Aditya Birla Nuvo Ltd.

Transcript of Q1FY14 earnings call held on 12th August 2013

Management Team:

- Mr. Sushil Agarwal – Whole time Director & CFO, ABNL
- Mr. Pankaj Razdan – Dy. Chief Executive, Aditya Birla Financial Services
- Senior Management Team, Aditya Birla Financial Services
- Mr. Pranab Barua, Business Head, Fashion & Lifestyle business
- Senior Management Team, Madura and Pantaloons

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Moderator

Welcome to the Q1 FY14 earnings conference call of Aditya Birla Nuvo. For the duration of this presentation, all participant lines will be in the listen only mode. After the presentation, a question and answer session will be conducted. The call will begin with a brief over view of quarterly earnings by the management followed by a question and answer session. We have with us on the call today Mr. Sushil Agarwal – Whole time Director and CFO of Aditya Birla Nuvo along with other senior management team. I want to thank the management on behalf of all the participants for taking valuable time to be with us. Participants are requested to focus on key strategic questions to make sure that we make good use of the senior management times. I must remind you that the discussion on today earnings call may include certain forward looking statement and must be viewed therefore in conjunction with the risks that the company faces. With this, I hand the conference over to Mr. Sushil Agarwal. Thank you and over to you Mr. Agarwal.

Sushil Agarwal

With me I have Pankaj Razdan – Deputy CEO, Aditya Birla Financial Services along with the Senior Management Team of Financial Services Business. Pranab Barua, Business Head for Fashion & Lifestyle business along with the Senior Management team of Madura and Pantaloons. I will take you through the key highlights for the company. I request Pankaj and Pranab to briefly talk about Financial Services and Fashion & Lifestyle business before we start the Q&A session.

The Company performed well across most of the businesses despite the challenging macro-economic scenario. This is reflected in the financial results of the company. Reported revenue grew by 8%. EBITDA surged by 28%, net profit rose by 24%. Normalizing the carbon black and Pantaloons transaction, the comparable earnings growth is even higher.

ABNL has built leadership position across businesses and is competitively well placed in most of the businesses. Financial services business continues to rank among the top 5 Fund Managers in India. We are actually among the top 2 if we exclude bank backed players. Getting into Banking Sector will be a strategic fit for Aditya Birla Financial Services. It will complement and expand our portfolio. Hence we have applied for banking license.

Idea Cellular is constantly expanding its revenue market share. Health of the sector is improving and we believe Idea to be the biggest beneficiary led by strength of its brand and balance sheet.

In Fashion and Lifestyle business, Madura continues to outperform industry growth. The outcome of its retail channel expansion strategy is evident.

ABNL has a strong balance sheet and cash inflow to support its growth plans. Led by slump sales of carbon black business, realization of subsidies and distribution of surplus funds by Birla Sun Life Company, net debt to annualized EBITDA improved to 2.1x. However, Q1 ratio does not provide complete picture since it annualizes Q1 EBITDA which is historically lowest quarter for ABNL. On the other hand, some of planned cash inflows were fronted ended like buyback proceeds, divestment of Carbon Black etc.

Let us break down our cash inflow and outflow in the next 9 months. Investment plans for next 9 months include funding growth capital in the NBFC business; Capital Infusion of around ₹ 800 Crore in our 100% subsidiary Indigold Trade & Services Ltd, towards funding of Pantaloon acquisition. Capex target for the full year is around ₹ 600 Crore, out of which about ₹ 100 Crore is already spent during 1st quarter. Among sources of funds a sum of ₹ 279 Crore is receivable toward slump sale of carbon black business. Equity infusion of ₹ 671 Crore is expected from promoters. Dividend of around ₹ 87 Crore was received in July 2013 from Birla Sun Life Insurance. A subsidy of ₹ 450 Crore was received in July 2013. Though towards the end of current financial year, we expect the outstanding subsidy to accumulate again, however, it should remain at a lower level than March 2013 because of discontinuance of trading in imported fertilizers. So moving forward net debt to EBITDA will be higher than 2.1 time level but we expect it to remain in comfortable zone. With this, I hand over the call to Pankaj for his views on Aditya Birla Financial Services with a request to hand over to Pranab, post which we will get into Q&A session. Thanks.

