Global Network Investment Competition 2019-20

RELIANCE NIPPON LIFE ASSETMANAGEMENT LTD.

Team Dexter

Indian Institute of Management Bangalore

Reliance Nippon Life Asset Management Limited: RNAM IN

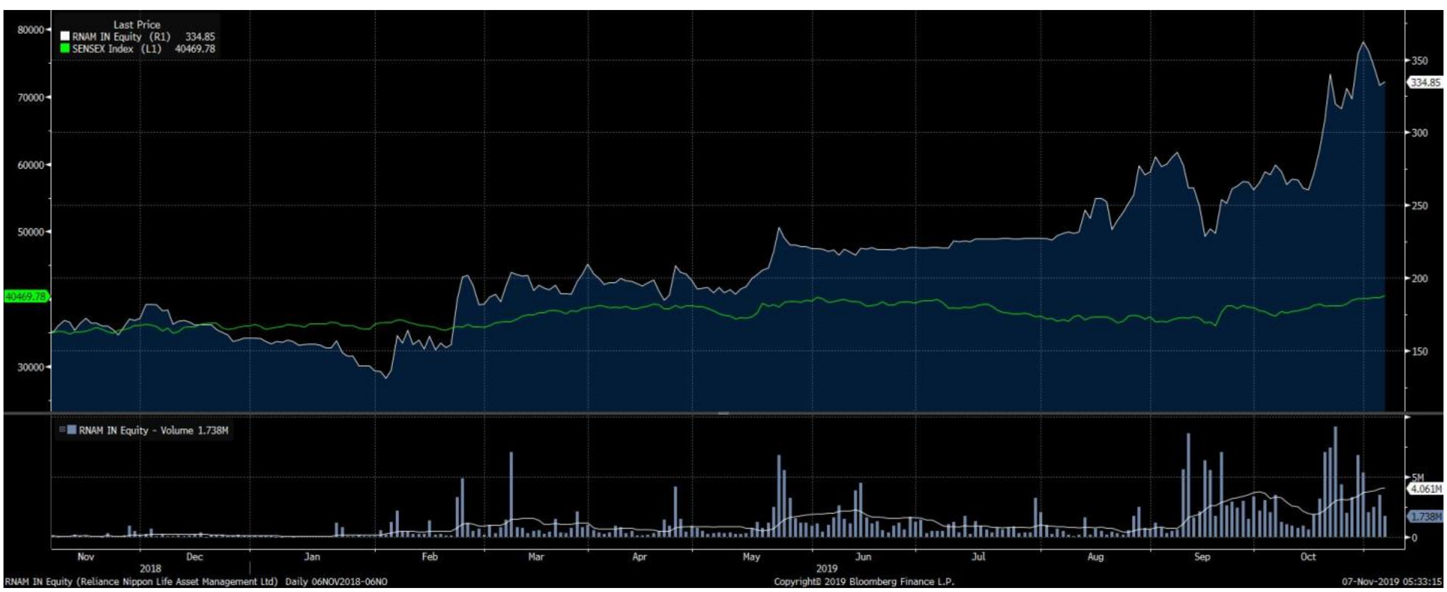
BSE: 540767

BASIC INFORMATION

Reliance Nippon Life Asset Management Limited is an asset management company. The Company is the asset manager of Nippon India Mutual Fund. The Company has its business in asset management, life insurance, general insurance, private equity, stock broking and other activities in the financial services sector. The Company provides with portfolio management services to high net worth individuals and institutional investors including the Employees Provident Fund Organization and Coal Mines Provident Fund Organization. The Company's Subsidiaries are Reliance AIF Management Company Limited manages two alternative investment funds, which are privately pooled investment vehicles. The Company offers a wide range of financial products, including individual and group life and annuity policies.

Current Market Price	334.85
Market Cap (bn)	INR 204.94/ US$ 2.89
Free Float (%)	40.47%
Shares in issue (mn)	612
52-week range	120/373
Sensex	40,470

Returns	RNAM	Sensex
3 Months	44.1%	8.5%
6 Months	74.5%	3.04%
1 Year	112.5%	18.13%



INVESTMENT SUMMARY

Mutual Fund Industry is still underpenetrated in the Indian scenario; however, the current macroeconomic situation remains challenging. RNAM has faced significant hurdles in the last few years as we can see from declining market share in both debt, liquidity and equity and exposure to ADAG and DHFL. There has been a change in the ownership too – within Nippon life taking over (75%). And given the domestic institutions usually dominate the market, we would have to see how a foreign player can increase market share with increasing profitability. Moreover, we would have to see how the new owners bring credibility to HNIs/Corporates and Individual unit holders, who might not be aware of the Nippon life brand. There is optimism about the rise in offshore business too, but the profitability from that is yet to be witnessed. Therefore, given the current dynamic situation, we rate the stock as “hold”.

BUSINESS DESCRIPTION

Reliance Nippon Life Asset Management Company (RNAM), is one of the largest asset management companies in India with a total AUM of 4.31 trillion as of June 30, 2019. With over 23 years of operation, the RNAM is involved in managing (i) mutual funds (including ETFs), (ii) managed accounts, encompassing portfolio management services, alternative investment funds, and pension funds, (iii) offshore funds and advisory mandates. According to AMFI, the company is ranked the fourth largest asset manager with respect to quarterly average AUM (QAAUM) with a market share of 8.4% as of June 2019.

