

**RELIANCE CAPITAL
ASSET MANAGEMENT LIMITED**

ANNUAL REPORT

2011-12

Directors' Report

To the Members,

Your Directors take pleasure in presenting their Seventeenth Annual Report on the business and operations of your Company, together with the audited Statement of Accounts, for the year ended March 31, 2012.

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. Strong and robust corporate governance practices have facilitated your Company in standing up to the continued 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, 2012, 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, 2012 are as follows:

(in ₹)

Description	Consolidated		Standalone	
	Year ended March 31, 2012	Year ended March 31, 2011	Year ended March 31, 2012	Year ended March 31, 2011
Gross Income	664,68,33,246	733,04,33,399	642,29,00,173	699,22,83,225
Profit before tax	307,60,15,339	294,27,20,756	337,56,18,674	319,27,55,942
Provision for taxation	62,29,07,986	59,90,92,440	62,22,10,605	59,81,60,722
Provision for Deferred Tax Asset/ (Liability)	78,36,514	1,82,20,502	76,82,362	1,81,38,348
Net Profit	246,09,43,867	236,18,48,818	276,10,90,431	261,27,33,568
Balance carried to Balance Sheet	827,10,75,316	581,01,54,693	850,07,94,493	573,97,27,306
Basic EPS of ₹ 10 each	234.15	224.72	262.71	248.59
Diluted EPS of ₹ 10 each	231.94	224.23	260.23	248.04

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 has resolved on May 9, 2012, to accord their consent for not attaching to the Company's annual accounts, the balance sheets of its subsidiary companies. The Consolidated Financial Statements of the Company, alongwith that of its subsidiaries, for the year ended March 31, 2012 (duly audited by their respective statutory auditors) are forming part of this Annual Report.

The annual accounts of all the subsidiary companies and the related detailed information will be made available to the shareholders of the Company seeking such information at any point of time. The annual accounts of all the subsidiary companies will also be kept at the Corporate Office of the Company, for inspection by the shareholders. The Company shall furnish a hard copy of details of accounts of subsidiaries to any shareholder on demand.

<i>DIVIDEND</i>

For the financial year 2011-2012, your Directors recommend the declaration and payment of dividend as under:

EQUITY SHARES:

Your Directors have recommended the declaration and payment of dividend of ₹ 140 (Rupees One hundred and forty only) per equity share of ₹ 10 each, thereby entailing the total payout of ₹ 187,44,36,480 (including dividend distribution tax and other applicable taxes/surcharges)

PREFERENCE SHARES:

The Company presently has 19,999 number of fully paid up 1% non-convertible, non-cumulative redeemable Preference shares of the face value of ₹ 100/- each, which were issued last year 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 recommended the declaration and payment of dividend of ₹ 1 on each 1% non-convertible, non-cumulative redeemable preference shares of the Company, for the year under review, thereby entailing the total payout of ₹ 23,245 (including dividend distribution tax and other applicable taxes/surcharges)

AMOUNT TO BE CARRIED TO RESERVES

In view of the declaration and payment of dividend to [the equity shareholders] and the 1% non-convertible, non-cumulative redeemable preference shareholders of the Company and in accordance with the provisions of the Companies (Transfer of Profits to Reserves) Rules, 1975, an amount of i.e. ₹ 27,61,09,043 is to be transferred to the General Reserves of the Company.

OPERATIONAL HIGHLIGHTS

As you are aware, the Securities and Exchange Board of India ('SEBI') has:

- (a) Authorised your Company to act as the asset manager of Reliance Mutual Fund, to render asset management services; &
- (b) Granted registration to your Company as 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 second largest Mutual Fund in India, in terms of the average assets under management ('QAAUM') (as on March 31, 2012).

