Aditya Birla Nuvo Limited

Transcript of Q2FY11 earnings call held on November 1, 2010

Management Team :

Mr. Manoj Kedia, President and Dy. CFO, Aditya Birla Nuvo
Mr. Pankaj Razan, Dy. Chief Executive, Aditya Birla Financial Services
Mr. Jayant Dua, CEO, Birla Sun Life Insurance
Mr. Mayank Bathwal, CFO, Birla Sun Life Insurance
Mr. Deepak Patel, CEO, Aditya Birla Minacs
Mr. Ashish Dikshit, President, Madura Garments

Moderator: Ladies and gentlemen Good afternoon & welcome to the Q2 FY11 Earnings call of Aditya Birla Nuvo. We have the Senior Management of the Company with us. As a reminder for the duration of this conference, 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. Should you need any 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 Mr. Manoj Kedia, President and Dy. CFO of Aditya Birla Nuvo. Thank you, and over to you Sir.

Manoj Kedia: Good afternoon, I am Manoj Kedia, I would like to introduce my colleagues, who are there with me on this call. Mr. Pankaj Razdan, Deputy Chief Executive, Aditya Birla Financial Services, Mr. Jayant Dua, CEO and Mr. Mayank Bathwal, CFO of the Life Insurance Business. Mr Deepak Patel, CEO of Aditya Birla Minacs, our IT-ITeS business and Mr. Ashish Dikshit, President of Madura Garments, our branded apparel business.

I believe you all have the investor presentation with you. It is also available on our website. Through this presentation, we will cover Aditya Birla Nuvo's key financial highlights and its financial performance.

If you look at slide 4 of the presentation. We have been showing consistent improvement in the financials over last few quarters. Our consolidated revenue for the quarter, showed growth of 23% at around Rs. 4500 Cr., while for the half year it is up by 21% at about Rs. 8400 Cr. EBITDA grew by 50% to Rs. 621 Cr. for the quarter and by 57% to Rs. 1,177 Cr. for the half year. Almost 70% of EBITDA earned in full last year is achieved in the first half itself. Our Net profit is at Rs. 105 Cr. for the quarter and Rs. 254 Cr. for the half year reflecting complete turnaround in financial performance.

I would like to bring to your notice that during the quarter a one-time exceptional loss of Rs. 103 Cr. has been borne by Aditya Birla Money and Aditya Birla Money Mart. The net profit is after this exceptional loss.

Our continuous focus is on driving growth across all the businesses. All our businesses continue to show increased EBITDA. Particularly Financial Services, Fashion & Lifestyle & IT-ITeS businesses are now yielding results on investments made in these businesses. Driven by these businesses, EBITDA has grown consistently even at times when Telecom business has posted muted performance due to hyper-competition.

Coming to the business-wise performance starting with financial services. Our vision in financial services is to be leaders and role model with a broad based and integrated business. In line with this vision, our combined Assets under Management grew by about 14% to reach Rs. 90,600 Cr. Our revenue is up by 27% to about Rs. 1620 Cr. We continue to strengthen our position as a large non-bank player with formidable presence across a wide spectrum of Financial Services businesses.

Coming to the Life Insurance business. 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, the private sector new business premium de-grew by 13% in September month as majority of players witnessed muted sales growth post new guidelines from 1st September 2010. In this backdrop Birla Sun Life Insurance is driving efficiencies across its distribution channels and areas of operations. In Q2 its total premium income grew by 22% to Rs. 1451 Cr. while renewal premium grew by 63% to Rs. 872 Cr. However, New Business Premium de-grew by 12% to Rs. 580 Cr. Actually BSLI grew by 7% during April-August 2010. In the September month sales growth was impacted post new guidelines. Its AUM grew by 37% to Rs. 18616 Cr. Growing in- force book size, lower strain due to lower new business and better expense management reflected in the bottom line. Net profit for half year is Rs. 29 Cr. vis-à-vis net loss of Rs. 238 Cr. in last year. Accordingly, there was no capital infusion during the half year. BSLI is building non - ULIP portfolio to achieve balanced product mix. Accordingly non ULIP policies contributed 25% of total policies sold during the half year.

