulatory approvals that we will require?

Vishakha Mulye:

So, the timeline is that, of course we'll have to follow, go through an NCLT process. So, as a thing, of course we will file it with the stock exchanges and Reserve Bank of India. So, Reserve Bank of India in-principle approval we will take. We will also take

the stock exchanges in-principle approval. And then the scheme will be filed with the NCLT. Fortunately for us, the High Court, the registered office of both the companies is in Gujarat and therefore, it will be a joint scheme which will be in front of the NCLT of Gujarat and therefore to that extent, the multiple jurisdictions, because of which there could be a delay, is not there in our case. And of course, after that, the customary approvals of all the creditors will be obtained and then the NCLT will give us the final approval. We will have to just go back to the Reserve Bank of India for the final approval of the scheme. As an outer limit, we are saying we may take max 9 to 12 months, but my expectation is that it will happen much earlier because of the entire NCLT scheme being filed and both the registered offices situated in Gujarat. And so, of regulatory approvals, predominantly, of course, we'll need a court approval. We will need, like any other merger scheme, as we need creditors' approval, all those customary approvals will be required in addition to the regulatory approvals from the regulator.

Nidhesh:

Sure. And what is the view on the RBI approval because recently we have seen that RBI is not very comfortable with the NBFC holding stake in other lending businesses or other insurance businesses. Do you see any hurdles after that?

Vishakha Mulye:

So, to be frank, if you look at regulation, it doesn't prohibit NBFCs from holding any of these businesses. There are instances or the examples in the market where NBFCs are holding HFCs and the others. As per the regulation, the only thing which is not permitted right now or which requires a specific approval of RBI is in the insurance companies, NBFCs are allowed to hold up to 50% of the stake. As you know, in our health insurance company, we are already, because of our dilution with ADIA coming in a year back, we hold 46%. So, there we are compliant with the regulation. In the case of our life insurance company, we hold 51%. So, if you go strictly by the regulation, the increase is just 1% according to it. We will request RBI's specific permission for this and really go by their guidance. So, today I have no reason to believe that we will face any roadblocks.

Nidhesh:

Sure. And lastly do you see any changes to the consolidated financials in terms of net worth, assets, or profitability?

Vishakha Mulye:

Networth will only be enhanced. As we said, the capital adequacy impact will be around 150 basis points. The leverage will come down sharply. At the moment, in our NBFC, our leverage is around 5.9. For a consolidated entity, it will be around 4.15. So, we will have huge headroom for leveraging our balance sheet for our further growth. All the other ratios, more or less, will remain in line. If you look at on the whole from a capital perspective, from an operational efficiency perspective, the overhang of raising capital in the future for the growth, this merger will be a win-win for us in terms of leveraging our existing balance sheet for our future growth without going to the market.

Nidhesh:

Sure. Thank you. That's it from my side.

Moderator:

Thank you. The next question is from the line of Kunal Shah from Carnelian. Please go ahead.

Kunal Shah:

Actually my questions have been answered. It was to do with the regulatory approvals.

Moderator:

Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe:

Thanks for taking my question. This again sort of pertains to the regulatory aspect. Is there a plan to divest stake in the housing business over time? And is there any kind of discussion with the regulator already on the structure? I think what we have seen in some other listed companies is that some of these companies have applied for, as in listed NBFCs have applied for the HFC but somehow RBI doesn't seem to be very forthcoming on that. So, is there any discussion in terms of whether RBI is okay for us to own 100% stake in HFC, or it has to be diluted or how should we think about this?

Vishakha Mulye:

We have not received any such communication. And as I said, going by the regulation, it allows us to hold 100% into our HFC. We look at HFC or the housing business as one of the big growth drivers for our franchise. As you know, we are growing in our

HFC. Of course, it's a smaller balance sheet, but we are growing at almost 30% in our housing business as against on an average 14% to 15% in the similar segment that the industry is growing. So, we are very excited about this business. I expect that there will be big opportunities in the market because of what has happened after the HDFC and HDFC Bank merger. One has seen it playing in the last six months. I expect that to continue as the economic growth will gain momentum. One would see the big growth opportunity in the housing market. And I believe we have size, scale, liability and all the other factors which are required to leverage this opportunity and we have spoken in our thing, particularly plans on HFC. So, we are bullish and no such indication. So, we will continue to invest in this business as we go forward.

Nischint Chawathe:

And then eventually you may be okay to merge it with a listed company also, right? I mean in case you want to have one lending entity.

Vishakha Mulye:

At least today there are advantages for HFC as a separate company because NHB refinancing is available. We have increased our NHB refinancing from low teens now to the mid-20s. And also, it's a completely different segment that requires a completely different mindset. That market is growing very fast. It is completely different, it is a very high ROE business, but probably a low ROA business. So, it is different than what we are looking at as a segment in our NBFC. So, at the moment, I think there is a good case for us to look at HFC as a separate company and allow it to grow and we believe that we would have capital to provide for the growth of this business.

Nischint Chawathe:

Sure. Thank you Vishakha and the all the very best.

Moderator:

Thank you. The next question is from the line of Bhaskar Basu from Jefferies. Please go ahead.

Bhaskar Basu:

Thanks. Good evening. I just had a follow-up call on the approval part, especially with respect to the insurance. So, as we've seen incrementally, while there have been structures in the past, but incrementally there has been resistance for RBI to approve an NBFC holding, an insurance company as well. So, firstly, have you checked with RBI on this? And in case this becomes an issue, what's plan B for that?

Vishakha Mulye:

So, Bhaskar, to be frank, this is not incremental, right? This is something that we are already holding. I'm not sure which example you have in mind, so it's very difficult for me to comment. But as I said, first of all, it's not incremental. It is something that is an existing structure. Nothing gets changed. It's just in the proposed scheme, we are just merging our 100% subsidiary, which is the NBFC, into Holdco. So, we are just asking for the status quo to continue. So, that is the first part. Second, according to the existing guidelines, as I explained, there is no prohibition from NBFC to hold. The only thing it says is that we can hold up to 50%. And therefore, probably, we will have to take that specific approval, which we will ask for and then go by their guidance. At the moment, to be frank, I don't see a need to have a plan B because of these two reasons. So, we will continue to engage with the regulator. And if at all anything, they will come back but I have no reason to believe that we will worry about at this stage or have a plan B.

Bhaskar Basu:

And just one housekeeping question. What was the investment on the standalone book in AB Capital as on December?

Vishakha Mulye:

In NBFC?

Bhaskar Basu:

Yes

Vishakha Mulye:

Approximately 7000 crore Rupees. Pramod can give you the exact number.

Bhaskar Basu:

Okay. Thanks a lot.

Moderator:

Thank you. As there are no further questions, I would now like to hand the conference over to Ms. Vishakha Mulye, CEO of Aditya Birla Capital Limited for closing comments.

Vishakha Mulye:

So, thank you all for joining us at short notice again. Me and my team will be here to answer any other questions that you all have. So, please feel free to reach out to me or Vijay or Pramod or Aashwiji and thank you again.

Moderator:

Thank you. On behalf of Aditya Birla Capital, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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