Pankaj Razdan: Thanks Sushil. We had a tough macro environment but we witnessed a very strong growth across most of our businesses. Funds under management actually surged 17% year on year to about ₹ 111,000 Crore. And most of the growth in all our businesses has been reflected in revenue growth. Lending book expanded by close to 100% to ₹ 8400 Crore which got reflected in almost 100% growth in the revenue of NBFC business. Similar trend was observed in assets under management in AMC, with more than 21% growth in Assets under management reflecting about 48% growth in revenue. Insurance advisory increased its market share, registering 40% growth in premium placement and reflecting 44% growth in revenue. As the growth in life insurance industry was impacted because of the slow-down in economy and change in macros, we also experienced de-growth in insurance business along with rest of the industry players. Our focus continues to grow the rest of the financial services businesses - by scaling lending book in the NBFC business while keeping risk under control, growing the market share and top line in other businesses. In terms of insurance business, our focus remains on improving distribution efficiency, persistency and expense management. In asset management, we will continue to grow our profitable assets, improve our efficiency on distribution side and continue to maintain our investment performance. Deploying our private equity assets, growing insurance advisory business and expanding our customer base with a clear focus on cost and profitability in the broking and wealth management businesses. As Sushil mentioned, we are exploring growth opportunities both in banking and other related business in the financial services space. Over to you, Pranab.

Pranab Barua Broadly speaking, Quarter 1 has gone well as Madura grew by 25% over last year. But however if you look at the underlying consumer sentiment for the industry, it is fairly muted. Like to like sales growth was actually in single digits in April and June for Madura. May was a good month and we had 32% like to like growth but that was because of the wedding season. Overall growth at 25% is healthy and has been driven mainly out of May sales as well as our expansion across channels. Madura opened about 35 consignment stores and 50 buy and sell Stores, taking our overall retail presence, to almost 2 million square feet. July was also reasonably good overall but like to like growth again was muted, just about 1% or 2%. In Pantaloons, quarter 1, like to like growth was slightly negative just under 1%. And the overall growth was 6%. Here again in Pantaloons, we have opened 2 stores in quarter 1 and 2 stores in July. So in terms of consumer sentiment, I would say that the market is still muted, we have seen better seasons in terms of like to like growth. But however we are driving growth through expansion, not just in retail outlets, but also across trade channels. So that is the key message. We have a lot of work to do on Pantaloons essentially improving margins looking at the cost structures and cost of rebuilding the organization. That is the focus for the coming year. With a clear program on making sure that we reach at least industry bench marks by the end of the year. So that’s the overall position in the Fashion & Lifestyle business.

Sushil Agarwal We can invite questions from the participants.

Moderator Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from Suresh Mahadevan of UBS. Please go ahead.

Suresh Mahadevan I had 2 questions. One is clearly I think now you have probably taken Pantaloons under you. I just wanted to understand how the integration is going on with Pantaloons, if you can give an update on that. The second one is ABNL as a company, the key proposition to the shareholder is I think you own a mix of businesses that are reasonably good priced and I think divestment of carbon black was clearly a case where we did crystallize some value. So if you could provide some thought process in terms of how we are looking at various businesses, over the next few quarters, some of the potential opportunities to crystallize value. Thank you.

Pranab Barua As far as Pantaloon is concerned, just to recap, we were very clear that this is a strategic step to address a much larger apparel market which hitherto not being addressed by Madura. Namely ladies ethnic wear, Denim, kids wear, western women's wear etc. and also the price points in terms of customer segmentation. Most of Madura brands are actually premium brands. So it was very clearly a strategic move that we made. We believe me made the right move. All our researchers tell that the brand Pantaloons is extremely strong and is actually transferable across our regions and indeed across different levels of towns and cities. So that is the big picture. Going forward as you would know Pantaloons actually did not have a separate P&L in Future group. It was carved out P&L. So there were lot of costs which are actually shared between the Future Group and this particular concept. So as we delink it and demerge it from there, we have to build an organization which is what we just completed in the first quarter. We have to hire around 200 odd people which we have now completed, across design, store merchandise and sourcing, except the front end which is already there. So a lot of time has gone about recruiting hiring people and building the organization. So that is very clearly what we have done. We have at the same time prepared a plan for this year and also going forward. This year will be about building the organization and building all the fundamental blocks for this business for longer term. We have also identified the number of areas of synergies between Madura and Pantaloons. These revolve basically around real estate, sourcing, about looking at some of the Madura brands being introduced in the Pantaloons stores because when you look at the Pantaloons business, the men's business contributes just around 35%. So the Madura brands will give great degree of support to the Pantaloons menswear portfolio. So that's really what we are currently doing. We are also looking at the sourcing mix - where we need to source from looking at cost structures in sourcing, looking at improving gross margins and so on and so forth. I hope that gives you some sense of what we are doing with Pantaloons.