Coming to Asset Management business, Birla Sun Life AMC's thrust is to increase share of Equity and alternate assets Its AUM grew by 7% year on year while Industry AUM de-grew by 4%. It achieved 9.5% market share up from 8.5 % in Sep'09. Its average Equity AUM including offshore grew by 30% to over Rs. 15000 Cr., while Industry's average Equity AUM grew by 14%. It achieved 2nd highest growth rate in equity AUM amongst top 10 players. Its Real Estate Onshore Fund collected Rs. 635 Cr. It is targeting second closure shortly.

Coming to NBFC business, Aditya Birla Finance has posted 86% quarter on quarter growth in total book size at Rs. 1900 Cr. Loan against securities portfolio grew by 41% quarter on quarter and more than doubled year on year. A sum of Rs. 225 Cr. was infused in the business to support its growth plans.

Aditya Birla Private Equity acquired 4% stake in credit rating agency Credit Analysis & Research Ltd. (CARE) for a sum of Rs. 64 Cr.

Equity volumes of broking business grew quarter on quarter by 22% vis-à-vis industry's 11% growth. Its client base stands enhanced to 2.4 lacs customers. This business is expanding its presence with about more than 100 new branches added in first half itself.

Distribution and wealth management business is focusing on increasing share of alternate assets in the portfolio.

In telecom, Idea Cellular's endeavor is to build sustainable competitiveness while maintaining growth momentum. It ranks 3rd in terms of revenue market share at 13%. This consistent rise in its market share reflects its competitive strength. Its revenues are up by 23% at 3637 Cr. In Q2, its EBITDA grew by 4% to Rs. 890 Cr. This was after absorbing y-o-y decline in average realised rate from 56 paise to 42 paise, start up costs of new service areas launched during past one year and increase in spectrum charges. Earnings were supported by more than 50% y-o-y growth in total Minutes of Usage at 85 billion minutes. Net profit at Rs. 180 Cr. is however lower vis-à-vis Rs. 220 Cr. attained last year. Indus towers contributed 9% to its net profit. Idea is targeting 3 G rollout by Q4FY11 in 11 service areas where it has won 3G spectrum thereby covering more than 80% of its existing revenue. It is pursuing long-term arrangements with select operators for remaining service areas. It has strong balance sheet and cash profit to support its growth.

In Fashion & Lifestyle business, our focus is on capitalizing brand leadership and expanded retail space to achieve profitable growth. As a result, our revenues grew by 40% to Rs. 478 Cr. We achieved 33% volume growth led by improved customer footfalls. Profitability improved considerably with EBITDA at Rs. 45 Cr. Retail channel achieved 39% overall growth and 18% like to like sales growth in Q2. We launched 36 new EBOs to reach to 454 with controlled retail space of 9 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 38%. It sold total contract value of 550 million US Dollars in first half year itself. 16 new clients were added in the quarter. Its revenue is up by 5% at Rs. 405 Cr. while EBITDA surged by 76% at Rs. 44 Cr.

In Manufacturing businesses, we stay focused on capturing sector growth and realizing full potential. Combined together our manufacturing businesses have achieved revenue growth of 26% at 1171 Cr. while EBITDA is at Rs. 206 Cr. Profitability in the last year, reflected a one-time input price advantage in the Carbon Black business. While steep rise in the input costs in the Rayon business strained profitability, the Agri-business, Insulators and Textiles businesses contributed to the bottom-line. The operating margin at 18% and return on average capital employed at 30%, has been encouraging.

Let us now look at the financial performance.