The QAAUM of RMF, as on March 31, 2012 was approx. ₹ 78,112 crores comprising of ₹ 28,066 crores under Equity, ₹ 31,508 crores under Debt, ₹ 15,887 crores under Liquid asset classes and ₹ 2,651 crores under Gold. The QAAUM of RMF, as on March 31, 2011 was approx. ₹ 101,577 crores comprising of ₹ 33,443 crores under Equity, ₹ 45,632 crores under Debt, ₹ 22,067 crores under Liquid asset classes and ₹ 434 crores under Gold. While the overall QAAUM of RMF has shown negative growth of around 23% during the financial year 2011-12, the QAAUM under the gold asset class has grown by approx. 510%, due to the success of Reliance Gold Savings Fund.

During the year under review, the Indian Mutual Fund Industry witnessed an overall negative growth of approx 5.10% in terms of QAAUM, from an amount of approx. ₹ 7,00,537 crores on March 31, 2011 to an amount of approx. ₹ 6,64,824 crores on March 31, 2012. (Source: AMFI).

NEW SCHEMES LAUNCHED:

During the year under review, RMF launched the following new schemes

- Reliance Dual Advantage Fixed Tenure Fund II
- Reliance Fixed Horizon Fund XX
- Reliance Fixed Horizon Fund XXI
- Reliance Fixed Horizon Fund XXII

As on March 31, 2012, RMF has a well rounded portfolio of 47 schemes under various categories such as Equity, Debt, Liquid, Gold, Exchange Traded Fund, Fixed Maturity Plans and Interval Funds.

RELIANCE DUAL ADVANTAGE FIXED TENURE FUND – II – PLAN A

Reliance Dual Advantage Fixed Tenure Fund – II – Plan A is a 3 year close-ended hybrid scheme that seeks to generate returns and reduce interest rate volatility, through a portfolio of fixed income securities that are maturing on or before the maturity of the Scheme along with capital appreciation through equity exposure. The investment philosophy of the scheme would be to invest into a combination of fixed income instruments maturing on or before the maturity of the scheme and equity & equity related instrument (predominantly through long call options). The fixed income allocation to the portfolio would be predominantly deployed into securities maturing on or before the maturity of the fund. The strategy would be to buy-and-hold the securities, thereby minimizing any interest rate volatility. Therefore, the fixed income portion of the investment would be largely on an accrual basis. The equity portfolio exposure would be in equity & equity-related instruments, primarily through long call options on Nifty, expiry of which would be near the maturity of the scheme. A combination of investments into fixed income instruments and long call option would allow investors to gain from the upside in the equity markets while attempting to limit the loss on the downside.

NEW FEATURES LAUNCHED:**RELIANCE ANY TIME MONEY CARD**

Reliance Any Time Money Card is the first and only product of its type in India. Investors get the power of investments along with the convenience of Debit Card. Retail Investors are the major beneficiaries of this innovation. The introduction of the Reliance Anytime Money Card signified the beginning of a new era - not only for Reliance Mutual Fund, but for the entire financial services industry by bridging the perception-benefit chasm between high liquidity - Savings a/c and comparably lower liquidity Mutual Fund investments. Moreover Debit card has become an integral part of every one's life and one of the most preferred modes of

payment. To safeguard investor's interests your Company has introduced complimentary insurance on Reliance Any Time Money Card, which primarily provides for (a) insurance against lost of card liability of upto ₹ 100,000; and (b) insurance against skimming / counterfeit / duplication of cards. HDFC ERGO is the insurance service provider.

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 assets. As at the year end, the total AUM of the Portfolio Management business of the Company (including discretionary and advisory services and also including EPFO portfolio) stood at ₹ 60,913 crores as against ₹ 46,387 crores for the last financial year. The PMS business received a sum of ₹ 17 crores as fee income for the year end March 31, 2012.

During the year, the PMS division introduced several high yield debt offerings under its 'All Season Debt' portfolio. Going forward, the PMS division of your Company will endeavor to identify suitable opportunities for launching equity / fixed income portfolios and rendering investment advisory services. Our focus on providing customized offerings to high net-worth individuals & corporates will continue.

