

**RELIANCE CAPITAL
ASSET MANAGEMENT LIMITED**

ANNUAL REPORT

2010-11

Directors' Report

To the Members,

Your Directors take pleasure in presenting their Sixteenth Annual Report on the business and operations of the Company, together with the audited Statement of Accounts, for the year ended March 31, 2011.

At the outset, your Directors wish to reiterate your Company's commitment to the highest standards of corporate governance in order to enhance trust of all its stakeholders. Good corporate governance practices have facilitated your Company in standing up to the scrutiny of Domestic & International investors and that of the Regulatory authorities.

Your Company endeavors 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, 2011, 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) of the Company for the year ended March 31, 2011 are as follows:

(in ₹)

Description	Consolidated		Standalone	
	Year ended	Year ended	Year ended	Year ended
	March 31, 2011	March 31, 2010	March 31, 2011	March 31, 2010
Gross Income	732,96,56,830	681,68,36,789	699,25,10,372	654,24,78,772
Profit before tax	294,28,08,887	268,00,42,674	319,28,44,073	279,24,87,073
Provision for taxation	59,91,80,571	85,73,27,459	59,82,48,853	85,73,27,459

Provision for Deferred Tax Asset/ (Liability)	1,82,20,502	1,58,58,255	1,81,38,348	1,60,95,107
Net Profit	236,18,48,818	1,83,85,73,470	261,27,33,568	195,12,54,721
Balance carried to Balance Sheet	581,21,54,593	558,74,12,766	574,17,27,206	526,61,00,629
Basic EPS of ₹ 10 each	224.72	174.94	248.59	185.66
Diluted EPS of ₹ 10 each	224.23	174.94	248.04	185.66

In accordance with Circular No. 2/2011 dated 8th February, 2011, issued by the Ministry of Corporate Affairs, Government of India, your Board of Directors, by way of a resolution passed on April 27, 2011, have already accorded their consent for not attaching to the Company's balance sheet, the Audited accounts of its subsidiary companies. The Consolidated Financial Statements of the Company alongwith all its subsidiaries for the year ended March 31, 2011 (duly audited by its statutory auditors) are forming part of this Annual Report.

The annual accounts of the subsidiary companies and the related detailed information will be made available to the Shareholders of the Company, on demand. The annual accounts of the subsidiary companies will also be kept at the Corporate Office of the Company, for inspection by the Shareholders.

DIVIDEND

For the financial year 2010-2011, your Directors recommend the declaration and payment of dividend as under:

Equity Shares:

Your Directors recommends the payment of dividend of ₹ 150 (Rupees One Hundred and Fifty only) per Equity share of ₹ 10 each, thereby entailing the total payout of ₹ 187.58 crores (including dividend distribution tax and other applicable taxes/surcharges)

Preference Shares:

During the year, your Company had issued 1% non-convertible, non-cumulative redeemable Preference shares of the face value of Rs. 100 each to the shareholders of Reliance Money Infrastructure Limited, in terms of the scheme of arrangement sanctioned by the Hon'ble High Court of Gujarat at Ahmedabad.

Your Directors have decided to recommend the declaration of dividend of ₹ 1 per share on each non-convertible, non-cumulative redeemable preference shares of the Company, for the year under review. The dividend on the preference shares shall be payable for the proportionate period of the year during which such shares were outstanding.

AMOUNT TO BE CARRIED TO RESERVES

In view of the declaration and payment of dividend to the equity shareholders and the non-convertible, non-cumulative redeemable preference shareholders of the Company, an amount of i.e. ₹ 26.13 crores 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 asset management services to Reliance Mutual Fund; &
- (b) Portfolio Manager to render portfolio management and advisory services to its clients.

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, in terms of the average assets under management ('AAUM') (as on March 31, 2011). RMF has continued to remain the largest mutual fund in India, in terms of AAUM, for the past few years.

The AAUM of RMF, as on March 31, 2011 was approx. ₹ 101,577 crores comprising of ₹ 33,443 crores under Equity, ₹ 45,631 crores under Debt, ₹ 22,067 crores under Liquid asset classes and ₹ 434 crores under Gold ETF. The AAUM, as on March 31, 2010, was approx. ₹ 1,10,413 crores comprising of ₹ 36,814 crores under Equity, ₹ 62,035 crores under Debt and ₹ 11,564 crores under Liquid asset classes. While the overall AAUM of RMF has shown negative growth of around 8% during the financial year 2010-11, the AAUM under the liquid asset class has grown by approx. 91%.