On a consolidated basis, net sales grew by 23% to about Rs. 4500 Cr crossing USD 1 billion dollars. Growth in net sales was led by financial services. Most of this came from the life insurance business where 63% rise in renewal premium led revenue growth. In the telecom business, decline in realised rate was more than made up by robust growth in total minutes of usage. In the fashion & lifestyle business, improved customer footfalls contributed to revenues growth. In the IT-ITeS business, though topline showed a modest growth year on year and sequentially, we are confident that the strong order book and sales pipeline built will benefit going forward. In the manufacturing businesses Carbon Black, Insulators and Textiles businesses achieved good volume growth. Besides this, rise in input and fuel prices also got reflected in the top-line particularly in the Carbon Black and agri-business.

The EBIT has grown from Rs 162 Cr. to 358 Cr. led by Financial services followed by Fashion & Lifestyle and IT-ITeS businesses. Profitability in the Telecom business was subdued due to competitive pressure on realized rate per minute, increase in spectrum charges and launch of new service areas. Robust sales have led to profitable growth, in the Fashion & Lifestyle business. Thrust on cost rationalization efforts drove bottom-line improvement in the IT-ITeS business.

Coming to net profit walk which shows a swing of Rs. 200 Cr. in the operating performance. The largest contribution to the net profit growth has come from operations. Interest expenses decreased largely in the Standalone financials, driven by improved earnings. Depreciation grew largely due to expansion in the Telecom business. As a result, the company posted a net profit of Rs. 208 Cr. compared to Rs. 1 Cr. attained the in previous year. After providing for the one time exceptional loss of Rs. 103 Cr., net profit reduces to Rs. 105 Cr., otherwise the operating performance clearly reflects a strong growth in earnings.

With the consistent growth in earnings, the financial position of the standalone balance sheet continues to improve quarter after quarter. This is despite of the fact that ~60% of capital employed is deployed in long term investments which will fetch return in future.

With this, we conclude this presentation. Now we can open lines for the question and answer.

Moderator: Thank you very much Sir. Our first question comes from line of Vikram Mahajan, from Bay Capital. Please go ahead.

Vikram Mahajan: Good afternoon Sir, I have a couple of questions on insurance. Now in wake of new IRDA norms, how do you think the product mix will change in near future? And secondly, now that the allocation charge is evenly distributed through lock-in periods and there will be a cap on surrender charges, what will you normalized business margins look like from here on?

Mayank Bathwal: In terms of product mix, clearly in our case, the mix is moving from 95% unit-linked to a more balanced mix. Our expectation is more like 70% unit-linked and a 30% traditional portfolio. I think, our view is that this is a more stable mix that is likely to emerge in the next few months. Now it would differ from channel to channel obviously but as a company that is the mix that we are aiming at. In terms of profitability, clearly if we continue to write long-term business and with a good product mix, we should not see any material impact on new business margin going forward. This will get confirmed as we progress in the coming months and see where the actual mix emerges.

Vikram Mahajan: Okay and Sir, lastly on the promoters' warrants, what is the probability of promoters converting their warrants in this quarter? Because I think December is the deadline.

Manoj Kedia: Promoters are committed to infuse the funds.

Vikram Mahajan: Okay, thank you much Sir.

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

Rajeev: Hi this is Rajeev. I just want to understand what is your NBAP margins in the insurance business? I mean you were 22% last year right? How is that trended?

Mayank Bathwal: We have not declared the margins for the current year yet Rajeev, as we only declare that on an annual basis. As I have said. if we are able to maintain a good mix in the range that I just mentioned. and with our continued focus on writing long-term business, we do not see material impact on the margins going forward.

Rajeev: Alternately, just a slightly broader question. Post new guidance lines, as you look to change your product mix and going for now more traditional policies to focus on profitability. How do you see margins standing may be in the next couple of years, what is the kind of margin pressure? You know most industry player are talking of between 200 to 400 basis points compressions. So what are you looking at?

