

**RELIANCE CAPITAL  
ASSET MANAGEMENT LIMITED**

**ANNUAL REPORT**

**2013-14**

# Directors' Report

## *To the Members,*

Your Directors take pleasure in presenting their Nineteenth Annual Report on the business and operations of your Company, together with the audited Statement of Accounts, for the year ended March 31, 2014.

At the outset, your Directors wish to reiterate your Company's commitment to the highest standards of corporate governance in order to enhance the 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, 2014, 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, 2014 are as follows:

(In Rs.)

Description	Consolidated		Standalone	
	Year ended March 31, 2014	Year ended March 31, 2013	Year ended March 31, 2014	Year ended March 31, 2013
Gross Income	774,91,60,540	734,60,90,153	7,801,760,231	7,126,740,652
Profit before exceptional item and tax	352,14,11,014	289,58,91,681	3,893,717,787	3,136,839,140
Exceptional Items	-	-	57,565,191	556,411,399
Profit before tax	352,14,11,014	289,58,91,681	3,836,152,596	2,580,427,741
Provision for taxation	79,93,73,014	60,31,71,553	(797,910,196)	(602,181,156)
Provision for Deferred Tax Asset/ (Liability)	11,81,486	(28,64,117)	1,181,487	(2,864,663)
Profit After Tax before share of minority shareholders	272,32,19,484	228,98,56,011	3,039,423,887	1,975,381,922

Share of Minority Shareholders	481,989	379,418	-	-
Net Profit	<b>272,27,37,495</b>	<b>2,289,476,593</b>	<b>3,039,423,887</b>	<b>1,975,381,922</b>
Balance carried to Balance Sheet	6,722,670,943	6,325,549,435	6,954,981,841	6,241,173,943
Basic EPS of Rs.10 each	246.60	206.26	275.28	177.93
Diluted EPS of Rs.10 each	245.47	205.17	274.03	177.00

In accordance with Circular No. 2/2011 dated 8<sup>th</sup> February, 2011, issued by the Ministry of Corporate Affairs, Government of India, your Board of Directors has resolved on April 28, 2014, 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, 2014 (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.

#### **DIVIDEND**

For the financial year 2013-2014, your Directors recommend the declaration and payment of dividend of Rs. 150/- (Rupees One Hundred and Fifty only) per equity share of Rs.10/- each, thereby entailing the total payout of Rs. 2,021,673,600/- (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 of the Company and in accordance with the provisions of the Companies (Transfer of Profits to Reserves) Rules, 1975, an amount of i.e. Rs. 303,942,389/- is to be transferred to the General Reserves of the Company.

## **OPERATIONAL HIGHLIGHTS**

### **ASSET MANAGEMENT:**

In terms of the authorization from SEBI, your Company acts as the asset manager to Reliance Mutual Fund ('RMF'), which is the third largest Mutual Fund in India, in terms of the Quarterly Average Assets Under Management ('QAAUM') as on March 31, 2014.

The QAAUM of RMF as on March 31, 2014 was approx. Rs.103,542 Crores comprising of Rs 24,587 Crores under Equity, Rs. 52,021 Crores under Debt, Rs. 24,703 Crores under Liquid asset classes and Rs 2,230 Crores under Gold. The QAAUM of RMF as on March 31, 2013 was approx. Rs. 94,580 Crores comprising of Rs 27,186 Crores under Equity, Rs. 47,029 Crores under Debt, Rs. 17,440 Crores under Liquid asset classes and Rs. 2,926 Crores under Gold. While the overall QAAUM of RMF has shown positive growth of around 9.48% during the financial year 2013-14, the QAAUM under the debt asset class has grown by approx. 10.61%.

During the year under review, the Indian Mutual Fund Industry witnessed an overall positive growth of approx 10.76% in terms of QAAUM, from an amount of approx. Rs. 816,657 Crores on March 31, 2013 to an amount of approx. Rs.904,549 Crores on March 31, 2014. (Source: AMFI).

### **NEW SCHEMES LAUNCHED:**

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

- Reliance Half Yearly Interval Fund
- Reliance Fixed Horizon Fund XXIV
- Reliance Fixed Horizon Fund XXV
- Reliance Fixed Horizon Fund XXVI
- Reliance Dual Advantage Fixed Tenure Fund IV
- Reliance Dual Advantage Fixed Tenure Fund V
- R\*Shares Nifty ETF
- Reliance Close Ended Equity Fund
- Reliance Interval Fund - II

As on March 31, 2014, RMF has a well rounded portfolio of 55 schemes under various categories such as Equity, Debt, Liquid, Gold, Exchange Traded Fund, Fixed Maturity Plans and Interval Funds.

