ADITYA BIRLA CAPITAL
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Publication: The Financial Express	
Page no: 07	Date: 12 February, 2018

INTERVIEW: AJAY SRINIVASAN,
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'Will continue to look for inorganic opportunities'

Aditya Birla Capital is open to acquisitions that can add scale to its businesses, chief executive officer **Ajay Srinivasan** *told* **Shamik Paul** *of FE. Edited excerpts from the interview:*

Are you looking at acquisitions?
Inorganic opportunities for us must meet two criteria be a strategic fit and a financial fit. The acquisition has to make sense from a financial perspective, and it has to make a sizeable impact on our businesses.

We will continue to look for opportunities across the board. But, the size of an acquisition target will vary across our businesses.

What kind of growth are looking at across businesses?
Our targets are all relative targets, because these are markets where it is difficult to predict what absolute numbers should look like. Our professed approach has been to grow faster than the market so that we gain market share.

In terms of the average assets under management, our mutual fund business was in the third position in December. We have added 40-50 basis points of market share over the last year; I think that is a reasonable expectation for us going forward as well.

What share of NBFC business comes from entities associated with the group?
Contribution from our group companies is negligible. If you take vendors of the group, it would be about ₹800-900 crore, which is 2-3% of the total business. However, we see a very large opportunity in the supply chain ecosystem of our group and of other large corporates. That is an area of focus for us.

As your business diversifies, will you see NPAs rise?
We have focused on customer segments that we are comfortable with and on building a robust risk management process. Around 85-87% of our book is secured. NPAs will increase only when we do more unsecured lending, but the margins will also be significantly higher. When we adjust NPAs with the margins, it will be more attractive than the current business. So, there will be a little increase in NPA levels, but it will be priced for.

What kind of margin expansion are you looking at?
That would depend on when the unsecured and retail lending achieves a certain scale. In less than two years, our unsecured book has turned profitable, but it is not giving the full returns because it takes a little more scale for that. We have total book of just under ₹40,000 crore and the unsecured book is between ₹1,000 crore and ₹1,500 crore. That has to become much more significant to make an impact on the margins.

Do you see the mix of business — SME, corporate and retail — changing?
We see greater growth opportunity in SME and retail. It is under-served and under-penetrated in India, and new SMEs are coming up. If you look at last quarter, already there is a 2% increase. Retail is up by 1% and SME is up by 1% over the previous quarter. Directionally, that is the trend.

Will your cost of borrowing rise?
We have maintained our margin at around 4.4-4.5% for NBFC and 3.1% for housing finance. Today, about 35% of our borrowing cost is fixed. Of the balance 65%, only when it matures, we do need to worry about rates. Our sense is that even if rates go up a bit, the impact on our borrowing cost, in the worst case, will be 10-15 basis points. We have the ability to pass this on and with our changing business mix, our margins should expand slightly over time.

Where do you see yields on interest rates headed?
I have not seen in the last 15 years, the kind of volatility that we have seen in the fixed income market in the last one year. My sense is that we will see rates coming down slightly from where we are today. The benchmark bond is likely to stabilise around 7.25%, at least in the near term and then it will look for direction from inflation and other factors. I don't see much upside to interest rates from those levels, at least in near term.