

THE NEW FINANCIAL POWERHOUSE





The Aditya Birla Financial Services Group has emerged as a major financial powerhouse in India with a strong presence across verticals, including fund management, distribution and wealth management, security-based lending, insurance broking, private equity and life insurance. **R. Nagesh** profiles the group.

THE Aditya Birla Group, a US\$29.2 billion Indian conglomerate, is engaged in a wide spectrum of activities, ranging from metals (both mining and smelting), manufacturing (insulators, carbon black, cement, fertiliser, viscose staple fibre and viscose filament yarn) to telecommunications, branded garments, retailing and financial services. The premier industrial house diversified into the financial services sector after the opening up of the Indian economy and liberalisation of the financial sector.

Group company Aditya Birla Nuvo (ABN) has emerged as the platform for the launch of new businesses. ABN, which was established in 2006 following the merger of Indo-Gulf Fertilisers and Birla Global Finance with Indian Rayon, is poised to expand at a phenomenal pace. The group now plans to create a holding company for its financial services division,

Aditya Birla Financial Services Group (ABFSG), which has shaped up as a US\$1 billion entity.

According to Kumar Mangalam Birla, group chairman, the division has gained critical mass, especially in assets management and insurance. Private equity funds have also shown interest in this division, he points out. The group is seeking the approval of the Reserve Bank of India (RBI), the country's central bank, for setting up a holding company for the financial services units.

Sushil Agarwal, chief financial officer, ABN, says the objective of creating a holding firm is to create long-term synergy and give a sharper focus to the financial services business.

The move will also help unlock shareholder value and enable others – especially private equity players – to acquire a stake in the firm.

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An interview with **Ajay Srinivasan**, chief executive, financial services, Aditya Birla Group:

The Aditya Birla Financial Services Group (ABFSG) is active across all key verticals in the sector. Could you outline the growth rates and the targets for these segments?

The Aditya Birla Group has a strong presence across various financial services verticals that include life insurance, fund management, distribution and wealth management, security-based lending, insurance broking, private equity and retail broking. The group has a vision to be a leader and role model as a broad-based and integrated financial services player.

Both our flagship businesses – life insurance and mutual fund – are amongst the top-5 companies in their respective industries. We have registered over 30 per cent growth in both businesses in financial year 2009, despite de-growth in the industry. To get a better idea of the growth in our life insurance business, consider this: the combined sales for 2007-08 and 2008-09 are almost double of what we did in our first six years of existence. Our insurance sales in March 2008 was more than our full year sales in 2005-06.

In our mutual fund business, we currently have average assets under management of over US\$10 billion (up from nearly US\$4 billion in March 2007) and in the last two years we have more than doubled the investment advisors that we had over the previous nine years.

Going forward, we believe financial services will continue to be a fast-growing sector in India. The reasons for this are that Indian GDP growth is expected to remain amongst the highest in the world and financial services growth is typically a function of GDP growth. Second, Indians save a good amount of the growing income, which means the pool of financial savings is increasing, unlike say in the West.

Finally, given the demographics and the low penetration of all financial services products we believe the scope for growth remains very high. Consider that

there are more mobile phone subscribers than bank accounts in the country. Or that over half of India's household savings still go into bank deposits where post-inflation and tax, the return is insignificant.

Last year, the consolidated revenues for ABFSG almost touched the US\$1 billion-mark. What are your targets for 2009-10 and for the medium term?

In 2008-09, we registered strong growth in our revenues. The consolidated revenues of ABFSG from all its businesses was US\$960 million, a growth of 36 per cent. Given the prevailing economic and market conditions, ABFSG's growth is certainly a testimony to our brand and our people.

We have created a strong foundation with the products, distribution, team and brand in place. As a manufacturer and distributor of products, we aim to provide solutions to all the financial needs of our customers. It is difficult to quantify our targets in such times but suffice it to say we will look to grow faster than the market in each of our segments.

Within the various sectors that the group operates, which one do you expect to grow the fastest over the coming years? What are the reasons for the same?