Nippon India Mutual Fund, formerly known as Reliance Mutual Fund (RMF), offers a diversified and well-rounded portfolio of products in Equity, Debt, Liquid, ETF for investors to meet their varying investment requirements. As of June 30, 2019, mutual funds contributed to 47% of the RNAM’s total AUM. As the asset manager for RNAM, the company managed a portfolio QAAUM of INR 2,025 billion as of June 31, 2019. The company managed 58 open ended schemes including 17 ETFs, 163 close ended and interval schemes as of March 31, 2019. Moreover, the company has a pan-India network of over 171 branches and around 74,500 distributors including banks, financial institutions, national distributors and independent financial advisors (“IFAs”), as of June 30, 2019.

In the managed accounts business, the company provides portfolio management services to high net worth individuals (HNIs) and institutional investors including the Employees’ Provident Fund Organization (“EPFO”), Coal Mines Provident Fund Organization (“CMPFO”), the Pension Fund Regulatory and Development Authority (“PFRDA”). Through its subsidiary Reliance AIF Management Company Limited (RAIF), the company manages 12 schemes of alternative investment funds (AIF) across Category II & Category III AIFs in equity, credit and real estate. As of June 30, 2019, RAIF has raised capital commitments of over INR 26 billion across various AIF schemes. Moreover, Reliance Capital Pension Fund Limited (‘RCPFL’) is acting as one of the Pension Fund Managers for managing the pension assets under the National Pension System (NPS). As of June 30, 2019, the Company’s total AUM stood at INR 2,251 billion (52% of total AUM), as part of the managed accounts business.

The Company also manages offshore funds through its subsidiaries in Singapore and Mauritius and has a representative office at Dubai. As of June 2019, the Company had a total AUM of INR 31 billion as part of its international offshore managed portfolio. Moreover, the Company also acts as an Investment Advisor for India-focused Equity and Fixed Income funds in Japan and South Korea. As of March 31st, 2019, the Company had a total AUM of approx. INR 5.5 billion of international Advisory mandates. Last year, the company launched an India focused Real Estate Fund, an international Real Estate Fund with participation from Japanese Institutional clients.

The core revenue model of RNAM is driven by charging management fees on AUM provided by the unit holders. During FY2019, the Company’s consolidated total revenue stood at approx. INR 16.5 billion. Revenue from operations – management fees stood at INR 14.8 billion, mainly comprising of investment management fees (net of Goods & Service tax) from asset management activities of INR 14.5 billion and portfolio management fees (including advisory fees net of service tax) of INR 322 million.

The major expenses of RNAM comprise of fee and commission, and employee benefits. For FY2019, the total consolidated expenditure was 949.68 crore, with fee and commission of 258.29 crore and employee benefits of 293.49 crore, both contributing to 59% of the total expenditure.

MANAGEMENT & GOVERNANCE

The company has a well-qualified investment team comprising of 23 investment professionals who manage funds and provide advisory services. Members of the senior investment team have an average experience of approximately 19 years in investment management. The management team comprises of individuals, who have a long history with RNAM, and remarkable achievement in building strong foundations of the company both domestically and internationally and driving the growth of business. The returns/performance of top funds of RNAM has been consistent with those of the market.

As of March 31, 2019

(%) returns

Scheme Name	BM	Return 1 Yr R	Return 1 Yr D	Return 1 Yr BM	Return 3 Yr R	Return 3 Yr D	Return 3 Yr BM	Return 5 Yr R	Return 5 Yr D	Return 5 Yr BM	AUM (Bn)
Nippon India Large Cap Fund	S&P BSE 100 Total Return Index	14.28	15.45	13.90	16.89	18.15	16.21	16.80	17.92	13.55	127.62
Nippon India Vision	NIFTY Large Midcap 250 Total Return Index	-1.75	-1.17	6.46	8.30	9.03	16.61	12.08	12.82	17.05	29.82
Nippon India Multi Cap Fund	S&P BSE 500 Total Return Index	11.11	11.90	9.67	14.48	15.37	15.97	14.85	15.72	14.52	104.68
Nippon India Arbitrage Fund	NIFTY 50 Arbitrage Index	6.47	7.20	6.73	6.31	6.99	5.28	6.77	7.41	6.11	94.09
Nippon India Short-term	CRISIL Short-Term Bond Index	6.37	7.09	7.56	7.09	7.77	7.60	8.03	8.69	8.31	67.04
Nippon India Credit Risk Fund	NIFTY Credit Risk Bond Index	6.49	7.36	6.97	7.67	8.61	8.29	8.48	9.44	9.16	95.60
Nippon India Prime Debt Fund	NIFTY Low Duration Debt TRI(50.00), NIFTY S	7.40	7.83	7.60	7.64	8.12	7.58	8.12	8.57	8.17	24.31

R: Regular; D: Direct; BM: Benchmark

The board of directors comprises of stalwarts from diverse backgrounds and extensive experience in their respective professions. RNAM's Board consists of individuals who have visible credibility alongside their respective names. Notably, 50% of Board is independent.

The company is promoted by Nippon Life Insurance Company ("Nippon Life"), which holds 75% stake as of September 2019. Nippon Life is one of the leading private life insurers in Japan and manages assets worth approx. US$ 700 billion.

