

ET EXCLUSIVE Q&A

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CHAIRMAN, ADITYA BIRLA GROUP

The setting up of the housing finance company and entering the high potential health insurance sector are exciting moves. And we remain optimistic on entering the banking business

'We Have a Good Mix of Asset Light and Asset Heavy Businesses in Our Portfolio'

The AV Birla Group is known for its conservative philosophy and a cautious approach to investment in new areas. But **Kumar Mangalam Birla's** biggest successes have been acquisitions and investments in non-traditional sectors such as high-end fashion, telecom and financial services. Cement has done well, but other commodities like aluminium and copper face a tough time due to the global commodity downspiral. Brick and mortar retail formats such as More have been upstaged by ecommerce. In this wide-ranging interview with **R Sriram, Bodhisatva Ganguli** and **Baiju Kalesh**, Birla explains his stance on the ecommerce boom, the group's focus on non-commodity sectors and land acquisition. Edited excerpts:

Are you overexposed to commodities and are you planning to diversify like the financial services?

We have traditionally been a commodity company and commodities have their own strength. Each sector has its own strength and pros and cons. But in the last seven to eight years, we have increased our presence in non-commodities. We have three striking examples. One is Idea, second, financial services and third, retail, which includes garment retail. I think each of these is going to be significant businesses for the group. Idea already is established; in financial services we have a strong foothold now and we are getting into several verticals, and retail is getting into a critical mass. I think garment retail will be No. 1 by far and we will see an interesting valuation going forward. Super market and hyper market is a long gestation business. I see improvement month-on-month and quarter-on-quarter and that is the only way to sustain this business.

Some of the retail players have made comments on the ecommerce industry, on the calculation of gross merchandise value and how sustainable it is in future. What is your call?

I wonder how the business can be sustainable. I understand the valuation play. At the end of the day, the financial investor will also have to make returns. One thing I am sure of is that you can't have unlimited access to capital funding. Therefore, the question that comes to my mind is whether the deep discount model is sustainable at all.

Is the jury still out?

Frankly, I don't have the answer to that.

Are you looking at strategic partners or an investor in More?

Given the current regulatory scenario and regulatory framework, there are not many overseas strategic players who may be comfortable. But if the regulations change, we will be happy to work with a partner.

So you would like the regulatory framework to change for physical retail?

Yes. People who are in retail would welcome a change. It is not something we are not expecting. But it is something that we want to happen which could be a good deal for Indian retail players.

Are you looking at other forms of retail such as sportswear or electronic

goods retail?

No, we are looking at ecommerce play. But it will be too early to talk about it. May be by July end we will have something to talk about it.

Is acquisition a strategy in ecommerce?

No, we will build on our own.

How is the telecom sector panning out? Reliance Jio is a new player and the government is now considering allowing M&As and consolidation...

Entry of Jio will be a point of inflection. In what way, I don't know. It will have an impact on the industry. Having said that, Idea is a well-run organisation with a great franchise. It has grown both in terms of profitability and market share in the past five years. I think Idea is well poised to take on the challenge as the fundamentals are strong and a great operating model. But you know, Jio is an unknown one, so it is interesting to see how it pans out.



ON JIO'S ENTRY

Entry of Jio will be a point of inflection. It will have an impact on the industry. But Idea is well poised to take on the challenges

As happened in the case of Reliance Infocomm earlier, would you see them trying to get market share through discounting and is that a concern particularly in the area of data?

It is little difficult to comment. We don't know until they launch it.

There was a phase when a new player disrupted the market with price discounts affecting all telecom players. Now some stability has returned to the industry. Do you see a danger again of the industry going through that cycle again?

One doesn't know what exactly is Jio's plan. I think that is not a possibility. One cannot do it.

What would you like to see in the telecom M&A guidelines? Is Idea an acquirer?

Idea is in a growth momentum and I don't see Idea as an acquirer. It is quite indifferent in that sense. We have no plans to exit Idea as I have said in the past. I think the fact that we have been in the business for the past 20 years shows that it is a core business.

Would you look at value unlocking in Idea?

Idea is a listed company. As of now we have no definite plans to hive off our towers. I don't say that we will never do it. That is our current thinking.

Currently, the Axiata Group is holding close

to 20% equity. Idea has an understanding with Axiata that it will not exceed the base holding of 20.11% at any point in time.

You would not look to acquire, say Tata Teleservices?

We don't see any value in acquisitions and Idea is a strong player with strong growth momentum, and therefore, acquisitive growth is not an option for us.

Any concern on Idea's debt?

I think even after the last spectrum auctions and assuming that there is no pay out for spectrum this year, we expect the debt to operating profit to be 3, which is very comfortable with strong internal cash generation and it is self sufficient.

Are you okay with the regulatory situation with telecom?

I think the regulatory overhang is much less than about four years ago and I think we have a comfortable situation.

Conglomerates churn their portfolio once in a decade. Is it a good time to relook your portfolio?

We constantly look at churning the portfolio. I don't think we are looking at any major changes in our portfolio now. We have a good mix of asset light and asset heavy like commodity and non-commodity business or manufacturing versus services. So the intent at the group level is to create a balanced portfolio and I think we have that pretty much as of now. That doesn't mean that I am not looking at opportunities. Having said that, I don't see much changes in portfolio happening.