#### **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. The 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 Rs.85,065 Crores as against Rs. 72,231 Crores for the last financial year. The PMS business received a sum of Rs.20 Crores as fee income for the year end March 31, 2014.

During the year, the PMS division introduced several high yield debt offerings under its 'All Season Debt' portfolio, the key highlight of the year is the successful launch of Reliance Yield Maximizer portfolio which collected more than Rs 500 Crs during this period. Going forward, the PMS division of our 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 via both PMS and AIF platform in Financial Year 2015.

#### **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 1<sup>st</sup> November, 2011 amounting to Rs.53,623 Crores. The EPFO portfolio as on 31<sup>st</sup> March, 2014, stood at Rs. 83,558 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. In terms of the revised

PFRDA guidelines 2012 on “registration of Pension Funds for Private sector”, the Company also obtained certificate of registration to act as “Pension Fund manager for Private Sector” on 23<sup>rd</sup> January 2013 and the Certificate of registration is valid for one year from the date of issue of the certificate. The Pension Fund needs to apply for the renewal annually and PFRDA shall notify the continuity to act as Pension Fund based on the review.

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 31<sup>st</sup> March 2014, were in excess of 58.59 Lakhs (as of December 2013) as compared to 44.94 Lakhs during the previous year. Further, the subscribers under Private sector of NPS schemes, as of 31<sup>st</sup> March 2013, were in excess of 3.41 Lakhs as compared to around 69,000 as of previous year.

The overall assets managed by the NPS industry, as of 31<sup>st</sup> March 2014, were Rs. 48,104.57 Crores as compared to around Rs.29,836.59 Crores as at the end of the last year.

Further, the assets under management related to Private sector (other than NPS Lite) grew from Rs. 582.13 Crores last year to Rs. 1081.80 Crores as of 31<sup>st</sup> March 2014.

The assets under management of RCPFL during the current fiscal year almost doubled to Rs. 43.58 Crores as compared to Rs. 22.52 Crores in the last year.

During the year under review, your Company has sold 15% stake [consisting of 37,50,000 equity shares] of RCPFL to Reliance Gilts Limited on December 26, 2013.

### **ALTERNATIVE INVESTMENT BUSINESS**

An area of great interest to your company is the Alternate Asset space. The term Alternate Assets, is generally used to describe all assets other than the conventional listed equity and investment grade debt. Hence this includes non conventional / non benchmarked strategies in equities, non investment grade debt / high yield debt, assets like real estate, commodities, distress debt, etc.

Globally, Alternate Assets has been the fastest growing space in the investment management industry, especially since 2008. Importantly these assets are more profitable than conventional assets. In India too this space has been growing very rapidly. Your Directors believe that this space offers immense opportunities and your company is actively

working to capture opportunities in this space. Towards this end, your Company is working towards launching an AIF offering in the Real Estate space. It is also intended to follow this up with other offerings/ launches.

## **INTERNATIONAL BUSINESS:**

### **Global economic environment**

The global economy continued to drag on the path of growth recovery helped by monetary policy by the major central bankers. Majority of the central bankers' pumped significant amount of liquidity to support the global economy. There are signs of pickup in global growth led by improvement in housing and labor market of US economy. Going forward we expect FY15 to be a strong year in terms of economy and market participation based on the forward looking financial reforms and improvements in the key pressure points like CAD and Inflation.

### **Opportunities**

Foreign Institutional Investors (FIIs) have invested over Rs. 51,600 Cr (Source SEBI Website, US\$ 8.62 Bn @ 59.93) across Indian equity and debt markets in FY 14. In this year, FII Debt limits were enhanced further from USD 5 Bn to USD 10 Bn within the Government Debt category. Overall, the FII Debt limit stands at USD 51 Bn for Corporate Debt and USD 30 Bn for Government Debt. The enhanced limit will provide opportunities for foreign investors to invest in Indian Government securities.

Your Company continues to increase its business in Japan through Nissay Asset Management, subsidiary of Nippon Life by launching joint products. In this regard, products in Equity and Debt categories have been launched.

Your Company has also received SEBI's approval to set up a UCITS investment management company for which the process has already begun. Also, we continue to tap institutional investors from US, Middle-East and Asia.

## **SINGAPORE:**

Your Singapore subsidiary, Reliance Asset Management (Singapore) Pte Ltd. ('RAMS'), which established its business in Singapore in the year 2006 has closed the financial year with USD 766 mn assets under management.

