

**RELIANCE CAPITAL
ASSET MANAGEMENT LIMITED**

ANNUAL REPORT

2014-15

Directors' Report

To the Members,

Your Directors take pleasure in presenting their Twentieth Annual Report on the business and operations of your Company, together with the audited Statement of Accounts, for the year ended March 31, 2015.

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 one of the leading players 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, 2015, 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, 2013. The financial highlights (on a consolidated and standalone basis) of the Company for the year ended March 31, 2015 are as follows:

(In Rs.)

Description	Consolidated		Standalone	
	Year ended March 31, 2015	Year ended March 31, 2014	Year ended March 31, 2015	Year ended March 31, 2014
Gross Income	9,551,189,681	774,91,60,540	9,301,150,837	7,801,760,231
Profit before exceptional item and tax	4,578,749,082	352,14,11,014	4,463,992,077	3,893,717,787
Exceptional Items	29,138,759	-	30,813,946	57,565,191
Profit before tax	4,549,610,323	352,14,11,014	4,433,178,131	3,836,152,596
Provision for taxation	901,476,236	79,93,73,014	885,886,968	797,910,196

Provision for Deferred Tax Asset/ (Liability)	(25,889,442)	11,81,486	26,049,929	1,181,487
Profit After Tax before share of minority shareholders	3,622,244,649	272,32,19,484	3,573,341,092	3,039,423,887
Share of Minority Shareholders	274,071	481,989	-	-
Net Profit	3,621,970,928	272,27,37,495	3,573,341,092	3,039,423,887
Balance carried to Balance Sheet	6,335,501,908	6,722,670,943	6,519,182,970	6,954,981,841
Basic EPS of Rs.10 each	327.61	246.60	323.21	275.28
Diluted EPS of Rs.10 each	327.21	245.47	322.82	274.03

The Consolidated Financial Statements of the Company, alongwith that of its subsidiaries, for the year ended March 31, 2015 (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

EQUITY SHARES:

INTERIM DIVIDEND

During the year under review, the Company had distributed an interim dividend of Rs. 146/- (Rupees One Hundred and Forty Six only) per equity share, thereby entailing the total payout of Rs. 201,82,05,064/- (including dividend distribution tax and other applicable taxes/surcharges).

PROPOSED DIVIDEND (FINAL)

Your Directors are pleased to recommend a final dividend of Rs. 125/- (Rupees One Hundred Twenty Five only) per equity share of Rs.10/- each, thereby entailing the total payout of Rs. 173,31,50,119/- (including dividend distribution tax and other applicable taxes/surcharges).

PREFERENCE SHARES:

During the year your Company had issued 30,00,000 numbers of fully paid-up 6% Non-Cumulative, Non Convertible, Redeemable Preference Shares of Rs.100/- each, to the Shareholders of Azalia Distribution Private Limited i.e. Reliance Television Private Limited, in terms of the Scheme of Arrangement sanctioned by the Hon'ble Bombay High Court.

Your Directors therefore recommend the declaration and payment of dividend of Rs. 6/- (Rupees Six only) on each 6% Non-Cumulative, Non Convertible, Redeemable Preference Shares of the Company, for the year under review, thereby entailing the total payout of Rs. Rs.37,39,330/- (including dividend distribution tax and other applicable taxes/surcharges). 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 interim dividend to the Shareholders of the Company and in accordance with the provisions of Section 123 of the Companies Act, 2013, an amount of Rs. 25,40,45,450/-, being 10% of the net profits (after tax) as on December 31, 2014 was transferred to the General Reserves of the Company.

PARTICULARS OF LOANS, GUARANTEES AND INVESTMENT

Details of Loans, Guarantees and Investments covered under the provisions of Section 186 of the Companies Act, 2013 are given in the notes to the Financial Statements.

LANDMARK DEVELOPMENTS

INVESTMENT IN THE COMPANY

During the year on February 27, 2014, Nippon Life Insurance Company (NLI), an existing 26% equity shareholder in the Company acquired an additional 9% (Nine per cent) stake by way of purchase of appropriate number of equity shares from Reliance Capital Limited (RCL). Post this acquisition, the equity stake of NLI in the Company has increased to 35% and that of RCL stands at 56.23%.