The company was a joint venture between Nippon Life and Reliance Capital (42.88% shareholding each), before Nippon Life signed a binding definitive agreement in May 2019 with Reliance Capital to enhance its holding to 75 per cent. This led Reliance Capital, that had pledged its RNAM shares, completely exiting the mutual funds business in the next few months. In May-June 2019, Reliance Capital sold 10.76% stake in RNAM through offer for sale to meet the minimum public shareholding requirement. Following this, Nippon Life became the sole promoter and made a mandatory tender offer (MTO) to acquire 22.49% at INR 230/share which ended in August 2019. With the closure of open offer, Nippon Life stake in RNAM rose to approx. 54%. On September 27, 2019, Nippon Life completed the acquisition of 75% stake in Reliance Nippon Life Asset Management (RNAM) from Reliance Capital. With this transaction, Nippon Life's total gross investment for RNAM stake is over INR 78 billion, amongst the largest FDI inflows into India in the financial services sector.

According to Sundeep Sikka, ED and CEO of RNAM, "the transaction is not likely to have any adverse impact on investors, since the existing fund managers, scheme objectives and business structures will remain with the asset management company".

INDUSTRY OVERVIEW AND COMPETITIVE POSITIONING

Mutual Fund Industry in India

India is among top ten economies in the world. India has always grown at a premium to the world economy. Growth in Mutual Fund industry is highly correlated to the growth of Indian economy. The Industry AUM has grown over by 40% from 17.5 trillion in March 2017 to 24.5 trillion in 2019. Also, SIPs have doubled from 4335 crores a month to 8334 crores a month. With only UTI as the prime player when Industry was born in 1963, the industry has gone through a transition to host 44 asset management companies today crossing INR 24 trillion in AUM. The growth of SIPs has helped reduction in dependency on FIIs.

However, as compared to GDP in absolute terms compared to the world total, the AUMs are quite small compared with the counterpart. While India ranks 7th in terms of nominal GDP in the world, in terms of mutual fund AUM it ranks 17th. However, India has surpassed China. We need to note that India's mutual fund penetration (AUM to GDP) of ~11% is way lower than global average of 62%. Less than 2% people in a country of 1.3Bn people invest in mutual funds. The mutual fund industry has proved to be a useful tool for long term financial security for an individual, as well has boosted corporate growth by deepening the bond market, thereby easing the sources of finance. India was largely dependent on and was affected by foreign flows, which is now ceased to be the case, thanks to growth in mutual fund industry.

Mutual fund industry poised for strong growth

The growth in the industry has been phenomenal. While it took more than 50 years to generate the first INR 10Tn of AUM, the next INR 10Tn were amassed in less than 5 years. For High Networth individuals (HNIs), services like Alternate Investment Funds and Portfolio Management Services have also played up well. AIFs are growing at a good rate with 71% growth in commitments raised in FY'19. The signaling effect has also played out well. The 'Mutual Fund Sahi Hai' campaign resulted in onboarding of 0.5 Cr. investors in just 1 year. Between 2003 to 2019, the industry grew by ~23% in CAGR. The global financial crisis had a short-lived impact, but Indian MF industry kept growing by 14% CAGR in 2007-17 while counterparts such as Europe and North America grew by 4%.

Regulation has played a major role in growth. The reduction in Security Transaction Tax (STT), uniformization of dividend distribution rate, allowing EPFO to invest in ETFs, are a few factors which helped in this growth. The additional expense ratio of 30 bps, erstwhile applicable to B15 cities is not charged to B30; thereby promoting Mutual funds to reach out to untapped sectors. Also, the additional expense ratio would be based on retail inflows, to make mutual funds focus on increasing retail share of the pie. India's regulatory overlook, with monthly reporting, is the best-in-class; where most of the countries focus on quarterly reporting. This fact should be leveraged by AMCs whilst generating consumer awareness.

The NBFC liquidity crisis in later half of 2018 led to a panic in the industry, but industry stakeholders and regulators did start taking prompt corrective actions. Side-pocketing monitoring, tightened rating guidelines, sector caps reduction and revision in valuation norms are some of the actions taken by the regulator. Funds managers also stood strong and decided not to pass on losses to the investors. It is worthy to note that global AUM also declined during this period, and India AUM even amidst NBFC crisis, stayed strong and grew at a rate 11% higher than its counterparts.

One of the major drivers of MF growth is financialization of household savings. India has the largest working population in the world. A high inflation rate and a large black economy has led to savings going increasingly to physical assets such as real estate and gold during 2004-14. Demonetization & RERA have reduced the value of real estate and, with inflation receding, gold has started losing its sheen. The positive real interest rates in India keeps up the savings cycle. The share of financial savings in the household sector increased by 20% in 4 years, between FY'14 & FY'18. This share reduced by 25% in the wake of global financial crisis. Hence, if we compare the growth from FY'12 to FY'18, it has been more than 100%. In 2018, share of MF in overall financial savings reached 6%. The first quarter of FY'20 witnessed inflows of INR 24543 Cr. into SIPs, which are equivalent to 65% inflows in equity funds for the same period. This shows the wide acceptance of SIPs as a measure of savings, especially in B15 (Beyond 15) cities. The AUM in B15 grew by 34% CAGR, which is 60% more than the CAGR in T15 (Top 15 cities). This growth is on account of a belief being sown in retail investors that MF returns are more lucrative than any other traditional investment form. If we compare 10-year returns, the debt MFs have provided ~3% more returns than time deposits, and Equity MFs have provided ~23% more returns than the Sensex. This ability to generate alphas is the growth driver of the industry. However, retail penetration in debt and liquid funds is lower (47% and 14% respectively), which shows an untapped opportunity for Mutual funds. While marketing, Mutual funds could bank on the fact that debt funds face lower taxes on long term capital gain.