Sushil Agarwal Suresh, to respond on second question, I do not think actions like divestment of carbon black can happen every quarter. However we continue to make sure that company grows in the areas in which they operate. So we have a growth plans for financial services business which Pankaj talked about and we continue to explore growth opportunities in this space. Pranab just spoke about Fashion and Lifestyle business. Though currently, consolidation of Madura and Pantaloons is not on agenda, it would be key to see how we can consolidate the entire fashion and lifestyle business appropriately in future so as to create greater value for the shareholders. In earlier earnings call, we have spoken about the IT-ITeS business which is relatively small in size - we are not investing more capital into that business. However, we continue to explore, what is the best for the business and we don't want business to suffer for the want of capital. So I think I will leave this answer at this note.

Suresh Mahadevan One quick follow up on Pantaloons, I noticed that Q1 you are very close to EBITDA break even. So I think for the full year you are looking at EBITDA break even, is it a fair assessment?

Pranab Barua On the EBITDA side, I think we should be positive for the full year. If you look at the industry, department stores, which are on this kind of formats, are are currently delivering between 4 – 6% EBITDA margin. So my sense is we will be at the lower end of the scale in the first year being in the investment and business re-building mode. Thereafter we are targeting to match industry standards and gradually beat the industry standards. That's what really we are targeting. So we will be positive.

Moderator Our next question is from Reena Verma of DSP Merrill Lynch. Please go ahead.

Reena Verma This is Reena. Just a quick question on the news report about the group looking at the possible chemical acquisition in the US. I just wanted to confirm that this will not be done through Aditya Birla Nuvo or will it be and in that case what's the rationale for it please. Also my second question is on the status of your fertilizer expansion please?

Sushil Agarwal Reena, Aditya Birla group keeps on evaluating various opportunities across the globe. At least currently there is no plan for any such opportunity at ABNL level. And so far the existing expansion in Indo-Gulf fertilizers is concerned in India, if you recall we had mentioned in previous earnings call that this is an enabling resolution for the company to apply to the government of India for license and we are interested in expansion.

However, the final go ahead for the project will be based on the gas availability and the project generating decent IRR. Since there are changes in the rules of the game post our application was made to the Government, we are awaiting final guidance from the ministry of fertilizers. So at this stage, we have not made any further commitment. There is no CAPEX at our end till we get final clarity.

Reena Verma May I just ask you what is your CAPEX plan for fiscal '14 – 15 please?

Sushil Agarwal In the current year we are targeting roughly ₹ 650 Crore of capex. Out of which the large CAPEX is in Agri business, for energy savings scheme and in Madura fashion & lifestyle for addition of new retail stores. As you know that in our Linen business, we are expanding linen capacity. In Rayon business, ramp up capex will be incurred for Enka plant which we imported from Germany. So these are the projects which will be completed this year and in next year in some cases. Broadly at this stage my sense is that for FY15, capex could be around ₹ 400 Crore. That's what we are estimating at this stage.

Moderator Our next question is from Sumit Chaudhary of Standard Chartered. Please go ahead.

Sumit Chaudhary Just a quick question on given that that group now has Pantaloons and is there any plan to expand the retail banquet of the group through hyper markets, I know the group has the more formats is there any plan of that sort in the near future or over the near medium term?

Sushil Agarwal That part of the business is being run separately and it will continue to run so. So at this stage so far ABNL Is concerned, ABNL is engaged in apparel retail business through Madura and Pantaloons. And that's what our focus would be.

Moderator Our next question is from Girish Achhipalia of Morgan Stanley. Please go ahead.

Girish Achhipalia Just on Pantaloons first, what's the CAPEX plan for this year and next year if you can provide that and in particular during the June quarter, are there any one offs in terms of group related expenses if you can just help us with that number as well?

