

**RELIANCE CAPITAL
ASSET MANAGEMENT LIMITED**

ANNUAL REPORT

2009-10

Directors' Report

To the Members,

Your Directors take pleasure in presenting their Fifteenth Annual Report on the business and operations of the Company together with the audited Statement of Accounts for the year ended March 31, 2010.

At the outset, your Directors wish to reiterate your Company's commitment to strong and high standards of corporate governance, to retain and enhance the trust of all the stakeholders. The strict adherence to ethical processes & policies, along with good corporate governance practices has facilitated your Company in standing up to the scrutiny of our domestic and international investors.

Your Company's vision, as is well known, is to be a globally respected wealth creator with emphasis on customer care and high standards of corporate governance. Your Company therefore aspires to remain the leading player in the Asset Management business in India and enhance its global footprint as well.

FINANCIALS

The standalone and consolidated financial statements of the Company for the year ended March 31, 2010, have been prepared under the historical cost convention in accordance with the generally accepted accounting principles in India and the provisions of the Companies Act, 1956. The financial highlights (on a consolidated and standalone basis) for the year ended March 31, 2010 are as follows:

(in Rupees)

<i>Description</i>	<i>Consolidated</i>		<i>Standalone</i>	
	<i>Year ended March 31, 2010</i>	<i>Year ended March 31, 2009</i>	<i>Year ended March 31, 2010</i>	<i>Year ended March 31, 2009</i>
Gross Income	681,68,36,789	454,69,12,783	654,24,78,772	444,35,36,537
Profit before tax	268,00,42,643	168,57,98,105	279,24,87,073	176,85,94,455
Provision for taxation	85,73,27,459	43,89,65,471	85,73,27,459	44,93,43,954
Provision for Deferred Tax Asset/ (Liability)	1,58,58,255	1,02,04,048	1,60,95,107	1,02,04,048
Net Profit	1,83,85,73,470	125,70,36,682	195,12,54,721	132,94,54,549
Balance carried to Balance Sheet	558,74,12,766	373,72,92,658	526,61,00,629	330,32,99,270
Basic and Diluted EPS of Rs. 10 each	174.94	119.60	185.66	126.49
Diluted EPS of Rs. 10 each	174.94	119.60	185.66	126.49

As required under Section 212 of the Companies Act, 1956, the audited statement of accounts of all the subsidiaries for the year ended March 31, 2010 are annexed to the Annual Accounts of your Company, together with the statement of your Company's interest in the subsidiary companies.

DIVIDEND

As in earlier years, your Directors have decided to plough back its entire profit for future growth and hence no dividend is being recommended for the year under review.

AMOUNT TO BE CARRIED TO RESERVES

Since it is proposed not to declare any dividend, the entire amount of profit of the Company i.e. Rs. 195,12,54,721/-, is proposed to be transferred to the General Reserves of the Company.

OPERATIONAL HIGHLIGHTS

As you are aware, your Company is registered with the Securities and Exchange Board of India ('SEBI') primarily to act as:

- (a) Asset Manager to render investment management services; and
- (b) Portfolio Manager to render portfolio management services.

ASSET MANAGEMENT:

In terms of the authorization from SEBI, your Company acts as the asset manager to Reliance Mutual Fund ('RMF'), which is the largest Mutual Fund in India (*as on March 31, 2010*) on average assets under management ('AAUM') basis.

The AAUM of RMF, as on March 31, 2010 was approx. Rs. 1,10,413 crore comprising of Rs. 36,814 crore under Equity, Rs. 62,035 crore under Debt and Rs. 11,564 crore under Liquid asset classes. The AAUM, as on March 31, 2009, was approx. Rs. 80,963 crore comprising of Rs. 19,745 crores under Equity, Rs. 40,705 crores under Debt and Rs. 20,513 crores under Liquid asset classes. The overall AAUM of RMF has grown by 36% in the financial year 2009-10 wherein the asset class equity has grown by 86%.

During the year under review, the Indian Mutual Fund Industry witnessed an overall growth of approx 52% in terms of AAUM, from an amount of approx. Rs. 4, 92,936 crore to an amount of approx. Rs.7, 47,524 crore between April 2009 and March 2010. (Source: AMFI)

NEW SCHEMES LAUNCHED

As on March 31, 2010, RMF has a well rounded portfolio of 36 schemes under various categories such as Equity, Debt, Liquid, Exchange Traded Fund, FMP and Interval Funds. During the financial year 2009-10, RMF launched following 3 new schemes:

- ☐ Reliance Infrastructure Fund
- ☐ Reliance Fixed Horizon Fund XIII Series 1-6
- ☐ Reliance Fixed Horizon Fund XIV Series 1,2,3,4,5,7,8

NEW SCHEME FEATURES LAUNCHED

Reliance SMART ST_EP - An intelligent way to invest

With a view to provide investors with innovative investment products, RMF launched across all its schemes, a unique way of investing - Reliance SMART ST_EP with a special product feature adding intelligence to disciplined, long term & systematic investment approach. It is an advanced version of STP, which works on a simple concept of "INVEST MORE when the current stock market is at lower levels, INVEST LESS when current stock market is at higher levels."

