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AJAY SRINIVASAN/ADITYA BIRLA GROUP

Banking is a strategic focus area that we would like to enter

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MUMBAI

The financial services sector is a difficult market to be in these days. With economic growth slowing to its lowest in nine years and clocking a mere 5.3% rise in the last quarter of fiscal 2012, financial services don't have a lot to look forward to.

Ajay Srinivasan, chief executive of the financial services business of the diversified Aditya Birla Group, spoke in an interview about what his company is doing to beat the sector's blues. Edited excerpts:

In your recently announced quarterly results, profit grew a lot more than the revenue. Was that due to cutting costs, or did something else go in it?

Last fiscal, we had a 4% growth in revenue to ₹6,550 crore, and our profits before tax grew 27% to ₹600 crore. It is broadly consistent with our theme that we have been following for the last few years, and that is to achieve balanced growth. The focus is on gaining market share and growing top-line, but not at the cost of profitability.

Part of it is also due to our life insurance business, which has an in-force book that grows over a period of time. Policies are already written in the past and they run for 15-20 years. This generates income on past policies and directly adds to the bottom line. As that book grows, the income grows too.

Now if you spend significant amounts on new businesses or aggressively growing your top-



Photo: Guenther
Low priority: Srinivasan says investment banking is currently not on the radar.

MINT INTERVIEW

line, that eats away from it. But since we have seen considerable headwinds in top-line growth, the incremental profits have outstripped the increment in revenue.

You mentioned headwinds in revenue growth.

It is mostly in fee-based businesses. Fee-based incomes, both as a result of external environment, both in India and globally, as well as some industry-specific regulatory changes in the country, have been under pressure.

If you look at new business data in the life insurance sector, there has been a considerable decline in the last two to two-and-a-half years. The mutual fund industry as a whole has stagnated over the same period. If you look at retail broking volumes, numbers are significantly down.

As a result of this, the top-line itself has been muted; and in many cases, it has gone down. In this scenario, my focus is: how can I improve my market share? If I can't control the headwinds coming from the external circumstances, then our focus is: how can we

do better than the others?

So, in the last quarters, across all our business, we have gained market share. In that sense, given the environment we are operating in, it shows that our focus and strategy is working.

The strategy of cannibalizing others' market share?

Absolutely. If the tide itself is not rising, then you have to see that your growth will come at the expense of other people in the industry.

Which of your business segments are outperformers, and which ones are lagging behind? How do you fix the laggards?

We don't look at our business that way. The construct of the business is to be catering to the needs of our target customers. Basically, our products cater to their needs, typically across their life cycle. As and when the needs of the customers change, the products change. They compete for wallet share but they don't compete for the needs of the target customer.

So it's not a question of whether I want to grow this one faster or that, since they all cater to different needs. They (customers) would need protection, health insurance, wealth management, mutual funds to invest surpluses, general insurance for your car or to cover injuries from accidents, and some kind of broking services if they want to enter the equity markets.

We are operating in an environment where the nominal GDP (gross domestic product) is growing at 14-15%, savings rates are 30%, and penetration of our products is still fairly low. The typical pattern of investment of an individual is such that, say, roughly 50% goes into physical assets such as gold, property, and the remaining half comes in financial assets. Of the portion that comes into the financial sector, bulk of it still goes into the banking sector. So penetration of our products is a very small portion of the overall savings pie.

We would enter businesses that service an unmet need of our customers. We don't think there are that many gaps in our portfolio. I think the one gap we have spoken of is offering short-term deposits. The group has said that banking is a strategic focus area that we would like to enter, provided the regulations allow us to do so. At this stage, it is premature to comment on what the (holding company) structure and details of what that (banking entry) would look like.

Aditya Birla Financial Services recently entered the infrastructure financing space. How is that shaping up?

Yes, it was launched last fiscal. The notion was that we see that as a big area for growth for the country. If India has to grow, infrastructure will be a large sector in the country. A large amount has already set out in the Five-Year Plan. It is a large enough sector for us to participate in. We have made a good start in that.

Many projects are going for some sort of a refinancing or restructuring of debt. How promising a scenario is that for an entrant?

You have to be careful in the sector you choose, the kind of companies you are lending to, and then, obviously, do your due diligence well. So that's the basis of the whole lending platform. So we are looking at things with a reasonable track record, credibility in promoters and visibility on cash flows to be able to support the project. That (refinancing, etc.) is bound to happen if you see interest rates moving up and down and project costs changing.

Are you looking at investment banking?

Currently, that is not on our radar. It is a function of where the market is, as well as our competencies and skills. I think both those put together, it is not something that is high on our agenda.

Any plans to list any of your businesses or sell a strategic stake to an investor?

Our NBFC (non-banking financial company) will require funding to grow, and our infrastructure finance business is a part of that. Those two will require capital during the year; but other than that, we don't really need money to fund our businesses since they are generating cash and are self-sustaining.

We will probably need ₹200 crore or so this year, and that will come in as fresh equity (into the NBFC). The existing shareholders (Aditya Birla Nuvo Ltd) will pool in the money.

Aveek Datta contributed to this report.