During the year under review, the Indian Mutual Fund Industry witnessed an overall negative growth of approx 6.3% in terms of AAUM, from an amount of approx. ₹ 7, 47,524 crores to an amount of approx. ₹ 7,00,537 crores. (Source: AMFI)

NEW SCHEMES LAUNCHED:

As on March 31, 2011, RMF has a well rounded portfolio of 45 schemes under various categories such as Equity, Debt, Liquid, Exchange Traded Fund, Fixed Maturity Plans and Interval Funds. During this financial year, 12 new schemes were launched.

RELIANCE GOLD SAVINGS FUND

Reliance Gold Savings Fund was launched in February, 2011. It was the first gold fund of fund in India which opened a new avenue for investing in gold, as an asset class. This fund has enabled to introduce the third asset class- gold for investors in the Indian mutual fund industry. The fund seeks to provide returns of gold through investments in Reliance Gold Exchange Traded Fund, which in turn invests in physical gold. This fund not only enables to invest lump sum in gold for wealth creation but also to accumulate it systematically and regularly, for as low an amount as ₹100 per month. This passively managed fund aims to give investors the opportunity to participate in the bullion market in a relatively cost effective and convenient manner as the investor can directly purchase and sell the units at the AMC.

NEW FEATURES LAUNCHED:

Fast

Being the largest fund house in India, Reliance Mutual Fund (RMF), not only endeavors to create and nurture a world class, high performance environment aimed at increasing value to its investors; but also thrives to empower them with customized & integrated financial solutions thus assisting them to "Achieve Financial Goals through Right Planning". In line with its philosophy, during the year, RMF launched "Embedded 360° Financial Solutions" through a special feature "FAST-Flexible Asset Allocation Tool", with a view to yielding sustainable long term benefits to all categories of investors, having different goals & risk appetite during different time frames.

Salary Advantage

During the year, your Company introduced a technology based platform for introducing the benefits of Systematic Investment Plan (SIP) to individual employees of any organisation, within the framework of employee-employer relationship. In the absence of wide mutual fund distribution reach, Salary Advantage platform enables employees to take advantage of participating in mutual funds right from their workstation. This new feature offers investment option across schemes of all asset classes of Equities, Debt, Liquid and Gold.

Invest Easy

During the year, your Company also expanded the web based online transaction services to transaction facility on Mobile devices & Call Center by registering to Invest Easy services, wherein the investors can transact anytime and anywhere by reaching to the Company's customer call center or by installing a compatible mobile application.

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 AUM (including discretionary and advisory) stood at ₹ 46,387 crores as against ₹ 36,605 crores for the last financial year. During the year, client base marginally increased from 2024 to 2116. The PMS business received ₹ 27 Crore as fee income for the year end March 31, 2011.

During the year, the Portfolio Management Division introduced few new offerings including Tactical Asset Allocation Portfolio, Young Star Portfolio, Index Linked Debenture and a Silver linked Structure. The PMS division of your Company continued its focus on identifying suitable opportunities for rendering investment advisory services; including to offshore funds that have India focused investment strategies and objectives. In pursuit of the same, the PMS division commenced rendering advisory services under two new offshore mandates during the year. These offshore advisory mandates are primarily focused towards the Indian equity securities investments.

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 which were granted the mandate to manage the funds on behalf of Employees Provident Fund Organisation ('EPFO'). The Company started managing the portfolio amounting to ₹ 23,000 Crores and as of 31st March 2011, the EPFO portfolio was ₹ 44,448 Crores. The EPFO fund management mandate was valid till 31st March, 2011. For its renewal purposes, your Company has already submitted the necessary documents for review by EPFO.

INTERNATIONAL BUSINESS:

The global economy witnessed a mixed picture during the fiscal year 2010-2011. While growth in emerging market economies remained strong, the economies of US and the Euro region clearly showed gaining momentum towards the latter phase pushing behind the earlier concerns about the sovereign debt in Euro region. However the sharp increase in oil prices as a result of turmoil in the Middle East and Africa and the high food & other commodity prices are adding uncertainty to the pace of global recovery and have created inflation concerns as well.

The overseas subsidiaries of your Company strived to position firmly in respective geographies by reaching out to newer markets in order to capitalize on the emerging trends.

One of the subsidiaries of your Company, Reliance Asset Management (Singapore) Pte Ltd. ('RAMS'), which established its business in Singapore in the year 2006 has received during the year a Foreign Institutional Investor ('FII') license by Securities and Exchange Board of India and it intends to commence its operations as an FII during the financial year 2011-2012. In order to maximize synergies between your Company and RAMS and to take its operations to the next level, Mr. Sundeep Sikka, CEO of your Company was appointed as a director on the Board of RAMS.

