ADITYA BIRLA CAPITAL

PROTECTING INVESTING FINANCING ADVISING

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ET Q&A

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We've What It Takes to Build Business of Affordable Housing

Ajay Srinivasan, CEO, Aditya Birla Capital, expects to enter the asset reconstruction business by the end of March 2018. In an interview with **Shilpy Sinha**, Srinivasan talks about plans to grow the credit book, opportunities in mutual fund space, and consolidation in the insurance sector. Edited excerpts:

COMPANY PHOTO

Your NBFC has contributed most to the consolidated profit, which is up 23%. How will each business contribute to profits in the coming quarters?
We have seen opportunity in each segment we operate in. We see continued opportunity in life insurance as we see in NBFC, housing and health insurance.

Which segment is growing the fastest within the NBFC sector?
If you look at the business mix, it has remained the same, except that retail and SME are growing faster, which means everything else is growing at the same pace. Our focus is on building retail and SME. Under SME is some LAP, construction financing, term loans, while under realty, there are some loans against shares, unsecured loans. We have increased our branch network, and are adding people on the ground. It's about building product and geographical distribution reach.

Large part of the book is large and mid-corporate. Do you see credit pick-up in the two segments?
It varies from segment and portfolio. In some places, there's a fresh credit demand, and in others, there is rejig, refinance as companies are looking to restructure. By and large, the loans are new.

Credit growth is subject to demand-supply. There is also a play of bank financing and bond financing of credit. When rates shoot up in an alternate market, some of the credit moves from one source to another.

A very small part of your business is affordable housing. What is the plan there?
Affordable will be smaller because the ticket size is smaller. Prime housing is ₹40 lakh, whereas affordable is ₹11 lakh. Affordable housing will give us the opportunity to leverage the brand. This brand has reach and it is a recurring theme across affordable housing and mutual fund.

Will you look at acquisitions to grow the affordable housing?
We have what it takes to build the business. We have got the brand, people and products. Our aim is to grow slightly bigger than the market. It is a long-term attractive business.

Recently, Capital First announced merger with IDFC Bank. Does an NBFC need to become a bank or merge with one as the book size grows?
A lot of it depends on the parentage and the access you have to rating agencies and lenders. We don't have any restrictions in the medium term. As long as we are wholesale funded, we see opportunities to raise funds. We are diversifying our source of funding. For the near term, we do not have a problem funding our growth.

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With the yields rising, will the cost of borrowing go up in this quarter?
The rate has been very volatile. We have not seen such volatility in a very long time. It moved from 6.4% to 7.6%, and through this volatility, we have maintained our margins. Generally, if the table of interest rates goes up, our cost of borrowing rises too. We have the ability to pass on the interest rate increase to our borrowers. My own sense is that rates will cool off at 7.25%.

With all the distressed assets in the system, how are you tapping the opportunity? What are the kind of assets you will look at in the stressed category?
We are setting up an asset reconstruction company, and have got an in-principle approval from the Reserve Bank of India. We plan to capitalise the company before March, and will roll out that business. We think there is supply of stressed assets. I think the model is changing to cash-based model of acquisition of stressed assets and moving for resolution. I think people are interested in resolution of assets. A group like us has the ability to deal with both cash requirement as well as the ability to resolve some of the stressed assets, as we operate in so many multiple areas.

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