Pranab Barua Let me give you a broad number and I will ask Manoj to fill in the details. Broad number is that we believe our CAPEX plan this year will be close to ₹ 150 Crore mainly for adding 12 new stores and renovation of some of the existing stores. I suspect going forward, our focus will be on expansion and growth and therefore we will be spending a similar kind of amount going forward. Manoj can you give the details of the other part of the question that was asked?

Manoj Kedia This quarter we don't have any one off item, all the items are normal items and considering the entire building of the organization, it is normal EBITDA.

Girish Achhipalia I want to rephrase my question here, what are the expenses that you have taken on board after having a separate P&L for Pantaloons after the company was separately carved out? Because you said last quarter you had some one-offs. So I presume in the base quarter, you probably did not have those expenses. Now you are having those expenses if you just help me with that number.

Manoj Kedia We have hired around 200 people because earlier this was an integrated division of Pantaloons. So when we have to rebuild the organization, the people related cost will add and that is going to be recurring expenses. This is not going to be one –off item.

Girish Achhipalia Are the rentals comparable on a YOY basis?

Manoj Kedia Rentals are in line last year.

Girish Achhipalia Secondly on insurance business, if you can talk little bit about the growth strategy over the next couple of years, and what do you plan in terms of product and distribution, and finally if you can just throw some light on when we can break even on the expense side?

Mayank Bathwal There are 2 – 3 focus areas, first one is to get the full product basket complete. As you know from October the traditional products are getting changed once again. So our focus right now is to ensure that we have the entire set of products across all categories of need which has been a concern not only for us but for entire industry over the last 3 years with significant changes happening in short span of time. Whatever new product set that we are able to create by the end of say this fiscal year, we are hoping that going forward we are allowed to sell that product for long time and industry don't face any major change in this area; because without products, it's been tough to get any sales growth. The second one obviously is to get the distribution strategy continuously reviewed. We are waiting for the new bancassurance guidelines. You may have seen the notified broker guidelines. So we are kind of assessing it, what is the impact, how are the banks going to take that, are they going to use that opportunity to expand their relationship beyond one insurer or not? I think primarily what it does show is that IRDA has finally opened up the bancassurance opportunity to more than one player. We don't know if that is the only change or there will be few more changes coming as far as bancassurance is concerned which has become a key component to the overall distribution mix today. We continue to review our agency strategy which in current circumstances has become a bit of concern for the industry though everyone clearly appreciates that agency is the core channel for life insurance business, we cannot do away with the Indian context specially given the size of the opportunity and the fact that we are still far away from the true ISA model. So for us the agency continues to be core distribution channel. We are working on multiple initiatives on that front and so for 12 – 18 months' perspective, we do hope that we will get some more stability in that channel once the new product set is there by December of this year. What we have done well is being able to maintain our bottom line so far but the new expense gap because of primarily the distribution overruns is where our focus is and as agency gets more stabilized, we expect that to reduce. So, even this year the amount in absolute terms is definitely higher than what we would have wanted but the good thing is that it is trending down and we are seeing that trend in the current year as well as in the first quarter. We had given an outlook of FY17 when we see the expense gap getting eliminated and we are on track for that as of now. So in summary, a more stable product set and opening up of a few other opportunities in the distribution space should see some ray of hope for the industry in the next 12 – 15 months.

Girish Achhipalia If you can just provide some growth targets that you are looking for the next couple of years, if that's possible?

Mayank Bathwal In a stable economic environment, we have always said that around 2 times the nominal GDP growth is what one should expect as growth rate for financial services. I don't know whether it will come in the next 15 – 18 months but once the overall macroeconomic situation stabilizes, and at the core once our products get stabilized one can start looking at it. It's very difficult to predict exactly when that is going to happen.

Girish Achhipalia I just have one clarification on the earlier question that was asked about the news report of the Group investing in US. So you mentioned that there is no plan at the ABNL level? Is it now or is it just saying that there is no plan at ABNL at all?

Sushil Agarwal The way I was explaining, Group keeps on exploring various opportunities and certainly we don't have any plans as we speak for ABNL for sure. So I think we should go as we see. Today whether ABNL has a plan of looking at any such opportunity outside India, I am saying no.

