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'To return to high growth, we need better use of savings flow'

The Aditya Birla Group is present in various financial sectors — insurahce, asset management, equity broking and lending. It has seen the lending business grow but not the fee-based businesses. **AJAY SRINIVASAN**, chief executive, financial services, talks on the company's focus and growth areas with **Krishna Pophale** and **Abhijit Lele**. Edited excerpts:

How has the company fared in the current economic downturn?
Our non-banking financial company (NBFC), into secured lending, is growing. But we are cautious. In the past two years, all the fee-based businesses like life insurance, mutual funds, broking and wealth management had faced a reasonable amount of headwinds. This was partly because of weak capital markets and partly regulatory and policy issues. Every fee-based business growth was flat or negative but the lending business has grown.

How is the expansion on your branch side?
We are looking at both branch and non-branch models. In the branch model, beyond a point of time, the economics becomes challenging. So, we have to think of non-branch models to expand. As this is an intermediary business, we don't necessarily need the branch to reach a city but the whole focus is to build that reach and we'll look at that.

Regarding lending in infra space, which areas are you comfortable and which are you not?
Our broad approach is to go with strong promoters, with operating companies where we have visibility on cash flow and our lending is completely secured. In a broad sense, we structure our lending. We typically don't lend to an early stage project because then there is all the risk you take with project execution. As long as we are an NBFC, I don't think we will get into that space.

You are keen to enter the banking space once the regulations are in place. What are your plans?
It is too early to comment; we are waiting for the final guidelines. Once these are clear, we will be able to build our response accordingly.

You are not there in the home loan space. Do you find it crowded?
Not too crowded but to get into that, you need a lot of things ready. You need a distribution network and a whole operating plan in place. There is a reasonable amount of competition in that space, so we will look at that area in due course of time. We're interested in it, but we need to be completely ready before we get in.

Q&A

AJAY SRINIVASAN
Chief executive (financial services), Aditya Birla Group

To what do you attribute the falling growth and what will be your prescription to revive it?
It's interesting to see how things have changed in the last few years. If you look at India's growth between 2002 and 2007, half of the growth came from investments and typically funded by fairly high savings in the country. In the last couple of years, a larger amount of money went into physical assets, excluding gold, and if we add gold, then the amount goes up tremendously. In addition, within financial savings, a larger amount has gone into bank deposits than other products like insurance or mutual funds that used to get more earlier. Unless we are able to utilise our savings, it would be very difficult to fund India's investment needs, which is very important to get back to eight-nine per cent growth.

Recently, Sebi made changes in mutual funds, such as increased incentives for intermediaries and a thrust on semi-urban areas. What does it mean to you?
Now, MFs will get a little more flexibility within the fund structure to build distribution. What had happened was 92 per cent of the assets under management were coming from the top eight cities, so it became fairly concentrated in terms of geographic dispersion.

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