In terms of corporates, MFs hold 5% of the free float in more than 50% of large, mid & small companies. This is believed to have helped taking unbiased key decisions, thereby relating to good corporate governance. Also, as stated earlier, Mutual funds have played a key role in deepening the corporate bond market by providing an alternate to bank loans. MF participation has seen a 19% CAGR between FY'12 and FY'18, in bond market investments. This has consequently led to an increase in share of debt funds in corporate debt by 500% between FY'12 to FY'18. On the other hand, MFs also provide an opportunity to the corporates to invest their additional working capital in liquid funds. This has increased corporate profitability by ~1%, which is a huge growth from a non-operating source. Overall, the investments made by MFs have provided a stability cushion to the corporates.

Top 10 AMCs in India hold ~83% of AUM, which is a mirror of the structure in global counterparts like Sweden, Switzerland, Japan and Italy. However, in countries like USA, UK and China, the market is a bit more fragmented. Whilst the overall profitability of industry increased by PAT yields expanding from 14 bps in FY'13 to 19 bps in FY'18, the top AMCs have overtaken the industry growth. Domestic AMCs have an edge over foreign players, because they could capitalize over other brands of business (example – Birla, HDFC, ICICI). Players like HDFC, ICICI and SBI also have advantages in terms of cross-selling opportunity and a well-established distribution network.

The growth in investments by individuals has been ~50% higher than corporates. Hence, individual investors now account ~58% of total AUM, which is ~20% higher than in FY'14. However, this share of individual AUM is 30% less than USA. A further breakdown shows that HNIs hold a little above half of the individual AUMs. Government's efforts to formalize the economy through Jan Dhan, Aadhar and demonetization seems to have helped the growth in individual investment. AUMs sourced from individuals have proved to be 2x stickier beyond a period of 2 years as compared to corporates.

In terms of asset classes, the share of equity-oriented funds has surged in the last 5 years and now occupy 45% of total AUM. This share is equivalent to USA and UK, while it is higher than France, Germany and China. This surge in equity-oriented funds has been from both individuals as well as corporates. Growth has softened in FY'19. This has been on account of decreasing overall growth in equity on account of capital market volatility and a degrowth in debt AUM.

Distributors have played a very important role in growth of mutual fund industry in India. Financial advisers (independent and registered), banks, national distributors, exchange brokers have been some of the key players. However, direct channel saw the sharpest growth, nearly 100%, over last 5 years to occupy 42% of the share in FY'19. The interesting point to note here is the growth can be attributed majorly to institutional investors. ~72% of institutional AUM was sourced via the direct channel. However, HNI and retailers still require a full-service high touch model, and hence in their case, only 22% and 13% came from direct channel. Direct route penetration for equity is low at 16%, as against debt and liquid segments with 47% and 73% respectively. This was intuitive because of the fact of 'high touch requirements for retail'. Individual awareness, government push and right marketing by MFs have led to a significant growth in online channels. 'SIP', as a key word was searched 6 times more in B15 cities across all devices between FY'15-FY'18. The relabeling of B15 to B30, and T15 to T30 is a signal of growth in MFs. At a time where equity inflows have weakened, sticky portions of SIPs have continued to be strong. They have shown a CAGR of 26% in last few years. The contribution to AUM in B30 has tripled in last 6 years. There is a huge opportunity lying in B30, as the MF acceptance is extremely low (1/4th of total financial savings). The number of outstanding mutual fund folios is 14% of total life insurance policies and 12.5% of the savings accounts.

In the last two decades, it has been observed that more than three-fourths of mutual fund investors come from families with above Rs. 10 lakhs income. However, these account for less than 10% of the households. Families in Rs. 3 lakhs to 10 lakhs income bracket constitute ~40% of households. This bracket is expected to grow at 2x growth rates as compared to the higher income bracket. Hence, MFs need to focus more on penetrating amongst the middle of the income pyramid.

Alphas of Indian companies have been really high in the near past. Around half of the large caps outperformed benchmarks in 2013-18, with this figure being a mere 10% in developed countries. MFs should expect the alphas to get under pressure, and hence need to rethink their strategy. Equity MF flows track market returns, and a decrease in returns may lead to pull back of funds by investors, leading to an increased pressure. MFs could think of incorporating other asset classes or go more towards alternate investment funds. Also, the debt MFs depend on interest rate cycle for debt.

The TER cut in September 2018 holds a negative impact on AMCs, especially equity MF schemes. If the AMCs decide to pass on a brunt to distributors, they may be discouraged to source new investors for the industry. The modalities are yet to be studied. However, it is expected that regulator gives time for the industry to smoothen before it comes up with newer regulations.

