ADITYA BIRLA CAPITAL

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Publication: Mint	
Page no: 10	Date: Aug 12, 2016

GAINING SCALE

The rise of Aditya Birla Financial Services

Over the decades, the unit has grown into a ₹9,300 cr business, with a potential valuation upwards of ₹25,000 cr

S. KUMAR/MINT

Growth plan: *Ajay Srinivasan, CEO of Aditya Birla Financial Services.*

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MUMBAI

The Aditya Birla Group's interest in the financial services business predates the liberalization of the Indian economy. In 1986, the group, then headed by Aditya Vikram Birla, started Birla Growth Fund to finance the purchase of industrial equipment and consumer durables, and to trade in stocks. It launched a non-banking financial company (NBFC) in 1991 and in 1994, the business was rebranded Birla Global Finance Ltd.

Since then, the financial services division has grown to become a ₹9,300 crore business spanning at least 10 business lines, but it never reached a position where it could be called one of the flagships of the $41 billion Aditya Birla Group.

That could now change. A big part of the restructuring announced on Thursday involved spinning off Aditya Birla Financial Services Ltd (ABFSL) as a separate listed entity. It is an indication that the business is now of a scale where it can stand on its own.

"The business has reached a size and scale where it deserves to be a stand-alone entity," said Aditya Birla Group chairman Kumar Mangalam Birla at a press conference in Mumbai. "The demerger and listing of the financial services business will unlock value for shareholders."

While Birla declined to ascribe a value to the business, a person familiar with Aditya Birla Financial Services' business said it could be upwards of ₹25,000 crore. Indeed, a back-of-the-envelope sum of parts valuation of the three core businesses—asset management, life insurance and non-banking financial services—suggests that the company could be valued at anywhere between ₹22,000 crore and ₹32,000 crore depending on the kind of trading multiple that the markets choose to attach.

As of June 2016, Aditya Birla Financial Services had assets under management of ₹1.96 trillion spread across its asset management, insurance and private equity businesses, according to a group presentation. Its diversified NBFC had a lending book of ₹28,700 crore, which includes both wholesale and retail lending. A payments bank, a joint venture between the financial services firm and Idea Cellular Ltd, is also on the way.

The restructuring will allow each of these individual businesses to grow more rapidly, said Ajay Srinivasan, chief executive officer of Aditya Birla Financial Services. "I am excited. Now we can unlock value for shareholders and build scale for each business."

The group's decision to convert its financial services business into a stand-alone entity comes at a time when other conglomerates such as the Piramal Group are also thinking along the same lines. In May, Piramal Enterprises Ltd signalled its intent to carve out its financial services business into a separate entity and eventually list it.

The two will join a growing list of financial conglomerates in the country, which includes Bajaj Finserv Ltd, Reliance Capital Ltd and L&T Finance. Of these, Reliance Capital is the largest. As of March 2016, it had revenues of ₹9,784 crore. Bajaj Finserv is the second largest with revenue of ₹9,446 crore, followed by Aditya Birla Financial Services with revenue just under ₹9,300 crore.

All these financial services conglomerates are banking on two things—that demand for financial services will continue to grow and that state-owned banks (which control 70% of the market) will cede market share as they try and repair their balance sheets. If that happens, private banks and well-capitalized NBFCs stand to gain the most.

"NBFCs have been doing relatively better in terms of growth. Some of the issues that have been plaguing banks such as shortage of capital and bad loans are not big issues for NBFCs at this stage and will allow them to focus on growth," said Saswata Guha, director, financial institutions, at Fitch Ratings. Guha was not commenting on any specific company.

According to the Reserve Bank of India (RBI)'s June financial stability report, loans by NBFCs expanded 16.6% in 2015-16, twice as fast as the 8.8% credit growth across the banking sector at an aggregate level. The gross non-performing assets (NPA) ratio for the NBFC sector declined to 4.6% of total advances in March 2016 from 5.1% in September 2015, according to the report. The gross NPA ratio of banks was 7.6%.

Aditya Birla Financial Services sees big growth opportunities in both the NBFC business and the housing finance business, said Srinivasan. He added that it may also add a couple of new lines. In June, he said in an interview that the firm was examining a possible stressed asset venture.

It will also look to expand recently added verticals like health insurance. On 10 August, the firm said it had received regulatory approvals to provide health insurance through Aditya Birla Health Insurance Co. Ltd. The payments bank, a 51:49 joint venture between the financial services group and Idea Cellular, is also set to launch by early next year.

Is the end goal a banking licence? That might be tough given current RBI regulations. According to rules for on-tap banking licences released earlier this month by the central bank, large conglomerates cannot apply. An entity that has assets of more than ₹5,000 crore can apply for a banking licence only if the non-financial parts of its business do not account for more than 40% of total assets. That will likely rule out Aditya Birla Financial Services as a potential bank licencee.