Mayank Bathwal: It is difficult to put a number because a lot of this will depend on how our business mix evolves. But, we believe that impact on margin can be restricted provided that we are able to maintain a good mix and achieve volumes. We are not looking at the extreme range, which is the 400 basis point impact but 100-200 basis point impact is more likely if we are able to maintain the mix. Clearly there are several opportunities to look at for improving the margins; 1) To increase the protection levels from the current levels and we have a good track record of having high protection element in our unit-linked product, 2) Offering of guarantees which are margin accretive. We have been front runners and leaders in the industry in terms of the guaranteed products and 3) To focus on other product areas like health and the long term traditional. So I think there are various ways in which we will be able to optimize margins. There could be a larger impact on standalone ULIP but once you add all these other features, the impact is not expected to be material. In our case, we will continue to focus on these margin accretive features that are existing in our products.

Rajeev: Just another thing, again based on some of the discussion, you know it seems that focus on bancassurance has also increased a lot because of most of insurance companies are cutting back their distribution and agency costs. How do you see this panning out for yourself? Also are you more aggressively looking to expand your tie-up with other banks etc.?

Mayank Bathwal: We have had a good experience with our bancassurance setup & clearly amongst the non banks promoted entity, we have the largest bancassurance set-up. We would love to increase our share in the bancassurance space, as when the regulations allow & we will continue to explore all opportunities to increase play in this space. Today there is not much certainty on when the opening of the bancassurance sector to insurers will happen. But if that were to happen, we believe that we are very strongly positioned and we will continue to explore other opportunities. To the broader question, I would say that the important thing for insurers is to reduce their cost of acquisition & makes whole selling process more simpler and that is exactly what we are working on across all channels.

Rajeev: Just one last thing from my side, what is the proportion of ULPs in your portfolio if any?

Mayank Bathwal: We do not have Universal life plan.

Rajeev: Okay, thanks a lot.

Moderator: Our next question comes from the line Amitab Sonthalia from SKS Capital. Please go ahead.

Amitab Sonthalia: Hello, sorry I joined the call late. I just wanted some clarification on the equity infusion in the company, promoter warrant conversion, at what price etc. and the dilution that is going to happened…resulting dilution?

Manoj Kedia: Yes out of total Rs. 1,000 Cr., Rs. 575 Cr. were received in FY10 and balance Rs. 425 Cr. will be received in the month of coming December when it is due and the warrants are being converted at the price of Rs.541 per share at which prices warrants were issued last year.

Amitab Sonthalia: Okay.

Manoj Kedia: After this conversion the promoter holding will become 51%.

Amitab Sonthalia: Okay, so that the dilution which is going to happen there is no other warrants outstanding or any sources of dilution in the main company?

Manoj Kedia: No. These are the only warrants outstanding.

Amitab Sonthalia: Okay. This exercise will be completed by December you are saying.

Manoj Kedia: Yes.

Amitab Sonthalia: What will be resulting equity please?

Manoj Kedia: After this conversion 11.4 Cr. shares will be outstanding from current 10.3 Cr. shares.

Amitab Sonthalia: Okay and there were warrants that were issued few years back at a much higher price are those lapsed?

Manoj Kedia: Yes they were lapsed and whatever the deposit advance money was there that has been retained in the company.

Amitab Sonthalia: Are there any other plans to dilute equity in the near future in the next one or two years?

Manoj Kedia: No there is no such plan.

Amitab Sonthalia: Okay, that is all from me for now, thanks.

Moderator: Thank you. The next question from the line of Raj Gopal from Centrum Broking. Please go ahead.

Raj Gopal: Actually this is the first time I am attending your conference call so please consider this from that perspective. Just wanted to understand what is the capital allocation for NBFC business given that you have mentioned that your booked has surged by almost 86% to roughly Rs. 2,000 crores. What is the net worth that has been allocated here?

Manoj Kedia: The total net worth of our NBFC Company is Rs. 475 crores.

Raj Gopal: What could be the leverage or what could be the capital adequacy?

Manoj Kedia: The total book size is Rs. 1,900 crores. It is around you can say 4 times.

Raj Gopal: Okay and how is this constituted Sir? Is it being done out of a separate company?

Manoj Kedia: Yes it is separate. This is done by Aditya Birla Finance Ltd. It is 100% subsidiary of Aditya Birla Nuvo.