As I mentioned, we see growth in all our business segments since there is a large opportunity in the Indian financial services market, which is still largely under-penetrated. All our businesses cater to different needs of our target customers and as our customers' wealth increases and as they look to meet their varied needs through financial products, we see scope for strong growth of all our product offerings.

Consider this: mutual funds as a percentage of total household savings in India are only about 5 per cent and life insurance is nearly 15 per cent. Compare this with penetration rates in other more

developed markets and you will see the scope for growth. Let us specifically look at health or pensions, both large needs for the population we serve, and you will agree that there is tremendous growth in store for those who provide these products.

Let us look at equity ownership, which again is very small in our country. This suggests growth opportunities for our wealth management and brokerage businesses. Broadly speaking, we see the growing needs for protection, investment, health, pensions and wealth management to be some of the key themes that will drive growth in the financial services sector.

What are the overall plans of the ABFSG? Are you looking forward to setting up a bank?

We want to be a complete financial solutions provider for our target customers. Our focus is to build leadership in each of our businesses and to be a role model in the businesses that we operate. We want to, therefore, build a broad-based financial services business and integrate our financial services businesses to get synergy across them.

Through integration we can present a unique experience to our customers and can act as a one-stop shop for their financial requirements. Hence, our plans are two-fold – be present across all financial services that fit into our overall strategic and financial objectives, and build synergies across businesses keeping our customer requirements at the centre of what we do. Regulations currently do not allow us to set up a bank, so this is a hypothetical question.

Is the group investing significant amounts in upgrading technology? Does technology drive the financial services group?

Technology is a major focus area in financial services. As we intend to integrate our financial services businesses, we are

FAST GROWING SECTOR IN INDIA'

looking to build a common IT platform. Our IT must be such that it allows our businesses to scale up efficiently, meaning it should deliver to us efficiencies of scale through reduction in unit costs.

Furthermore, it should allow us to provide a consistent experience to our customers across our businesses. IT is also the key in providing managers with the necessary information for them to make well-considered decisions. Finally, it must be able to help us grow revenues through the opening up new channels or services.

Considering that there is need for consolidation within the Indian financial services sector, do you plan inorganic growth by acquiring other companies in the sector?

We believe in being open to inorganic opportunities. These opportunities must adhere to our strict financial and strategic criteria. Our recent acquisition of Apollo Sindhoori Capital Investment (a Chennai-based broking outfit) was based on our vision of wanting to be a broad-based financial services player. However, we have also grown organically and the growth registered in both our life insurance and mutual fund business despite tough market conditions are examples of that.

Is ABFSG planning to expand internationally? Which are the target markets for overseas expansion?

Capital flows quite freely across borders today and, therefore, there is scope for a financial services provider like ourselves to look across national boundaries. We believe the large NRI population is a natural market but there could also be opportunities with other institutions and individuals for some of our investment products such as mutual funds, portfolio management service (PMS) or private equity.

Does the ABFSG plan to emerge as a financial powerhouse, offering a clutch of products and services to the retail, corporate, institutional and international (including NRI) segments?

We have identified certain target customers, both institutional and retail, and it is our vision to be a provider of multiple products and services to these customers. This is not just because we see economic value in doing so, but because we believe that customers will ultimately

want to build a few lasting relationships with providers, and we would like to be one of those.

The Indian financial services sector has largely been shielded from the global financial crisis. What do you think are the reasons for this? Is it because of a better regulatory framework and a gradual approach to opening up?

While no nation has been spared from the impact of the global financial crisis, it is fair to say that India has withstood the storm much better. This is partly due to structural reasons, including our low dependence on exports, our large domestic market and our generally low leverage in corporates and financial institutions. Of course, there is no denying that regulations have created a much more robust banking and financial sector in India.

When do you expect the current global financial crisis to be resolved? What are the lessons to be learnt from it for the world at large?

It is tough to say when exactly the global financial crisis will end. We have begun to see some improvement during this year, but complete recovery will probably take a number of years since the amount of de-leveraging required in the developed world is considerable.