EMPLOYEES PROVIDENT FUND MANAGEMENT (EPFO) MANDATE:

Your Company was one of the four fund houses which were once again granted the mandate to manage the funds on behalf of Employees Provident Fund Organisation ('EPFO'). The Company started managing the EPFO portfolio under this fresh mandate from 1st November, 2011 amounting to ₹ 53,623 crores. The EPFO portfolio as on March 31, 2012, stood at ₹ 59,459 Crores.

NATIONAL PENSION SYSTEM:

The wholly owned subsidiary of the Company in India 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.

NPS industry witnessed a rapid growth during the current year, both in terms of subscriber base as well as in respect of the assets under management. The subscribers under NPS schemes, as of 31st March 2012, were in excess of 24.27 lakhs as compared to 13.1 lakhs during the previous year. Further, the subscribers under unorganized sector of NPS

schemes, as of 31st March 2012, were in excess of 69,000 as compared to around 3900 as of previous year.

The overall assets managed by the company under NPS, as of 31st March 2012, were ₹ 15,163 Crores as compared to around ₹ 8,985 crores as at the end of the last year.

Further, the assets under management related to unorganized sector (other than NPS Lite) grew from ₹ 87 crores last year to ₹ 212 crores as of 31st March 2012.

The assets under management of RCPFL during the current fiscal year almost doubled to ₹ 11.15 crores as compared to ₹ 5.62 crores in the last year.

INTERNATIONAL BUSINESS:

The global economy continued to be uncertain through the fiscal year 2011-2012, though a mild recovery has been observed in the US in the past couple of months. According to the IMF, "improved activity in the United States during the second half of 2011 and better policies in the Euro area in response to its deepening economic crisis have reduced the threat of a sharp global slowdown". However, Euro-zone sovereign debt, sharp escalation in oil prices due to geopolitical uncertainty and rising inflation in emerging markets could disrupt the expected recovery in the World economy.

New regime of Qualified Foreign Investors (QFI), amended mutual fund regulation 24 and the improved global investment climate, collectively have the potential to open *multiple new* opportunities to raise assets from large developed markets and to grow our offshore asset management & advisory businesses. The overseas subsidiaries of your Company are now well placed to develop and offer new solutions in respective geographies in order to capitalize on the emerging trends.

SINGAPORE:

Your Singapore subsidiary, Reliance Asset Management (Singapore) Pte Ltd. ('RAMS'), which established its business in Singapore in the year 2006 undertook significant strides in its business, with focus on both the equity and the debt capabilities.

Equity Capability

During the year under review, RAMS restructured its Equity fund - IEGF to ensure it has a good client value proposition and changed certain terms of the Fund to bring them in line with the market conditions & encourage new investments.

Fixed Income Capability

During the year under review, RAMS achieved significant progress in its Fixed Income capabilities, product development & delivery, fund structuring and fund marketing. RAMS achievements can be summarized as under:

- Successful placing of FMPs worth USD 185+ million through Standard Chartered and Citi, in which the distributing banks added value by providing currency hedge & leverage.
- Developed capability for implementing currency hedge in both onshore and offshore markets, and reduce hedging cost.
- Long term currency swap hedging solution for Nippon - with BAML, for a 5 year currency hedge, which will be useful for developing currency hedged products for the retail Japanese investors, intended to be accessed through distribution tie-ups in Japan.
- Passed onshore due diligence from some of the most demanding counterparties.

MAURITIUS:

The Mauritian subsidiary of your Company, Reliance Asset Management (Mauritius) Limited ('RAMM') continued its focus on rendering of investment management services to India focused collective investment schemes i.e. Emergent India Investments Limited ('EIL'), the Mauritius based fund and Reliance Emergent India Fund Limited, the Cayman Islands based fund. A Systematic Transfer Plan (STP) was launched in EIL Class B Shares to provide individual investors in Middle East with an added tool, to optimize their investment allocations in Indian equities, in the current volatile and uncertain market conditions.

During the year, RAMM also secured a license for rendering investment advisory services from the Financial Services Commission, Mauritius.