Raj Gopal: Okay and generally what could the sort of loans that you would advance out of this company? Would it only be against securities or corporate finance as you mentioned or would it be in other forms as well? Be it retail mortgages, personal loans etc. etc.

Manoj Kedia: No, no we are not in the personal loan; we are not in retail mortgage. It is predominantly in the loan against shares and corporate finance segments.

Raj Gopal: Okay. My second question is, have you declared embedded value before?

Manoj Kedia: Yes last year we have declared our embedded value which is Rs. 3,816 crores as 31st March 2010.

Raj Gopal: Okay and you do not declare this in a half yearly basis is it?

Manoj Kedia: No we do not declare because in half yearly.

Raj Gopal: Okay and any guidance on what is likely to be the growth in embedded value for FY11?

Manoj Kedia: No we do not give guidance on that.

Raj Gopal: Okay, fine and my last question is to do with exceptional losses that you have mentioned obviously your financial services business has turned around but the Rs. 100 hundred crores loss what is this been attributed to?

Pankaj Razdan: This was one-time exceptional loss which Aditya Birla Money and Money Mart, subsidiaries of Nuvo have borne on account of certain trades by their customers.

Raj Gopal: And how is the security business doing in terms of market shares or in terms of profit.

Pankaj Razdan: The securities business has picked up. Equity volume grew by more than 22% q-o-q while market volumes grew by 11%. So there has been a fair mix of growth both from our branches and franchisee. Our customer base has expanded to 2.5 lakh customers. We have added about 20 branches and 100 franchises across country during the half year.

Raj Gopal: Any statistics on average daily turnover?

Pankaj Razdan: During H1, we had average daily turnover of Rs. 750-850 Cr.

Raj Gopal: And indicative yields on the brokerage?

Pankaj Razdan: It is very much in line with the market what normal market works with.

Raj Gopal: Okay and you have not started with any institutional broking in this business?

Pankaj Razdan: No we have not started any institutional broking.

Raj Gopal: Okay, that ends my question thank you. Thank you very much.

Moderator: Thank you. The next question comes from the line of Nillai Shah from Morgan Stanley. Please go ahead.

Nillai Shah: Sir, on the garments front there has been dramatic turnaround out there. Is this sustainable or is this driven only ahead of festive sales of the quarter? Not just in term margins but also in terms of volume and revenue growth or is this just one quarter of growth ahead of festive season?

Manoj Kedia: Ashish, can I request you to take this question?

Ashish Dikshit: Nillai if you look at the performance in this business over the last three quarter, we have consistently been improving our volume growth and in fact the last two quarters we have grown business by close to 40%. The good news is that large part of this growth is coming on a very fixed cost base. Retail like to like growth which is primary indicator of how well you are sweating the existing retailers sets, it has been close to 20-25% in the two quarters, which means on a same cost structure, you are actually getting a much higher throughput and that fundamentally is driving that part of the business.

Nillai Shah: Is there any product mix improvement in terms of mass brand Peter England versus the others premium brand?

Ashish Dikshit: No, not really I think the growth is very democratic. All the four key brands have grown between 20%-40%. So just to confirm they are not coming from any change in mix of one brand versus the other. It is fundamentally driven by sweating assets from the retail side much faster and secondly as the market is opening up, our customers which are multibrand outlets in the parking stores are beginning to expand and much of that growth is flowing back into the business.

Nillai Shah: Right and even the exports is sustainable right? The contract exports.

Ashish Dikshit: Contract export business if you noticed have not grown at the same pace because we are not aggressively planning to grow that business at this point of time and we are ensuring that the margins are managed at the current level.

Nillai Shah: Coming back to the insurance business, Mayank would you be maintaining a guidance of Rs. 200 crores capital infusion for this current year.

Mayank Bathwal: That's the limit that we had put on the injection for this year. As we see volumes peaking up in the next 5-6 months, you know we still maintain that figure as of now.