Moderator Our next question is from Abhishek Ranganathan of Phillip Capital. Please go ahead.

Abhishek Ranganathan I have couple of questions, one is seeing that the May month was so strong for Madura, what is it that we have not seen a similar trend in Pantaloons, because if we compare with most retailers or rather departmental stores, the Pantaloons format seems to be lagging behind. Is there a bit of vacuum at our merchandise level or is it a conscious decision that we are going to just scale it up gradually?

Pranab Barua That is a good question. There were some issues regarding merchandise availability during this transition phase. Now that we have got hit in terms of lower growth and because of the inventory position, we do not take such a strong position in trying to push the stocks. And I think it was pure transitional issue that we faced.

Abhishek Ranganathan Also with respect to CAPEX at Madura, where have we been this quarter and also you have given the breakup of the consignment and the buy and sell stores. Now is this the usual model or I believe we also have our own stores? So we haven't opened our own stores at all this quarter?

Pranab Barua When we say we have opened 35 consignment stores, it is basically our own stores. And these are basically larger stores typically 1800, 2500, 3000 square feet stores which basically showcases the brand. And the 50 buy and sell stores are smaller stores, investments are made by the franchise. But we use both of them to grow our markets and penetrate deeper.

Abhishek Ranganathan Also a commentary on how the brands have performed in Madura and also any changes we have witnessed in gross margins?

Pranab Barua I am going to ask Ashish Dikshit who is the CEO Madura to respond.

Ashish Dikshit As you noticed growth was about 25% for the quarter in Madura, it is fairly democratic across brands with most brands growing between 18 – 25%. Allen Solly in particular grew on a small base slightly higher than others. But if you were to look at all premium brands are in the zone of close to 20 – 30%, and therefore the business had seen that kind of growth, no specific deviations its been our trend over last couple of quarters if you look at our growth trajectory primarily driven by the expansion that we are achieving across other sales.

Abhishek Ranganathan And where are we in Allen Solly in terms of brand profitability. We mentioned last quarter that it was turning around, how far are we away from reaching at a level of profitability of Louis Philippe or Van Heusen?

Ashish Dikshit That's at some distance, one caveat I would put is that, fundamentally the profitability across these brands is measured at very top level, because of large amount of shared resources the way we operate. So the best way to look at it is the margins the individual brands achieve. Allen Solly is couple of percentage points below the other premium brands but growth is quite appreciable and it's inching closer and closer to the overall margins.

Abhishek Ranganathan Volume growth also across all the brands would have been similar?

Ashish Dikshit What you see here is a value growth of course driven by price increase as well as volume growth which is in the range of about 10%. So volume growth at an overall level is in double digits in this quarter for Madura.

Abhishek Ranganathan Lastly CAPEX for Madura per se.

Ashish Dikshit CAPEX for Madura for this quarter would be in the range of ₹ 15 – 18 Crore.

Abhishek Ranganathan We will maintain this run rate or ramp it up as we go?

Ashish Dikshit It will accelerate. I think our CAPEX plan for the year would require us to accelerate little bit in second and third quarters.

Abhishek Ranganathan And basically we are looking at ₹ 100 Crore CAPEX this year for Madura?

Ashish Dikshit Broadly yes.

Moderator Our next question is a follow up of Reena Verma of DSP Merrill Lynch. Please go ahead

Reena Verma Just on the NBFC business, I wanted some color on the deterioration in non performing assets that you have reported in a year on year basis, which part of the loan book if there is any specific segments that is leading to the rise in NPAs? And in terms of the overall growth outlook, perhaps if you could comment on whether you think Infra and mortgage can continue to be a growth driver, for the next 2 – 4 quarters because we are hearing lot of reports of slow-down in those segments. So if you could please comment, thank you.

Sachinn Joshi On the NPA side we have gross NPA of 1.8 and net of 1.2. It is basically that we have been pretty conservative in terms of making the provisioning. So there is no undue provisioning or aggressive provisioning that has come in because of bad assets. It is part and parcel of the regular provisioning policy that we have. We are slightly conservative in terms of making these provisioning on a quarter-to-quarter basis. That's what the trend is showing.

Reena Verma I appreciate that but if you could just tell us which segment of the loan book is driving this conservatism?