RISK MANAGEMENT

Your Company has a comprehensive Risk Management policy that envisages an enterprise risk management framework and clearly sets out the objectives & elements of risk management within the organization, including the constitution of a Risk Management department (reporting directly to the CEO and to the Board of Directors), a Risk Management Committee (RMC) and the underlying mechanisms & processes to be used for identification, monitoring and reporting of various categories of risks including credit, market, liquidity and operational risks. There are well documented & Board approved policies & processes which are in place w.r.t. important aspects of business such as Investment, Valuation, Proxy Voting disclosures, Risk Management, Operations, Compliance etc to name a few. In addition, proper & adequate Insurance Policies and business continuity planning has also been adequately put into place.

You will note that the basic revenue model of an asset management company (AMC) is charging of management fees on assets under management provided by the investors. In case of an eventuality where the company repeatedly fails to comply with regulatory norms with regard to investment restrictions and / or code of conduct, or if there are repeated & glaring instances of fraud / front-running then the same may be a catastrophic risk for the enterprise. However, your Directors would like to assure you that such risks are being mitigated by putting into place robust & time tested policies & processes, qualified & professional manpower to run these processes under the aegis & guidance of your Board of Directors, Board committees and various other internal committees, constituting of its senior employees.

INTERNAL CONTROL SYSTEMS & THEIR ADEQUACY

The Company has an Internal Control System, commensurate with the size, scale and complexity of its operations. To maintain its objectivity and independence, the Internal Auditor reports to the Audit Committee of the Board.

The Internal Auditor monitors and evaluates the efficacy and adequacy of internal Control system in the Company, its compliance with operating systems, accounting procedures and policies. Based on the report of Internal Auditor, process owners undertake corrective action in their respective areas and thereby strengthen the controls. Significant audit observations, if any and corrective actions thereon are presented to the Audit Committee of the Board.

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, 2015.

The QAAUM of RMF as on March 31, 2015 was approx. Rs.137.12 crores comprising of Rs. 45,025 Crores of Equity, Rs. 62,865 Crores of Debt, Rs. 27,707 Crores of Liquid funds; and Rs. 1,526 Crores of Gold asset class. It may be noted that 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. While the overall QAAUM of RMF has shown positive growth of around 32.43% during the financial year 2014-15, the QAAUM under the debt asset class has grown by approx. 20.85%.

During the year under review, the Indian Mutual Fund Industry witnessed an overall positive growth of approx 31.31% in terms of QAAUM. (Source: AMFI).

NEW SCHEMES LAUNCHED:

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

Scheme Name	Type	Structure	Launched in
Reliance Corporate Bond Fund	Debt	Open – ended	Jun-14
Reliance Dual Advantage Fixed Tenure Fund VI	Debt	Close – ended	Aug-14
Reliance Dual Advantage Fixed Tenure Fund VII	Debt	Close – ended	Dec-14
Reliance Fixed Horizon Fund XXVII	Debt	Close – ended	Jul-14
Reliance Fixed Horizon Fund XXVIII	Debt	Close – ended	Jan-15
Reliance Interval Fund – III	Debt	Interval	Sep-14
Reliance Retirement Fund - Income Generation Scheme	Debt	Open – ended	Feb-15
Reliance Capital Builder Fund	Equity	Close – ended	Aug-14
Reliance Capital Builder Fund II	Equity	Close – ended	Dec-14
Reliance Close Ended Equity Fund II	Equity	Close – ended	May-14
Reliance Japan Equity Fund	Equity	Open – ended	Aug-14
Reliance Retirement Fund - Wealth Creation Scheme	Equity	Open – ended	Feb-15
R* Shares Sensex ETF	ETF	Open – ended	Sep-14
R*Shares Consumption ETF	ETF	Open – ended	Apr-14
R*Shares Dividend Opportunities ETF	ETF	Open – ended	Apr-14

As on March 31, 2015, RMF has a well rounded portfolio of 66 schemes under various categories such as Equity, Debt, 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. 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 (including discretionary and advisory services and also including EPFO portfolio) stood at Rs.1,00,881 Crores as against Rs. 85,065 Crores for the last financial year. During the year, the PMS business received a sum of Rs.23 Crores as fee income.

