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'We Will Focus on Non-Metros as Margins are Higher, Costs are Low'

Ajay Srinivasan, MD & CEO of Aditya Birla Capital, expects to enter the asset reconstruction business this year. In an interview with ET's **Shilpy Sinha**, Srinivasan talks about building the business, proposed expansions in the retail and SME segments, likely opportunities in the mutual fund space, and consolidation in the insurance sector. Edited excerpts:

Have you identified a partner for your distressed fund? What is the strategy there?
There are a lot of people interested in India and in our group. We have not identified (a partner) yet. We will launch the business in the course of this year. We have not got our business plan completely ready yet.

Our strategy is two-fold – to launch the fund as well as the ARC (asset reconstruction company). You get better returns and better traction if you do a fund and ARC. The other (thing) is to focus on resolution rather than just financial re-engineering.

Where do you see growth in the NBFC segment?
We are expanding retail and SME in our lending business. We are expanding SME through geography because products are the same. We are doing retail unsecured, which we started two years ago.

We are moving quickly into non-metros, and 30% of our business is coming through non-metros. The margins are higher in non-metro as cost is low and stickiness of customers high. Our retail book growth is more than corporate, where margins are higher.

You are looking to raise the share of construction finance to 20% from 11% now. How do you plan to do that?
We will do stage-wise funding of projects. It has two benefits – if you fund the developer for construction financing, and (then fund the individual with) home loans. So far, we have stayed with category one and category two builders. We will go further down the chain to affordable housing. Risk management is critical to us.

Your VNB (value of new business) margins are lowest among large players?
You have to look at the distribution network. If you take the gross margins, ours will be the best at 32%. We will add scale through third-party distributors.