Nillai Shah: Will that be revision out there? Are you like looking at revising this or do you think you are pretty certain at this point in time that there is actually no revisions required.

Mayank Bathwal: No we will continue monitor our business mix and volumes from time to time and at this point we would like to watch the experience for next 1-2 months and then take a call.

Nillai Shah: And the last question is on the losses on ABML. What are the steps the management has taken to ensure that this does not happen again?

Pankaj Razdan: This is as I said one-time exceptional loss resulting from an exceptional movement of market. We are laying thrust on building up process and systems. Our efforts and endeavor are always there to go an build our system and process more stronger.

Nillai Shah: Okay thank you very much.

Moderator: Thank you. Our next question comes from the line of Amitab Sonthalia from SKS capital. Please go ahead.

Amitab Sonthalia: Hi, this is just a follow up question; again I have just started looking at the company since I saw the quarterly numbers this morning. So pardon me for my ignorance of certain not had a chance to look at things in detail but as I look at financial I see that you have done well and almost all the business segments in the last six months in this quarter and there is marked improvement expect for the telecom business that is. So I just wanted to get a sense, is there any aberration or is there any one-off in the first half of this year, based on which the numbers are looking so good or is it more of a sustainable turnaround that we see across all our businesses. If you can give me some sense of that, you know as I sort of try to understand the business and because as we all know this is a complex company to analyze given the multiple segments that you are in.

Manoj Kedia: Apart from the exceptional loss of Rs. 103 crores there is no other exceptional item and we feel that the performance is sustainable.

Amitab Sonthalia: Okay. I do not know if you have given overview of the different business?

Manoj Kedia: Yes. We have given overview of the different businesses. I think except in the Rayon business all the businesses have performed well. Our performance has been subdued in Rayon because of the higher input prices. I think in other places our performance has been very good and we believe that we will be able sustain that.

Amitab Sonthalia: Okay and what is outlook for the Rayon business in the second half?

Manoj Kedia: Rayon business, we are trying pass on to the customer the increase cost of the wood pulp and we are hopeful that we will be able to do it going forward in the next couple of months.

Amitab Sonthalia: Okay and when I look at your segment results in terms of revenues, income and capital employed, we can see bulk of our capital employed is in the telecom business which is Idea, I suppose right?

Manoj Kedia: Yes.

Amitab Sonthalia: So out of a total capital employed of Rs. 13,000 odd crores, Rs. 8,000 crores is deployed in the telecom business which is Idea. Is this your 25.37% stake in capital employed of Idea, is that correct?

Manoj Kedia: Yes, it is our 25.37% share in the total capital employed of Idea plus goodwill. Being a joint venture, Nuvo, line by line consolidates its proportionate share in P&L and Balance Sheet of Idea.

Amitab Sonthalia: And what would be your book value of your investment in Idea, if may ask?

Manoj Kedia: It is Rs. 2,356 crores.

Amitab Sonthalia: Again keeping in mind what you told us, that bulk of you revenue are from telecom and insurance How would you like investors to view the company? A telecom player? What is the ultimate vision of Companyon this telecom play, is there any possibility of unlocking value through this at anytime in the future?

Manoj Kedia: We are a conglomerate and we should be seen as the incubator of the businesses. As a conglomerate, we have invested in businesses like telecom, financial services, IT-ITeS and garments businesses. Our plan is to nurture these businesses, take them to a large scale and unlock value for the shareholders through listing etc. We have demonstrated this in the telecom business by listing Idea Cellular. A similar type of value creation will definitely happen in all other business over a period of time. Now your question on the exiting telecom. We are a serious business players in the telecom space and we would like to remain invested in this company.

Amitab Sonthalia: How much further value creation opportunity do you see in telecom and don't you think that will be better serve through transferring the stake out of the main company so that you can focus on your objective of nurturing other business with more growth opportunities?

Manoj Kedia: As the single largest shareholder of Idea Cellular, we believe in the long term telecom story and are not bothered by short term upheavals. So therefore we do not have any plan to exit this business.