Sachinn Joshi Actually it is not any specific segment which is driving it – provisioning is across the segments in line with the current macro-economic environment, there is no specific hit that we are taking because of which this aggressive provisioning is being done. So it is in line with market conditions, nothing on specific segment basis. On the growth side the mortgage and the infra piece would be the focus areas. If you see that in the last year overall across all segments we added ₹ 4500 Crore book out of which 60% of incremental book was contributed by Infra and mortgage segments. In Q1 we have seen about ₹ 400 Crore being added overall, almost all on account of these 2 segments. We can't share a target or guidance about what would be the growth at the end of the year but all I can share is that we are focusing more on good quality assets being added and we have been fortunate enough in terms of growing at this pace. However, this is subject to market conditions.

Reena You don't see any slow down in the infra loan book in the coming quarters?

Sachinn Joshi There was some challenges in the market. So as I mentioned earlier we have been quite conservative in terms of adding new loans. So yes, if the macro economic environment is tough it is going to reflect in the growth of all NBFCs. We will be very particular in terms of taking the exposure going forward.

Moderator Our next question is from Kuldeep Khanapurkar of Kotak Mahindra Mutual Fund. Please go ahead.

Kuldeep Khanapurkar Just 2 questions on the NBFC, is there any concrete ROE expansions strategy that you have if you can explain and the second question is what will be the capital infusion required in NBFC for this year and lets say for next three years again in the block?

Sachinn Joshi Average Return on equity during the first quarter was about 14.4% and we are well above the last year's numbers driven by growth in book size. So we would be maintaining similar ROEs or targeting improvement with further growth in book size giving us operating leverage. On the point of capital infusion, the current quarter we have received about ₹ 125 Crore capital infusion. And for the full year, we expect about ₹ 400 Crore plus to be the capital infusion.

Kuldeep Khanapurkar Lets say for the next 3 years we have any plan in place? What is the capital required in this business.

Sushil Agarwal One can derive capital infusion, considering that we are comfortable maintaining leverage of about 6x. That has been our policy and we will continue on the same lines.

Kuldeep Khanapurkar I was asking about the capital required from ABNL side on this business? I am not talking about the leverage part, leverage I understand. What is the capital required for the business?

Sushil Agarwal Based on visibility for lending book growth in the current year, our capital infusion target for the current year is ₹ 400 Crore. It will all depend on the macro economic environment, the way the book grows for coming years and accordingly the capital infusion plans would be worked out considering 6 times leverage.

Moderator Our next question is from Sanketh Godha of JM Financials. Please go ahead.

Sanketh Godha This is with reference to life insurance business, just wanted to know to what extent we have rationalized our agency force and branches in FY13 and what is the optimum size we are looking at. And my second question is with respect to margins, the new business margins before cost overruns has come down for 23% to 17% and is this primarily because of the product mix change and going ahead with new product norms what are the margins company is targeting at?

Mayank Bathwal Yes, if you remember in an earlier earnings call when we spoke about margins for FY12, we had mentioned that though full year margins are 22.8% our exit margins for FY12 were more like 18%. So our margins for full year FY13, has ended at about close to 17% which is line with what we have expected given the fact that the new set of products had fully reflected into the portfolio. Going forward the participating products will become bigger and post October we expect it to be of a substantial size of our traditional book given the constraint that has been put on the non-PAR portfolio. In PAR products, the margins are generally 300 basis points lower than the Non PAR products. Depending on the overall product mix as it emerges post October, we do expect some downward pressure on the margins going forward unless some relaxation is done for the non-PAR segment. As far as agency is concerned, as I mentioned in response to earlier question, agency stands at the core of our distribution strategy, given the fact that bancassurance is still not completely opened up, we have just seen the new guidelines. So for us it is extremely important that we maintain our presence at least in a substantial part of the country through the agency channel. We continue to review our performance at individual branch level and rationalize. So that process is on. So depending upon whether it is about the location or whether it is about branch performance, we review whether we need to close down the branch or whether we need to cut down on the number of resources and we have done a mix of this over the last 18 – 24 months. And that process has continued even in the current financial year. So we will like to take a much firmer stand on the agency once we get a full view of what the distribution regulations will look like and specially the bancassurance one. If we get a larger share in the bancassurance space with its opening up, we may take a firmer stand on the agency size. But at this stage we would like not to reduce our presence substantially. We will keep on rationalizing the branches or the agency manager which is a fixed cost in our agency system. So that's our current focus. We are hoping that IRDA also does something on some changes that the industry has proposed in the agency structure in terms of allowing some flexibility, than altogether a new structure, so that it can make the model little more innovative. So we just don't want to vacate a location having built our presence over the years unless we are very clear that the location is not viable from agency.