During this year, the Malaysian subsidiary i.e. Reliance Asset Management (Malaysia) Sdn Bhd ('RAMMy') received Islamic Asset Management License from the Securities Commission, Malaysia. Last financial year was critical in RAMMy's life cycle and it has been able to build intellectual property around Global Investments using Shariah principles. RAMMy signed and operated two Investment management Agreements to manage WSF Reliance Global Shariah Growth Fund, which is the best performing fund in its category across the globe, and Reliance India Shariah Growth Fund. RAMMy also completed the due diligence exercise for a large Malaysian Government related company to manage a Global Shariah Portfolio.

During the financial year 2010-2011, 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 ('DIFC') and has received the license to conduct wealth management business in the region by Dubai Financial Services Authority.

During the year 2010-2011, the Mauritian subsidiary i.e. Reliance Asset Management (Mauritius) Limited ('RAMM') continued its focus on rendering of management and advisory services. The Mauritian collective investment scheme i.e. Emergent India Investments Limited ('EILL'), to whom RAMM acts as the asset manager, launched a retail share class during the year. The retail share class received tremendous response from across geographies and garnered ~ USD 38 million during its initial offer period. The total assets of EILL have recently crossed USD 100 million mark.

NATIONAL PENSION SYSTEM:

The wholly owned subsidiary of the Company i.e. Reliance Capital Pension Fund Limited ('RCPFL') was appointed as one of the Pension Fund Managers by the New Pension System Trust, under the National Pension System ('NPS') in 2009.

The NPS industry witnessed rapid growth both in terms of the subscriber base, as well as the assets under management during the current year. As of 31st March 2011, the subscribers under NPS have already exceeded 13.1 lacs in number. The subscribers under unorganized sector were in excess of 69,000, as compared to around 3918 as of previous year. As of 31st March 2011, the overall assets managed under the NPS were ₹ 8595 crores,

as compared to around ₹ 4000 crores last year. The Assets related to unorganized sector grew from ₹ 9 crores last year to ₹ 87 crores as of 31st March 2011.

The assets managed by RCPFL grew more than 4 times during the current fiscal i.e. from ₹ 1.19 Crores last year to ₹ 5.62 Crores as of 31st March 2011.

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. Outlook Money Awards

Reliance Capital Asset Management Limited has been adjudged as "Best Mutual Fund House" and Runner up as "Best Equity Fund House" by Outlook Money Awards 2010 under the category "Best Wealth Creator Award. The award has been granted for a three year period ended June 30, 2010, 12 AMCs were considered for both the awards.

2. ICRA Mutual fund Awards 2011

Reliance Mutual Fund has been judged Fund House of the Year by ICRA Mutual Fund Awards 2011 in the Debt Category.

3. Bloomberg UTV's 'Financial Leadership Awards 2011

- Best Mutual Fund - Debt
- Best Contribution in Investor Education & Category Enhancement

4. 2010 CIO 100 Awards

The 2010 CIO 100 Awards is presented by the CIO magazine & honors 100 companies worldwide that are creating new business value by innovating with technology. Vinay Nigudkar, the Chief Technology Officer, has been awarded this honor for implementation of the CRMnext System that integrates sales force automation, lead management, customer service and other sales and analysis applications.

5. Five prestigious HR Awards at the 5th Employer Branding Awards 2010-11, conducted by Fun and Joy at Work.

- 6th Best Employer of the Year Award
- Award for Managing Health at Work

- Award for Innovative Retention Strategy
- Award for Innovation in Recruitment
- Award for Excellence in Training

6. "HR Leadership Awards" organised by Shine.com - an HT Media Company.

- Leading HR Practices in "Learning and Human Capital Development"
- Leading HR Practices in Quality Work Life, Physical and Mental Well- Being Award"
- Best HR Practices Award in Rewards and Recognition Strategies

7. NDTV Profit MF Awards

RRSF Balanced (Winner) and RRSF Equity (Runner-up), Long Term Leader (Based on 10 Yr SIP Performance) Reliance Growth Fund, Reliance Short Term Fund and Reliance MIP.

<i>FUTURE OUTLOOK</i>

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 25% since 1965 and at a CAGR of 32% in the last three years, with ₹ 7,00,537 crores of average assets as on March 31, 2011.

Your Company intends to aggressively pursue growth opportunities in the mutual fund industry both domestic and international and therefore be the most preferred investment choice for investors. Your Company expects that an emerging market like India would experience a sustained higher growth rate. Given the country's high household savings rate along with the current low levels of investments by retail investors where only less than 3% of the household savings is channeled into capital markets, your Company believes that the Mutual Fund Industry is still in a nascent stage and has a huge opportunity for growth and expansion. Being a market leader, your Company will continue investing in growing the market size, achieving product innovation, educating the investors, increasing the distribution reach, enhancing customer service infrastructure with aggressive expansion strategies.