UNITED KINGDOM:

During the financial year 2011-2012, your UK subsidiary, Reliance Capital Asset Management (UK) Plc, has grown in strength and has built a robust advisory business in the GCC region, operating from the DIFC. The business has continued to expand both in terms of the nature of services and the geographies of coverage; has built a rapidly growing corporate advisory business; and has also commenced covering parts of Africa for rendering wealth advisory by its Middle East operations.

MALAYSIA:

Your Malaysian subsidiary, Reliance Asset Management (Malaysia) Sdn Bhd. ('RAMMy'), is licensed by the Securities Commission of Malaysia to undertake Islamic Asset Management activities.

RAMMy has been able to build an intellectual property around Global investments using Shariah principles and has executed four investment management agreements, to manage WSF Reliance Global Shariah Growth Fund (which is one of the best performing funds in its category across the globe), Reliance India Shariah Growth Fund, Reliance China - India Shariah Growth Fund and with Bank Negara Malaysia (Central Bank). The combined assets presently being managed by RAMMy are an approximate amount of USD 90 million.

During the period under review, RAMMy has developed capabilities in management of Sukuk portfolios (Islamic Fixed income) apart from the existing capability in Global Equities. Further, RAMMy has also entered into some critical MOUs with global leaders in the asset management and banking space, to partner for unique products proposed to be launched, notable ideas amongst which are Ladies Investment Fund, Energy Trading Fund and Absolute Returns strategy.

<i>AWARDS AND RECOGNITION</i>

RMF continued to receive various awards and accolades during the year. Few of prominent awards received by RMF are listed below:

1. ICRA Mutual fund Awards 2012

RMF won 4 awards in the 9th Annual ICRA Mutual Fund Awards 2012.

- Reliance Liquidity Fund was ranked "A Seven Star Fund" and awarded "Gold Award" in Open Ended Ultra Short Term Category for 3 year period ending December 31 2011.
- Reliance Equity Opportunities Fund was ranked "A Five Star Fund" in Open Ended Equity - Dynamic for 1 year & 3 year period ending December 31 2011.
- Reliance Growth Fund has received "A Five Star Fund" in Open Ended Equity - Dynamic for 1 year period ending December 31 2011.

2. CNBC- TV -18 CRISIL MUTUAL FUND AWARD 2012

RMF won two awards in the CNBC- TV -18 CRISIL Mutual Fund Award 2012. The awards are:

1. Most Investor Friendly Fund House of The Year; and
 2. Most Innovative Fund of The Year for Reliance Gold Savings Fund
3. Top 50 Financial Inclusion Projects in India
- On January 5, 2012, regarded as the Financial Inclusion Day in India by Skoch Consultancy Services Pvt. Ltd., two (2) projects of Reliance Mutual Fund were rated among Top 50 Financial Inclusion Projects in India during 2011, which are:
- Reliance AnyTime Money Card
 - Edge - The Learning Academy

These projects have been recognized from the banking and financial services sector for promoting inclusive growth and helping poverty alleviation from across urban and rural India. These projects will be published as best practice case studies in Inclusion magazine and global edition books and included in Skoch Online Knowledge Repository on Best Practices - one of the World's largest online knowledge repositories.

4. RMF was nominated for the ET Retail Awards in the 'Innovative Operating Idea of the year' category for the initiative 'Reliance Any Time Money Card'.
 5. MoneyLife, a personal finance magazine, has awarded the 'Best Fund House 2011' to RMF based on 5 year performance of Equity Funds.
 6. RCAM has been adjudged 'Best BFSI Asset Management Company' by Business & Economy Magazine.
 7. Wealth Forum Advisor Confidence Survey - Best AMC in terms of Innovation (Innovative Products, Services & New Sales Ideas) and amongst the Top 3 in Distributor Engagement, Training & support.
 8. Shine HR Leadership Awards , Star News HR & Leadership Awards
- These awards are a part of the World HRD Congress Initiatives, and presented by Ascent.

The categories in which the Company had participated and have won at Shine are:

- The Award for HR Champion - CEO
- Award for Best Learning & Development Strategy
- Award for Best HR practices in Rewards & Recognition strategies