Your Directors are happy to inform that Reliance SMART ST_EP was nominated as the Most Innovative Fund/Feature of the year at CNBC - TV18 - CRISIL Mutual Fund Awards 2009.

PORTFOLIO MANAGEMENT:

Your Company has been rendering Portfolio Management Services ('PMS') since August 2004. It currently offers Discretionary and Advisory Portfolio Management Services to various categories of clients.

The PMS business continued its positive performance through challenging times faced during the year. Your Company emerged as one of the very few portfolio management businesses, which attracted new clients and assets. As at the year end, the total discretionary AUM stood at Rs. 1,671 crore as against Rs. 1,459 for the last financial year. During the year, client base also went up in number from 1,969 to 2,024. The PMS business received Rs. 15 crore as fee income as compared to Rs.12 crore for the last year.

Going forward, your Company proposes to continue its focus on providing customized offerings to high net-worth individuals & corporate.

PROVIDENT FUND MANAGEMENT (EPFO MANDATE):

Your Company was one of the four fund houses who had been granted the mandate to manage the funds on behalf of EPFO. The Company started managing the portfolio amounting to Rs 23,000 Crores, which was transferred from State Bank of India, the

erstwhile portfolio manager for EPFO. During the year, the portfolio increased to Rs. 34,800 crore. The incremental assets under management arising out of fresh inflows provided by EPFO and maturity of the existing holdings as obtained from SBI, are being invested by your Company within the framework provided by the EPFO.

INTERNATIONAL BUSINESS:

The global credit crisis of 2008 slowed down the growth and brought down the business valuations of financial services businesses globally. However, for astute players unaffected by the crisis, it presented a great opportunity to build long term sustainable business models.

Your Company took this opportunity to position itself firmly in geographies where it had an existing presence by reaching out to the newer markets in order to capitalize on the emerging trends.

One of the subsidiaries of your Company, Reliance Asset Management (Singapore) Pte Ltd, which established its business in 2006, made appointments at senior managerial positions and brought on board talent and expertise from international markets. It also bagged two new institutional mandates from the European Market adding to the bottom line of the Company.

During the year, the Malaysian subsidiary i.e. Reliance Asset Management (Malaysia) Sdn Bhd received Islamic Asset Management Licence from the Securities Commission, Malaysia and going forward, it will be group's global hub for Islamic asset management business and will launch Shariah compliant equity and fixed income products. It will be catering to the large institutional investors in the region for managing their portfolios in compliance to Shariah principles.

The UK subsidiary i.e. Reliance Capital Asset Management (UK) Plc (RCAMUK) branched out to GCC by setting up operations in the prestigious Dubai International Financial Centre and has received the license to conduct wealth management business in the region by Dubai Financial Services Authority.

NEW PENSION SYSTEM:

During the year under review, the Pension Fund Regulatory and Development Authority ('PFRDA') had extended the benefits under the New Pension System ("NPS") to all the citizens of India (other than the Government employees already covered under the NPS) and appointed, through a competitive selection process, six pension funds/sponsors to manage the assets under the NPS and your Company is one of the Sponsors selected by the PFRDA for the purpose.

Your Company had incorporated Reliance Capital Pension Fund Limited ("RCPFL") on March 31, 2009, as its wholly owned subsidiary, to act as the Pension Fund Manager, for a period of 3 years commencing from May 1, 2009 and ending on April 30, 2012, in accordance with the terms of the Investment Management Agreement executed on April 29, 2009.

Your Directors are pleased to inform you that with this mandate your Company has become the first ever private sector Asset Management Company to manage both provident funds as well as pension funds.

AWARDS AND RECOGNITION

RMF continued its robust performance and received various awards and accolades during the year. Few of prominent awards received by RMF are listed below:

1. CNBC-TV-18 – CRISIL MUTUAL FUND AWARDS 2010:- 'RELIANCE MUTUAL FUND' was awarded as the "Mutual Fund House of the Year" for the year 2009.
2. CRISIL RATINGS: - Reliance Capital Asset Management Ltd received "CRISIL Fund House Level 1" Rating from CRISIL. This rating denotes that RCAM has been judged by CRISIL Limited (Rating Agency) to possess highest level of process quality and risk management capability in fund management practices.
3. ASIA RISK:- Reliance Capital Asset Management has been bestowed the prestigious "Asset Manager of the year 2009" by internationally renowned publication, Asia Risk.