One of the areas that you were planning to exit was the fertiliser business. Were you looking for a partner?

The idea with the fertiliser business is to sweat the asset. Growth opportunity is limited in fertiliser. Some growth is possible in agriculture as a larger sort of canvas. But I think the fertiliser policy perhaps is not conducive to growth. We have a great fertiliser operation. We, by far, are the most efficient plant in the country, in the private sector. No there's no value a partner would add.

Three years back, you had a plan to bring in a PE investor...

Not in particular. No, the upside in that business is limited. So, it's not a business we would like to have more exposure to.

The Tatas have put the fertiliser business for sale...

We're not doing that. But there is no economic rationale for further investment.

How do you explain what happened in the CBI case against Hindalco?

It was a shock to us and was completely unexpected. But it did not come in the way of our growth as we are a resilient group.

Did it affect the image of the group?

We are always on the right side of the law. At best we decided not to get emotional about these things.

Were you a victim of political vendetta?

There is no political vendetta.

What are your plans for financial services?

We have a great franchise in the AMC busi-



PHOTOS: BHARAT CHANDRA

ON HINDALCO PROBE

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ness. As of now, we have assets of about ₹1,20,000 crore. The NBFC has really grown. It has a book size of ₹18,000 crore. It is a very high quality book. In insurance, we're at number 5. We have some catching up to do. We've suffered on account of regulatory changes that caught us unawares. We have a private equity business that is just starting up. We have been there for three years now. It's a business that I want to grow and am keen on.

We have smaller business such as distribution of financial products and insurance brokerage. We have a licence for housing finance. We are looking to get into health insurance. Today, we are among the largest five fund managers, with consolidated assets under management in excess of ₹1,65,000 crore. Our aggregate lending book is ₹17,550 crore. I am pleased to see the business achieving a consolidated revenue of ₹7,900 crore with an EBT of ₹849 crore. This is truly an impressive feat.

The setting up of the housing finance company and entering the high potential health

insurance sector are exciting moves. And we remain optimistic on entering the banking business, subject to regulatory opportunities and approvals.

In the insurance business, what is the arrangement with Sun Life following the change in FDI in Insurance?

Sun Life is interested in hiking its stake. It will happen by the end of this fiscal year.

Will that be a fresh issue of shares?

We will be diluting it. No plans to list the company.

What kind of valuation are you looking for selling your stake for Sunlife?

We haven't decided yet.

You had a plan to form a financial services holding company and put all the assets...

That is something we are examining. There is nothing definitive as of now. Essentially, the idea is to unlock value for our investors. Not just in this instance but across all our business. It is something that needs to be examined carefully. One needs to spend time.

That's clearly a strong growth engine that resides in Nuvo. Not just a corporate business, but a business that we're all very excited about. It has good potential. The need for financial services is a given. One is looking to grow the business.

What about the bank licence?

We're not expecting to get it in the near future. One is hopeful. There's nothing in the offing that we're aware of.

The differentiated licences that RBI wants to issue, you're not keen on?

So we applied to payment bank. As of now, nothing concrete.

Of the financial services, which is the one that you're most excited about?

Of the current business, the three ones are asset management, NBFC and the insurance.

There are a lot of other new growth sectors opening up such as defence and renewable energy. Is that something that the group is looking at?

We're closely looking at solar generation. I hope to firm up our plans soon.

This would be led by which company?

Still looking.

On your own or with a strategic partner?

I don't see the value for a strategic partner. I'd rather do it on my own.

Does digital technology attract you?

Digitisation is a big theme of our time and is an interesting industry. One still has to figure out where to play and makes sense for us to play and make good enough money.

You were at India's digital summit and what are your commitments?

Our biggest commitment was from Idea to invest \$7 billion over the next seven years.

Are you looking at any fresh investments going forward? You have talked about the \$7 billion for Idea in 4-5 years. Would it be fair to assume that there will be more investments in the non-commodity sector?

I think so, you come out of a large capex cycle in aluminium and cement. It would be fair to say that non-commodity business will invite more investments. We have increased aluminium capacity from 0.6 million tonnes per annum to 1.2 million tonnes per annum and cement from 48 million tonnes per annum to 63 million tonnes per annum.

Would you be able to spell out a number? What is the total capital for the group for commodity and non-commodity?

Our capex over the last five years is in excess of \$26 billion.

Business environment had become complex and commissioning aluminium took the longest time. Have government initiatives made business easier?

I have a lot of faith in this government. They understand issues well. My sense is that they are doing a lot of work that we are not aware of. Two sectors have taken off—one is coal in terms of production of coal. There has been fairly significant increase in terms of coal from Coal India and for the first time in many years, we are not struggling and have sufficient coal in our plants, which is a very big deal. Roads have taken off, which is big. I think it will be another four quarters since we start seeing the impact. We got to hold our horses, I do not think, impatience is the answer to anything. This is a government that understands issues and it is quiet background work that is happening on several fronts. It is a hard working government.



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