Sanketh Godha Can I have the figure of number of agents as of March 31st and as of June 30th?

Mayank Bathwal Agents were close to about 1,00,000 to 1,10,000, it ranges between that. And that's what it has ranged in the last about 3 – 4 months. As you know agents hiring is also been little tough. Though after being given some relaxation by IRDA in this quarter, that number is moving up a bit. But we don't want to increase it unless we are clear that we are adding productive agents in our systems.

Sanketh Goda The branch size also stands at 650 kind of figure?

Mayank Bathwal We have about 600 branches as of now and that number we keep on reviewing. We may have a few more branches getting rationalized in this quarter.

Sanketh Goda Sir with respect to margins you said that if the PAR book goes up, the margins would come down by 300 bps.

Mayank Bathwal I am not talking about the overall margins. I said, margins are lower in PAR by 300 bps compared to our blended margins of 16.6%. Margins in PAR products are more like 12 – 13% and depending on the overall mix of PAR in total sales, the overall margin will see some reduction post October. Currently it is difficult to say how much share PAR products will have in total sales.

Sanketh Goda What is the margin you as a company would be comfortable with, 14%-15% kind of number?

Mayank Bathwal Anything above 15% in the current environment seems to be a good margin.

Sanketh Goda One small clarification sir, previously we used to sell only non-PAR products. So in FY13 have we sold any PAR product or its only in current year we have started selling these products?

Mayank Bathwal We launched our PAR products in the last quarter of FY13 and so we have started selling these products, it's already 10 – 15% of our portfolio. And we do expect that to increase further, as we move ahead and as I said post October, it will be a much larger share within the traditional portfolio.

Sanketh Goda One more thing, have you discontinued highest NAV products or we still selling?

Mayank Bathwal It is going to be there till the end of September 2013.

Moderator Our next question is from Deepak Chitroda of CRU. Please go ahead.

Deepak Chitroda I have 2 questions. First one is on urea side, I just want to ask you about what is happening on urea front because we were planning to expand urea capacity. So obviously we have seen that department of fertilizer has got about 13 applications. So what is the exact status as of now? And second one is on the complex fertilizer. Basically we have seen global prices have declined. So what do you think about the overall outlook going forward for the complex fertilizer?

Sushil Agarwal As explained earlier, we have taken in-principle board approval to file our application with government for approval. But the final plan to go ahead regarding expansion was always dependant on final rules of the game, availability of gas and project IRR. Since we already had land available at existing plant location, we did not make any capex commitment for the expansion purpose and currently we still awaiting guidance from the department of fertilizers on the expansion policy. So the investment decision is on hold. And so far existing business is concerned, we currently have manufacturing of urea plus trading operations in seeds and pesticides. We have discontinued trading of imported fertilisers. With this, we are expecting reduction of about ₹ 400 – 500 Crore in receivables year on year.

Deepak Chitroda Actually I have heard from couple of companies that they have increased MRP for various fertilizers like DAP, MAP and other NPK. So do you think this is viable from those companies because we haven't got any notification from department of fertilizer about increasing MRP right?

Sushil Agarwal We don't even operate in these segments.

Moderator Ladies and gentlemen that was our last question. I would now like to hand the floor over to Mr. Sushil Agarwal for closing comments.

Sushil Agarwal Thank you for participating on the Earnings Call of ABNL. For any further clarification, you can get in touch with Romi Talwar at ABNL or Saket Sah at Aditya Birla Group. Thanks everybody.

Moderator Thank you very much. Ladies and gentleman, on behalf of Aditya Birla Group, that concludes this conference call. If you have any further query, you may please get in touch with Mr. Romi Talwar, Investor Relations, Aditya Birla Nuvo or Mr. Saket Sah, Investor Relations, Aditya Birla Group. Thank you for joining us.