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‘Our NBFC’s loan book has grown 4-fold in 3 yrs’

The past two years have been tough for companies, with economic growth slowing and demand falling. **AJAY SRINIVASAN**, chief executive officer, financial services, Aditya Birla Group, talks to **Malini Bhupta** on the outlook for the financial sector. Edited excerpts:

Q&A

AJAY SRINIVASAN
CEO, Financial Services, Aditya Birla Group

The financial services sector has been under pressure due to the overall slowdown. Where do you see growth coming from in the next few years?

Financial services is inextricably linked to both the growth of the real economy and sentiment. But the impact on different sectors of financial services has been mixed. While private sector life insurance players have seen new business premia drop by about 10 per cent annually over the past three years, the mutual fund (MF) sector's assets under management have grown by 8.9 per cent annually, compared to 8.05 per cent in the previous three years, though a lot of the growth has come from liquid funds and fixed maturity plans.

Lending has generally remained robust, growing at a compounded annual rate of over 20 per cent over recent years. We believe all segments of the financial sector should now see reasonable growth.

Over the past two years, businesses in this sector are focusing on fund-based business lending. How has Aditya Birla Financial Services fared in that segment?

Fee-based businesses have generally faced more headwinds in the past few years, partly due to the changes in the environment and partly to regulatory changes altering the distribution models in this space. Fund-based businesses have continued to grow. Our non-bank financial services company, Aditya Birla Finance, has achieved a new high by crossing a book size of ₹12,600 crore. The book has grown more than four-fold in less than three years, a creditable achievement in a tough economic environment. It has also been awarded a housing finance licence from National Housing Bank.

Is consolidation imminent in the financial services business, too?

If we look at the current penetration levels vis-a-vis the number of players in the markets, one could say there should be enough scope for more players. We have 44 NFs; China and 80-90. In life insurance, we have 24, compared to 35-40 in Indonesia. On the other hand, there could be some consolidation in stock broking.

Marketing of financial products has increasingly become difficult, due to regulatory reasons. How are you dealing with distribution?

A multi-channel approach in a country like ours is always preferred by scale players, as different customers have different requirements. We believe while remote channels (telemarketing, internet, etc) will grow rapidly in India, face-to-face ones will continue to dominate for some time. Within the latter, banks will probably gain share, as they can leverage their branch network and customer franchise.

Changes in regulation have reduced the earnings of several distributors which were selling single products. Our approach has been to continue to build multi-channel distribution at one level but to also try and get a single distributor to sell more than one product, so that the income stream is diversified and they can cater to more of their customers' needs.

What's your outlook for the economy for FY15?

We have been growing below potential for a few years. The near-term potential growth rate in India has also fallen from an annual 7-7.5 per cent to 6-6.5 per cent. We believe the worst might be behind us. Our external situation in terms of the current account deficit has improved substantially and the focus on inflation, reducing the fiscal deficit and stimulating investments in the economy will yield results. We are cognizant of the risks that an El Niño can pose to growth in agriculture. But, to the extent that does not result in a drought situation, we expect headline gross domestic product growth to pick up to 5.2-5.5 per cent in FY15.