Each year Asia Risk recognizes Asset Managers in the Asia Pacific region for their best risk management practices.

4. BUSINESS WORLD:- Reliance Mutual Fund was awarded as the “Best Asset Management Company” by Business World.
5. MONEYLIFE, a fortnightly magazine, has ranked Reliance Mutual Fund as the Best Fund House of Year 2009. RMF received a composite score of 99 and all RMF schemes, collectively, gave an annualized return of 29% over the past five years.
6. STEVIE AWARDS:- Reliance Capital Asset Management Ltd. has been conferred upon the Certificate of Finalist Recognition as the “National sales team of the year” in the 4th annual Stevie Awards for Sales & Customer Service.
7. MORNING STAR AWARDS:-
The India Moderate Allocation category award was won by Reliance Regular Savings - Balanced - Growth.
8. ICRA Awards:- ICRA Limited alongwith ICRA Online Limited, organized their Sixth Annual ICRA Mutual Fund Awards on February 5, 2010. Four Schemes of Reliance Mutual Fund won the award under various categories as was awarded 7 star ratings.

FUTURE OUTLOOK

The Indian Mutual Fund industry is one of the fastest growing industries in the financial services sector with 38 AMCs currently operating in the country. The industry AAUM has grown at a CAGR of 26% since 1965 and at a CAGR of 32% in the last three years, with Rs. 7,47,524 crore of average assets as on March 31, 2010.

Your Company intends to aggressively pursue growth opportunities in the mutual fund industry and therefore be the most preferred investment choice for investors. Your Company believes that the asset management industry is still in a nascent stage, being a market leader, your Company will be investing in growing the market size, achieving product innovation, educating the investors, increasing the distribution reach, enhancing customer service infrastructure with aggressive expansion strategies.

SUBSIDIARIES

During the year under review, your Company subscribed to the share capital of Reliance Asset Management (Malaysia) Sdn. Bhd., a Company incorporated in Malaysia and established the same as its wholly owned subsidiary for the purposes of carrying on investment management and advisory activities.

ISSUE & BUY BACK OF SHARES BY THE COMPANY

During the year under review, your Company has not issued any Shares nor carried out any buy-back of any of its outstanding Shares.

FIXED DEPOSITS

During the year, your Company has not accepted any fixed deposits from the public.

DIRECTORS

In terms of the requirements of the provisions of Sections 255 and 256 of the Companies Act, 1956, Mr. Kanu Doshi, a Director, is liable to retire by rotation at the ensuing Annual General Meeting of the Company and being eligible, has offered himself for re-appointment. The Board recommends the re-appointment of Mr. Kanu Doshi as a Director of the Company.

During the year, Mr. Soumen Ghosh, Director of the Company, resigned from his office w.e.f. April 19, 2009. However, subsequently on October 28, 2009, he was once again appointed as an additional Director of the Company. In accordance with the provisions of Section 260 of the Companies Act, 1956, the term of office of Mr. Ghosh is due to expire on the date of the ensuing Annual General Meeting of the Company. It may be noted that the Company has already received a notice from Mr. Ghosh, proposing his candidature for the office of Director of the Company. Accordingly, the Board recommends his appointment as a Director of the Company, whose office shall be liable to retire by rotation.

During the year, Mr. Vikrant Gugnani, Director of the Company, resigned from his office w.e.f. October 28, 2009. Your Board has placed on record its deep appreciation for the invaluable contributions made by Mr. Gugnani during his association with the Company.

BOARD MEETINGS

During the year under review, nine (9) meetings of the Board of Directors of the Company were held.

The functioning of the Board is supplemented by various committees, which have been constituted from time to time, including Audit Committee, Committee of Directors, Valuation Committee, Investment Committee, Risk Management Committee, Broker Empanelment Committee, Operating Committee, Compliance Committee, Investment Committee for EPFO, Valuation Committee for EPFO.

Each of the aforesaid Committees has been constituted in compliance with the applicable statutory provisions to ensure the highest levels of corporate governance.

Each of the Committees has been constituted with clearly defined scope of operations, powers, roles and responsibilities. The minutes of the meetings of each of the Committees are duly placed before the Board for noting and confirmation.

AUDIT COMMITTEE

In compliance with the provisions of Section 292A of the Companies Act, 1956, the Company has an Audit Committee, comprising of all the Directors of the Company namely Mr. Kanu Doshi, Mr. S. C. Tripathi, Mr. Manu Chadha and Mr. Soumen Ghosh.

During the year, eight (8) meetings of the Audit Committee were held.

AUDITORS – STATUTORY AND INTERNAL

In accordance with the applicable provisions of law, the Company has appointed various auditors namely for the mutual fund schemes of Reliance Mutual Fund, statutory auditors and internal auditors, all of repute and good standing. They periodically submit their reports,