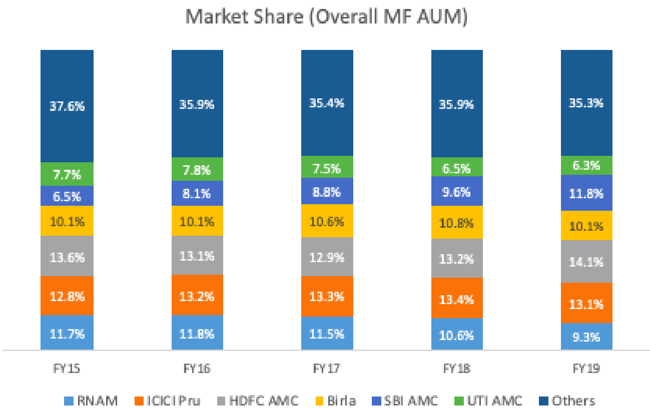
While financial savings grew as a part of household savings (by 20%) between FY'12 and FY'18; the gross savings to GDP ratio has declined by 10%. If financial savings erode, financial assets underperform, physical assets overperform, and savings in the economy decrease; MF industry would be heavily impacted.

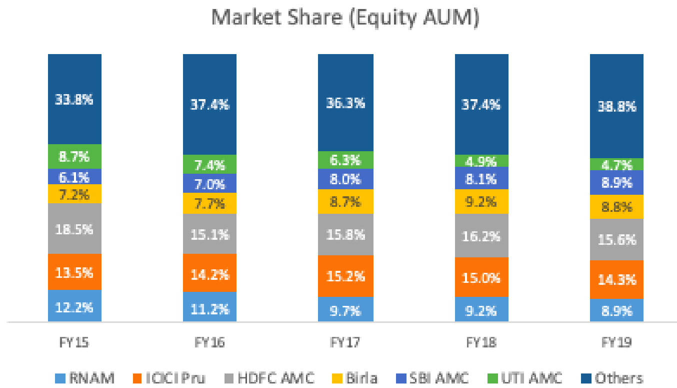
Outlook

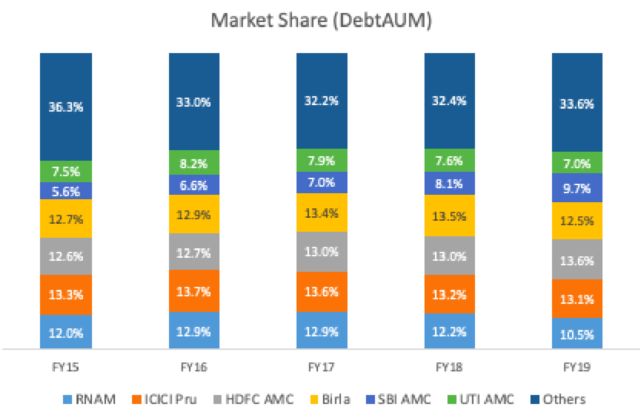
With government's promise of $5 Tn GDP economy by 2024, MF industry too has set a high vision for itself. It may cross INR 100Tn mark in the coming decade. However, this could only be achieved by increasing the share of mutual funds in the financial savings bouquet of investors, promoting equity and high growth schemes, investments in innovative channel networks thereby improving investor base as well as spreading of proper awareness through precision marketing. The customer segment is changing. Millennials and women are undertaking decision making power. 47% of MF investors onboarded in FY'18-19 are millennials. MFs could target social security portfolio, as it is an inherent weakness in the public system. Something like 401(k) in USA could be envisioned. All these changes in customer segment would need a redo in the product portfolio and 'go-to-market' strategy. The distributor network in B30 and B100 cities has been sparse and needs a boost by evolving effective partnerships. AMFI Registration Number per million households in T15 cities are ~18 times higher than B15 cities. Online sales still account for less than 3% of AUM as per data from Registrar & Transfer Agents. Online sales channel provides a great opportunity for industry growth. The number of customers who purchased online grew 7x in last 3 years. On the other hand, direct sales should be a major channel in T15 cities through technological evolution, while high touch model should be preferred elsewhere. Private banks (having a large presence in B30 cities), moneylenders, regional rural banks, corporations, government agencies like India Post could be made partners for network expansion. Partnerships with payment banks like Airtel, Paytm; with online marketplaces like Amazon, Flipkart etc. could help redefine offerings and expand customer base beyond imagination. Newer incentive structures could be envisaged. Newer communication channels are gaining importance. FinTech are now gaining traction. Yu'E Bao by Alibaba is an example to this. The processes to invest must be simplified by joining hands with regulators in drafting policies (example – KYC). More than half of the investors are irritated by the options of schemes, procedures, documentation etc. and the lack of information available on these issues. Customer experience needs to be sharpened. Paytm Money has launched a mobile first mutual fund platform offering online MFs at Zero cost. Zerodha has also made similar developments. With regulator reducing TERs, focus on automation of backend processes would help leverage lower manpower costs at RTAs. MF as product can be topped up with benefits like insurance and tax savings to make it look attractive. Among HNIs and retail investors, services should be topped up for alternative offerings like AIFs. Technology and data analytics can be leveraged to improve alphas.