Amitab Sonthalia: Okay. Thanks a lot

Moderator: The next question of comes from Rajeev Varma of Merill Lynch. Please go ahead.

Rajeev: Hi, this is Rajeev again. Sir, just wanted to understand that you have shown breakdown of revenue for financial services companies but not of profitability. So was just wondering if you could give profit/loss figure for AMC and NBFC business?

Manoj Kedia: Net profit of the NBFC company was Rs. 7 crores for Q2 and Rs. 14 Cr. for the half year. For AMC, net profit was around Rs. 47 crores for H1 and Rs. 14 Cr. for Q2.

Rajeev: Okay right.

Manoj Kedia: For AMC, it is given separately on slide 29 of the presentation.

Moderator: Thank you. Our next question comes from the line Sudhakar Prabhu from Span Capital. Please go ahead.

Sudhakar Prabhu: Yes good afternoon. My question again is regarding the insurance business. If you look at the second quarter and the first half you have seen degrowth in the new business premium. What kind of trend can we see going forward?

Manoj Kedia: Mayank, can you take this question?

Mayank Bathwal: If you look at the numbers till August we actually had a 7% growth. Our Sales was impacted in the month of September as a result of the regulatory changes. However, we see these changes settling down in the next 2-3 months. We are very hopeful that volumes will pick up in the last quarter of the financial year. As you will understand, this is a big change impacting the entire industry and primarily our distributors. For them to go through this whole adjustment of adopting new products and the significant changes in their compensation, requires a mind-set shift and therefore we feel that it will take at least three or four months of transitioning period. So in the company, we are working towards simplifying processes and provide other enablers to our distributors to help them improve their productivity in order to increase their compensation levels. As we go through that whole process we are fairly hopeful that given that long term opportunity in this sector & with highly efficient product lines, we should be able to come back to normal times. But I think it is important to know that as it is big shift and therefore there will some short-term pains.

Sudhakar Prabhu: Any my second question is regarding the profitability in the business, is this sustainable or in the second half we see the growth coming again the insurance business will show a loss?

Mayank Bathwal: I think it is important to understand what drives the profit & loss in the insurance business and as you must be aware, that new business strain is actually not a bad thing to have because it's reflective of higher new business sales. What is important is that you know we simultaneously keep increasing the profitability from our existing book & this has been primarily driving our profitability in the first six months. What is also important is that we keep managing our expenses and that is where our core focus is right now. As I mentioned in one of my responses earlier, Cost of acquisition is a big part of the overall cost & the other area of our focus is the cost of operations i.e. the back-ended support. So as you would know, the loss which is arising from expense strain or expense gap is something that we would like reduce significantly. Having said that, our view is that we should continue to achieve renewal premiums growth as strongly as we have witnessed in the first six months at 45%. This should help us in achieving higher profitable growth in the future even with higher new business volumes.

Sudhakar Prabhu: Yes, that was helpful and my another question is regarding your IT business, Aditya Birla Minacs have shown a great improvement in EBITDA margins. If could explain the same please?

Deepak Patel: Sure, you know we have been working towards rationalizing our cost structure an exercise which started 18 months ago. Now the focus is on profitable growth. Over the last two years, we have consistently sold new contract which is now starting to show up in the revenues. So this EBITDA margin we feel is fairly sustainable and is a result of the efforts we have been making since the last 18 months.

Sudhakar Prabhu: Thank you that was very helpful.

Moderator: As there are no further questions I would like hand the floor back to Mr. Kedia for closing comments.

Manoj Kedia: We thank you all for being on this call and if you have got any other questions you can email to us or you can call us, we will be happy to provide any other clarification that is required. Thanks to all.

Moderator: Thank you very much sir. Any investor query can be directed to Mr. Romi Talwar of Aditya Birla Nuvo or Mr. Saket Sah, Group Investor Relation. On behalf of Aditya Birla Nuvo we conclude this conference call. Thank you all for joining us. You may disconnect your line. Thank you.