I believe the lessons to be learnt from this are the essence of Indian philosophy, which is all about balance. We should not get carried away by greed and living within your means is always a virtue.

The US had used easy money to leverage themselves to almost three to four times their GDP and was clearly as consumers, and as a nation, living beyond its means.



Ajay Srinivasan

The financial services segment in India has remained buoyant over the past few years, especially after the opening up of the assets management and insurance sectors. Leading international financial services companies entered the country in tie-ups with domestic majors.

The government, following the opening of these sectors, established regulatory bodies – such as the Securities and Exchange Board of India (SEBI),

Capital Advisors (private equity) and Apollo Sindhoori Capital Investment (broking).

“We are committed to keeping our customers at the centre of all that we do,” explains Ajay Srinivasan, chief executive, financial services, Aditya Birla Group. “Our strategy, we believe, is earning us the business of our customers, both in 2007-08 when the markets were buoyant, and in 2008-09, when they were not. This motivates us in living our vision of being a



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Ajay Srinivasan
ceo, ABFSG

the capital markets regulator, and the Insurance Regulatory and Development Authority (IRDA) – to ensure their smooth functioning. So despite the global economic slowdown, triggered off by the financial crisis in the West, the Indian financial services sector has remained relatively stable.

The ABFSG, for instance, recorded a 36 per cent growth in revenues to US\$960 million in financial year 2008-09. The strong growth was achieved despite the negative environment and sentiment in the economy and in the financial services sector.

The group comprises seven companies active in different spheres: Birla Sun Life Insurance (insurance), Birla Sun Life Asset Management Company (mutual funds), Birla Sun Life Distribution (wealth management), Birla Global Finance Company (non-banking finance company), Birla Insurance Advisory & Broking Services (advisory) Aditya Birla

leader and role model, as a broad-based and integrated player.”

The ABFSG has a strong presence across various financial verticals – life insurance, asset management, distribution and wealth management, security-based lending, insurance broking and advisory services, private equity and retail broking.

The group has a strong relationship with international financial services major, Sun Life, which is based in Canada, but has operations around the world. ABN and Sun Life have two joint ventures going – Birla Sun Life Insurance, in which ABN has a 74 per cent stake, and Birla Sun Life Asset Management Company, in which it has a 50 per cent share.

ABN has also acquired full control over Birla Sun Life Distribution, its wealth management arm, after buying over the 50 per cent of Sun Life.

Both the life insurance and mutual fund businesses achieved the top-5 ranking, in

terms of being the fastest growing in their respective segments during 2008-09.

Birla Sun Life Insurance saw its total premium revenue grow by 37 per cent to US\$890 million during 2008-09. It also expanded into new segments such as pension and health plans. Its assets under management (AUM) topped US\$2 billion, growing by 41 per cent year-on-year.

"This achievement is notable especially in the light of tough market

have strong management, strong financial performance, businesses scalability and prospect of future growth."

The asset management company saw its average AUM grow by 31 per cent to US\$9.5 billion, as against an overall industry decline of 7 per cent. Birla Sun Life Mutual Fund also achieved a market share of 9.5 per cent in March 2009, up from 6.8 per cent a year earlier. It was also adjudged the best 'India onshore fund



conditions on the back of global financial turmoil," says Vikram Kotak, chief investment officer, Birla Sun Life Insurance. "Investment performance is a critical yardstick that any company's performance is going to be measured by. We believe that our performance is a reflection of the faith our policy holders have entrusted in us. Our investment strategy has always focussed on building a high-quality portfolio by investing in companies that

house', at the Asian Investor 2009 investment performance awards. "It's a privilege for us to have won this award, which is a testimony to our out-performance, being recognized by not just the domestic, but also the international agencies," remarks Anil Kumar, ceo, Birla Sun Life AMC.

For India's premier business group, the financial services sector is emerging as a powerful vehicle that will drive it onto a high-growth path in the coming years. 🌈

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Vikram Kotak
chief investment officer, Birla Sun Life