Porter's 5 Forces Framework

Inter-segment Rivalry: High. More than 40 AMCs operate in the industry with each focusing on increasing market share through new inflows and retaining client's assets. Rivalry is driven by profitability of schemes, total expense ratio, distribution network, and brand name of different AMCs. The AMCs, especially at the top, highlights this phenomenon. Whereas the overall MF market shares for the top AMCs have consolidated in the last few years, the equity market share has been towards the small players in the industry, reflecting that inflows are not restricted to the top.







Threat of New Entrants: Medium. With financial and economic liberalization (allowing foreign players to operate), the industry has gone from 1 AMC to 44 AMCs today, managing more than INR 24 trillion in AUM. There are two aspects that we need to look at here: one that increases the threat, and the other that reduces it. Brand name, manager's profile and performance, relationship with distributors create high walls for the new players. However, the asset light model, ability to price competitively through total expense ratio allow financial institutions to enter this industry. Over the last few years there have been several institutions have entered and exited owing to the market conditions, implying that there are not heavy restrictions.

Threat of Substitutes: Medium. Given that most of the individual investors still rely on distributors for investment purposes, they get easier accessibility and to the market information and guidance. This allows unit holders to switch policies if there are better opportunities in the market, which can be looked through different fund performance. However, since investing in mutual funds is a long-term investment, many unitholders are sticky towards their schemes. Further, there are taxes that come into effect if the scheme is redeemed in short time frame of investment (1 year). For sophisticated institutions who majorly park their funds in debt securities, invests directly and short term, they have more information and therefore takes decisions depending on the credibility and performance of the AMC. Since the switching of funds is easy for institutions, the threat of substitutes is high.

Bargaining power of Buyers: Medium. As mentioned above, buyers have multiple options based on their risk appetite and financial goals. Regulations, in most of the cases, rather than customers, play a key role in bringing down the costs to the unitholders. However, large liquid MF schemes (short tenure sovereign and corporate debt securities, with an average duration of <91 days) shows that it is a highly price competitive segment. All AMCs have priced their liquid MF schemes at 10-15bps (direct plan) and some of the smaller AMCs have priced their liquid plans in the lower end of this range, presumably to attract higher flow from institutions.

Bargaining power of Suppliers: Medium. The supply of funds is largely driven by distributors in the case of equity investments; therefore, we assume the suppliers to be independent financial agents and banks. Cumulatively, the AMCs have been successful in passing on the costs of changes in TER to the distributors. For example, if the direct TER of a scheme was 1.2 and the regular was 1.9 (1.2 + 0.7 commission for distributor), and the max TER implemented on the Scheme is 1.5, then, currently, the cost is borne wholly by distributors, who receives 0.3 as commission rather than 0.7. This practice has been implemented industrywide; therefore, the AMCs have been instrumental in reducing the distributor power. Moreover, upfront costs and kickbacks played a key role in incentivizing distributors by different companies, but since these have been banned by SEBI, distributor power is consistently decreasing. Moreover, with rise in digital payments and wallets that lead to direct investments, distributor influence might decline.

DuPont Analysis

We conducted a DuPont analysis based on the FY2019 numbers to gauge the performance and profitability of the peers in the industry. HDFC AMC leads the industry in terms of PAT/ Avg. AUM, given its low operating costs compared to its peers that is achieved through strong distribution network of its own – HDFC bank and other subsidiaries of HDFC. Higher inflow of debt AUM in HDFC AMC (given its strong reputation) after the IL&FS crisis also led to deflated numbers on core revenues, since the TER charged on debt MFs is significantly lower than equity MFs. Even though, UTI AMC has maintained high profitability, it has been at the expense of a steep fall in market share - its market share has fallen from 10.6% in FY14 to 4.7% in Feb-19.

For RNAM, there has been an outflow from all – equity, debt and liquid funds (much more impact in the debt) in the last year – one of the reason Total Revenues/Avg AUM is on the higher side. RNAM has high higher operating costs even after reduction in headcount last year, reflecting a fundamental problem with cost management. The ROE of the company is on the lower end in the range, reflecting low profitability for the shareholders. One of the reasons for this could be lower payout to investors.

As a % of QAAUM

	RNAM	HDFC AMC	ICICI Pru	SBI	UTI
Core Revenues / Avg. AUM	0.62%	0.56%	0.62%	0.51%	0.66%
PMS / Avg. AUM	0.01%	0.00%	0.00%	0.01%	0.00%
Other Revenues / Avg. AUM	0.07%	0.05%	0.00%	0.02%	0.02%
Total Revenues / Avg. AUM	0.70%	0.61%	0.62%	0.55%	0.68%
Employee cost / Avg. AUM	0.13%	0.06%	0.08%	0.07%	0.19%
Brokerage & comms / Avg. AUM	0.11%	0.07%	0.15%	0.18%	0.00%
Operating cost / Avg. AUM	0.40%	0.21%	0.29%	0.32%	0.36%
PBT / Avg. AUM	0.30%	0.40%	0.33%	0.23%	0.31%
PAT / Avg. AUM	**0.21%**	**0.27%**	**0.21%**	**0.15%**	**0.22%**