### Equity Capability

During the year under review, RAMS will continue to act as the offshore investment manager but has realigned its equity strategies to be advised by RCAM from India, to take advantage of the Regulations 24 of SEBI (Mutual Fund) Regulations 1996.

### Fixed Income Capability

During the year under review, RAMS continues to focus on the Fixed Income space. The Fixed Income achievements can be summarized as under:

- Successful investments of over USD 600 mn in Fixed Deposits Funds (FD).
- Developed new FD product to include investments beyond Indian banks/issuers thus expanding its product offering horizon.
- FMPs over USD 90mn with the rest being matured in line with the investment objectives.
- Capitalising on strategic partnership with Nippon/Nissay to launch open ended bond funds for investors.

### **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 ('EIIIL'), the Mauritius based.

### **MALAYSIA AND UNITED KINGDOM:**

On October 26, 2013, the Board of Directors of your Company has decided to wind down the operations of Reliance Asset Management (Malaysia) SDN BHD ("RAMMY") and Reliance Capital Asset Management UK Plc. ("RAMUK"), wholly owned subsidiaries of the Company, domiciled in Malaysia and United Kingdom respectively. The Company had decided upon this, keeping in view the long-term strategy of profitable growth.

The liquidation of RAMMY is currently under process & the Company has made a provision for diminution of Rs. 5.48 Crores in the current financial year. This is in addition to provision of Rs. 31.46 Crores made in the previous year



In case of RAMUK, the Company has made an application for surrender of FCA license and is awaiting regulatory approvals.

#### **AWARDS AND RECOGNITION**

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

##### **1. Tata Institute of Social Sciences Awards**

RCAM was awarded the '**Best Corporate University - Silver**' among all the industry sectors at the **Annual CLO Awards organized by Tata Institute of Social Sciences**.

##### **2. Lipper Awards**

Reliance Mutual Fund schemes were conferred with Best Fund Awards in respective categories at **Lipper Fund Awards, 2013 (India)** at a high profile event in Mumbai on July 19, 2013.

Details of the awards are as follows:-

**In the Mixed Asset INR Aggressive –**

**Reliance Regular Savings Fund – Balanced Option** managed by **Amit Tripathi & Sanjay Parekh**, awarded Best Fund for 5 year period

**In the Mixed Asset INR Aggressive –**

**Reliance Monthly Income Plan** managed by **Amit Tripathi & Sanjay Parekh**, awarded Best Fund for 5 year period

**In the Equity India Classification –**

**Reliance Growth Fund** managed by **Sunil Singhania**, awarded Best Fund for 10 year period

## **In the Equity Sector Banks & Other Financials Classification –**

**Reliance Banking Fund** managed by **Sanjay Parekh & Shrey Loonker**, awarded Best Fund for 3 year period.

### **3. Legal Counsel Congress & Awards 2014**

The legal team of RCAM led by Mr. Muneesh Sud has bagged “**Best Corporate M&A Deal of the Year Award**” in respect of RCAM's Equity stake sale of 26% in favor of Nippon Life Insurance. The Awards ceremony which was held on 13<sup>th</sup> March, 2014 were organized under the banner of "Legal Counsel Congress & Awards-2014".

### **4. Legal Era**

RCAM's Legal Team has been adjudged as the “**Best In-House Legal Team of the Year**” under the Asset Management Category. The Awards ceremony, which were held on 15<sup>th</sup> March 2014 were organized by Legal Era, for the year 2013-14.

## ***FUTURE OUTLOOK***

The Indian Mutual Fund industry is growing steadily in the financial services sector with 44 AMCs currently operating in the country. The industry assets have grown at a CAGR of 18% since 1999, with Rs 9.05 Lakh Crores of assets as per quarter ended March 2014.

Your Company continues to aggressively pursue growth opportunities in the fund management and investment advisory space, both at the domestic as well as at the international level. Given the country's high household savings rate coupled with the current low levels of investments by retail investors where only less than 3% of the household savings are channeled into capital markets, your Company believes that the Mutual Fund Industry has a huge opportunity for growth and expansion. Your Company expects that an emerging market like India would experience a sustained growth rate. Over 54% of the Industry AUM originates from the Top 5 cities which leaves untapped potential in other locations. In line with the SEBI regulations, your Company intends to improve penetration levels in Tier III, Tier IV locations and increase use of technology to improve the investor experience. Being one of the largest players in the Industry, your Company will continue investing in growing the market size, achieving product innovation, educating the investors,