



# 'Grasim-Aditya Birla Nuvo merger to be completed by Q2'

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Earlier this month, shareholders of Aditya Birla Group firms Grasim Industries Ltd and Aditya Birla Nuvo Ltd approved a merger between the two firms, paving the way for the creation of a \$9.2 billion manufacturing and service business.

The merger followed the separation of the group's financial services business Aditya Birla Financial Services Ltd from Aditya Birla Nuvo. Ajay Srinivasan, chief executive officer of Aditya Birla Financial Services, and Sushil Agarwal, group chief financial officer of Aditya Birla Group, comment on the transactions and the benefits that will accrue to the companies. Edited excerpts from an interview:

**What did you tell the shareholders, what inducement did you really give them for them to vote overwhelmingly in favour of the deal?**

**Srinivasan:** Sushil is the one who led that entire transaction. He is better placed to answer it. Really what we did was explain the rationale of the transaction, why it made sense and why it is a good thing for shareholders and that is what you saw ultimately in the result.

**Did you promise them a better dividend policy; was any inducement required really?**

**Agarwal:** In some form when we kind of announced this transaction, it was little

misunderstood. Possibly we also did not do a good job of communicating our rationale properly.

So, we reached out to the people, we reached out to most of the investors and kind of gave a rational reason as to why this makes sense from a long term point of view. I think shareholders did understand our point of view. In the process, we also kind of did few things which eventually kind of takes care of investors' safety from a returns perspective. So, we did dividend policy announcement, there was an increase in FII limit in Grasim. Now it goes up to 49%, we did a split of the shares, all these corporate actions also in some form helped creating better liquidity, better participation from the shareholders.

**Ultimately it was the cash in Grasim which investors liked very much. Clearly, you did enunciate a dividend policy which gave them comfort, but for the longer term, what is the plan in terms of using the cash which it has? A lot of your businesses—Idea, Ultratech Cement—all of them need money for expansion and the money is with Grasim. So, how do you plan to use that?**

**Agarwal:** Grasim or as AB group I would say that we are normally very careful in our capital allocation policies. Where we believe there is growth and there is a long term sustainability of the returns from our shareholders point of view or better returns,



Aditya Birla Financial Services CEO Ajay Srinivasan. s. KUMAR/MINT

I think we put our money there.

In the revised Grasim, we will have a such a large company like financial services which has been growing very rapidly and I think in that business if we put in more money, I think it will only enhance the shareholders value. So, money will be put in where there is a need and which actually kind of creates a long term sustainable returns for the shareholders.

**What is the timeline for the merger? By when will we see this financial services entity listed separately?**

**Agarwal:** There are two pieces from a timeline point of view. One is, the completion of merger of Nuvo into Grasim and that should happen in maybe another few months' timeframe and it will take another couple of more months before the financial

services company gets listed. So, I would say second half or second quarter of current financial year is the timeline what we have in mind.

**For the merger to be completed?**

**Agarwal:** Complete merger as well as the listing of financial services.

**Second quarter of FY18? Agarwal:** That is right.

**Before the demerger will there be another strategic partner or any stake sale in the financial services unit?**

**Agarwal:** We will keep that as flexibility. In the scheme at least it was provided for and depending on what makes larger sense from a long term point of view, I think that is the flexibility which we have. So, we really haven't taken any specific decision on that.

**The most lucrative business in India today is NBFC or financial servi-**

**ces. Aren't you all already looking for strategic partners?**

**Srinivasan:** At the moment at least the shareholders have been funding the growth of the business from the time we set it up. We have never had a problem with the shareholders and hopefully we have given them adequate returns for them to continue to support us.

So, like Sushil said, I think we will keep our options open. If it makes sense from a valuation and a value perspective from a shareholder perspective, we will look at it. There is a provision in the scheme that allows for it, we haven't decided yet whether we are going to call on that or not.

**So, it is not confirmed that you will have a partner before you list?**

**Srinivasan:** No, not necessary.

**Where will the growth capital come from for the NBFC because it is growing very fast? In the past, you have sold stake in the life insurance entity, at group level you have raised debt, where is the capital going to come from for the NBFC?**

**Srinivasan:** So far, the capital has been coming from our shareholders. Under Grasim, we have access to the large pools of cash that Sushil has already referred to. So, we have a much stronger parent today to actually draw cash from, should we want to do that. So, there is an ability to fund the growth of the business even within our existing structure without having to go outside.