Source: Company Filings: Annual Reports, AMFI

As a % of Balance Sheet Items

	RNAM	HDFC AMC	ICICI Pru	SBI	UTI
Core Revenues / Avg. Assets	52.61%	67.25%	154.14%	97.76%	36.73%
PMS / Avg.Assets	1.17%	0.00%	0.00%	2.87%	0.00%
Other Revenues / Avg. Assets	6.23%	6.38%	0.11%	4.47%	1.06%
Total Revenues / Avg. Assets	60.02%	73.62%	154.24%	105.10%	37.79%
Employee cost / Avg. Assets	10.68%	7.24%	19.02%	14.21%	10.72%
Brokerage & comms / Avg. Assets	9.40%	8.44%	38.17%	35.13%	0.07%
Operating cost / Avg. Assets	34.18%	24.90%	72.13%	60.52%	19.87%
PBT / Avg. Assets	25.47%	48.27%	80.71%	43.61%	17.36%
ROA (%)	**17.72%**	**32.68%**	**52.57%**	**28.93%**	**12.30%**
Assets/Equity	1.10	1.07	1.27	1.22	1.13
ROE (%)	**19%**	**35%**	**67%**	**35%**	**14%**

Source: Company Filings: Annual Reports, AMFI

VALUATION

Revenue Build-up

The company has revenue coming in from Mutual fund, managing pension funds and offshore with Mutual fund contributing Major chunk of the AUM followed by Pension. We have assumed the pension fund under management's growth to be benign citing tough market conditions and RNAM's controversial exposure to risky investments in the recent past. The offshore, though small in number is expected to grow robustly, because of the Nippon Life's credibility in Japanese markets.

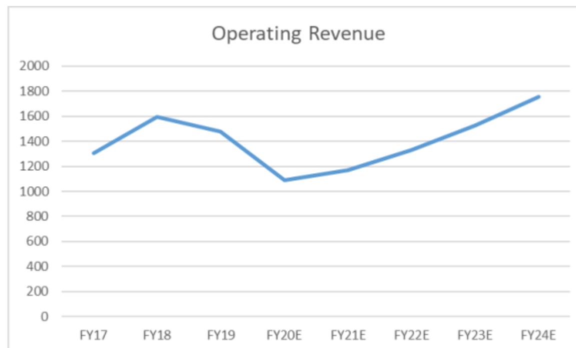
In BN	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E	FY23E	FY24E
MF	1294	1461	2036	2261	2278	2,146	2,305	2,585	2,929	3,324
Pension	994	1223	1425	1643	1878	2,103	2,356	2,638	2,955	3,310
Managed	21	24	26	32	35	38	42	45	49	54
Offshore	60	43	19	28	31	43	65	98	137	191
Total	**2369**	**2751**	**3506**	**3964**	**4222**	**4,331**	**4,768**	**5,366**	**6,070**	**6,879**
Share										
MF	55%	53%	58%	57%	54%	50%	48%	48%	48%	48%
Pension	42%	44%	41%	41%	44%	49%	49%	49%	49%	48%
Managed	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Offshore	3%	2%	1%	1%	1%	1%	1%	2%	2%	3%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Growth										
MF		13%	39%	11%	1%	-6%	7%	12%	13%	14%
Pension		23%	17%	15%	14%	12%	12%	12%	12%	12%
Managed		14%	8%	23%	9%	9%	9%	9%	9%	9%
Offshore		-28%	-56%	47%	11%	40%	50%	50%	40%	40%
Total		16%	27%	13%	7%	3%	10%	13%	13%	13%

The mutual fund is again broken into different components with debt taking hit recently and we expect it to be benin in next fiscal. Recent newspaper reports and industry reports suggest that this year is also not very positive in terms of equity inflows. Thus, MF will face degrowth in this year led by fall in debt AUM. But going ahead, stability is expected for the company with strong distribution of the company and growing retail portfolio will kick in to drive the growth in future.

QAAUM share in MF	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E	FY23E	FY24E
Equity	32%	30%	27%	36%	39%	42%	43%	44%	45%	46%
Debt	46%	48%	49%	40%	33%	27%	25%	24%	22%	20%
Liquid	20%	21%	18%	19%	19%	20%	19%	19%	19%	19%
ETF	2%	1%	6%	5%	9%	11%	12%	13%	14%	15%
Total	**1,371**	**1,584**	**2,108**	**2,449**	**2,336**	**2,269**	**2,438**	**2,734**	**3,097**	**3,515**
Factor	**1.060**	**1.084**	**1.035**	**1.083**	**1.025**	**1.058**	**1.058**	**1.058**	**1.058**	**1.058**
QAAUM in MF										
Equity	439	475	569	882	911	957	1,052	1,210	1,392	1,600
Debt	631	760	1,033	980	771	617	617	648	680	714
Liquid	274	333	379	465	444	444	466	513	590	678
ETF	27	16	126	122	210	252	303	363	436	523
Growth										
Equity		8%	20%	55%	3%	5%	10%	15%	15%	15%
Debt		21%	36%	-5%	-21%	-20%	0%	5%	5%	5%
Liquid		21%	14%	23%	-5%	0%	5%	10%	15%	15%
ETF		-42%	698%	-3%	72%	20%	20%	20%	20%	20%

These growth in AUM will flow into the P&L at decreased rate after the SEBI's new regulations. As we estimated the TER will fall by 10-20% for debt and equity as the commissions will be deducted from the schemes directly rather than the P&L of the AMC. Also, we have triangulated these numbers with the past year to get the rough estimate which matches with the past.

TER Calculations	Before	After regulations								
Equity	1.9	1.3								
Debt	0.48	0.35								
Liquid	0.2	0.2								
ETF	0.19	0.19								
Pension		0.3								
yield matrix										
MF Revenue					0.95%	0.70%	0.71%	0.72%	0.73%	0.73%
Pension revenue					0.230%	0.230%	0.230%	0.230%	0.230%	0.230%
Managed & offshore					1%	1%	1%	1%	1%	1%
offshore					1%	1%	1%	1%	1%	1%
Total yield					0.63%	0.48%	0.48%	0.49%	0.49%	0.50%
Revenue			1307.5	1,591.77	1,478.64	1,087.12	1,170.22	1,331.50	1,526.27	1,753.95



So the revenue will fall in this fiscal with growth in the coming years due to growth in the Equity component which has high TER and the higher retail segment which is far more sticky. For the multiple, we have analyzed the past and the industry. HDFC AMC, the only other listed stock in this category is trading at a PE multiple of 53.2. RNAM's multiples have been depressed in the past due to lack of faith in the promoters. But with Anil Dirubhai Ambani Group exiting the company, investor confidence will return leading to converging of its multiples towards that of HDFC AMC. For price at FY 20, we have assumed the exit P/E multiple of 40 at FY20. At Earnings of FY21E of Rs. 657.31 cr applying Exit PE multiple, we get price per share as Rs. 429.

FINANCIAL ANALYSIS

After its IPO in 2017, the company has seen a declining Core Revenues/Avg. AUM. The reasons for the following are decline in the TER. Further the AUM itself has taken a hit with the closing debt and liquid AUM declined by 22% and 15% from FY18 to FY19 respectively. This has been due to the flight for safety after the NBFC crisis and exposure of RNAM to 'stressed names' such as ADAG, DHFL has led to significant mark to market hit on NAVs, leading to redemptions from HNIs and corporates. Given the new regulations that scheme expenses need to be paid out from the scheme fund itself, we expect to see a decline in the revenues over the next few years. At the same time, we expect the operating expenditures to decline because the brokerage and commission would be paid out from the schemes' accounts. However, we expect inflows from Japan and other foreign countries to compensate revenue because of Nippon Life's extensive reach globally, which is expected to drive the offshore business. The fees charged on this is similar to those on the mutual funds. The new promoters are looking forward to regaining the lost market share, but that would require immense effort given the macroeconomic challenges. RNAM's focus on retail remains strong: while Retail AUM has seen some moderation, it continued to be aided by a healthy SIP book, now at INR 103bn (annualized basis), which represents 11% of current equity MF AUM.

INVESTMENT RISKS

RNAM faces both market and idiosyncratic risks. Some of the major threats and risks are:

Competition Risk: The Indian financial sector is clogged with competitors and the company's future growth will depend highly on its ability to compete and maintain/grow its market share. Further liberalization of the sector as a result of new government policies could lead to a greater presence or entry of new foreign asset managers offering a wider range of products and services, significantly toughening up the competitive environment and reducing the commissions. RNAM needs to build upon its strong brand image and distribution network while offering diversified products to effectively deal with intense competition in the future.

Market Risk: The Company has investments in various equity, debt, and mutual funds whose value is dependent on the fluctuations in the market. An overall slowdown in the economy and a continued muted market performance would adversely affect both the investment value as well as the flows into the Company's mutual fund schemes.

Regulatory Risk: One of the key risks in the Mutual Fund industry. The Company is subject to regulations by Indian governmental authorities, including the Securities and Exchange Board of India (SEBI). Any future changes in the regulatory system or in the enforcement of the laws and regulations impacting TER, fees, charges, exit loads etc. could adversely affect the Company's performance.

Credit Risk: The Company has investments in bonds and debt oriented mutual funds which results in risk arising out of default or failure by borrowers in meeting their financial obligations towards repayment of principal and interest. Any negative credit event also lowers investor confidence in mutual funds, resulting in lower inflows for the Company. This risk is comprehensively addressed by spreading the investments into multiple bonds and mutual funds spread across multiple issuers. Another aspect of addressing this risk is the thorough credit assessment of the security before investing in the same.

Liquidity and Interest Rate Risk: Liquidity risks for the Company may arise from the difference between investment periods as compared to funding sources. RNAM mitigates this risk by using accumulated funds as well as equity infusion for investments. Due to its investments in various bonds and debt oriented mutual funds, the Company is inherently exposed to risks arising from interest rate fluctuations. The Company mitigates the same by using comprehensive duration management across portfolios.

Appendix

Selecting the Multiple & competitor

For relative valuation we have considered overseas companies as there are only two listed companies in India. The criteria for peer selection was AUM proportion in debt and equity verticals to ensure their investment strategy is close to Nippon India. The peers in developed countries have focused more on alternative investment management in recent years apart from debt and equity investments. So there is no exact peer to Nippon India so the mostly likely match for peer comparison has been considered. Valuation multiples like P/E ,P/B, Market Cap/AUM have been analyzed for comparison and P/E is considered for relative valuation. The market/AUM metric has diverse values with values in the range of 1-2 for AMCs in US,Canada whereas it has higher values in India. The variation is due to multiple factors like the difference in AUM size, market growth factors which are country specific. Due to this reason we have taken P/E multiple to relatively compare the peers, the EPS value is taken from the forecast and the estimated price is calculated for Nippon life.

Financials