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 PMS in Financial Year 2015.

Your Company is one of the four fund houses who are managing the prestigious Employees Provident Fund Organization (EPFO) mandate since last few years. As on 31st March, 2015, the EPFO portfolio stood at Rs.99,318 Crores. We are pleased to inform you that recently vide its letter dated April 7, 2015, EPFO has renewed your Company's appointment as such, for an another term of three (3) years.

ALTERNATIVE INVESTMENT BUSINESS

Alternative Assets remains an area of great interest in the investment management space. The term Alternative 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 have 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 Company, through its subsidiary viz. Reliance AIF Management Company Limited (RAIF) operates in alternative investment space and has launched its first AIF offering in the Real Estate space in September, 2014. The fund has raised a total commitment of Rs. 530 Crores till 31st March, 2015. RAIF has earned income in the form of AIF fees from this offering amounting to Rs. 14 Crores for the FY 2014-15.

NATIONAL PENSION SYSTEM:

Reliance Capital Pension Fund Limited ('RCPFL'), a subsidiary of your Company is acting as one of the Pension Fund Managers for managing the pension assets under the National Pension System [NPS].

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 2015 were in excess of approx 87.49 lakhs as compared to 65.06 lakhs during the previous year. Further, the subscribers under private sector of NPS schemes as of 31st March 2015 were in excess of 4.60 lakhs as compared to around 3.41 lakhs as of previous year i.e. 31st March, 2014. The overall assets managed by the NPS industry, as of 31st March 2015, were Rs. 80,855.13 crores as compared to around Rs. 48,104.54 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. 1082 crores last year to Rs. 2011 crores as of 31st March 2015. The assets under management by your Company during the current fiscal year almost doubled to Rs. 76.97 crores as compared to Rs. 43.58 crores in the last year.

During the year on February 18, 2015, your Company has sold 20% of its equity stake in RCPFL to Reliance Gilts Limited.

INTERNATIONAL BUSINESS:

Global economic environment

The global economic environment was mixed with offshoots of recovery in certain high-income economies namely, the United States and the United Kingdom, while the Euro area continued to grow below par. The sharp plunge in energy and commodity prices severely impacted the economic expectations of producer countries, though such reversal in the commodity super cycle reduced medium term headwinds for importing nations including India, which along with China continued to provide a window of investment opportunity to global allocators seeking sustainable long term growth trends. In financial year 2015-16,

currency volatility, US Fed actions and accommodative monetary policies in certain regions are expected to drive investor sentiment towards risk aversion in developed markets except USA, while emerging markets like India, and some parts of Asia could offer unique windows of optimism backed by political stability, potential structural reforms and benign energy prices supporting economic activity and public finances. It is expected that market participation levels to increase beyond historical trends, while the economic expectations will continue to support foreign investor interest in Indian securities.

Offshore Opportunities

Foreign Portfolio Investors (FPIs) have invested over Rs. 2,77,461 Crores (Source SEBI Website) across Indian equity and debt markets in financial year 2014-15. FPI Debt limits in the G-Sec category remain fully subscribed while minimum 3 year residual maturity terms will shift the market to a longer duration profile in the medium term, thus supporting long term financing options for Indian Corporates.

Your company's recent fund collaborations in Japan have become the center stage of success for the offshore strategy. Recent changes in the regulations and certain proposals in this year's budget make it easier to directly manage foreign funds from India, and your Company will leverage upon these opportunities to optimize the fund management process for offshore funds. Your company is on the path of a collaborative partner approach to tap retail investors in Japan and other global markets, while it shall continue to pursue asset raising efforts in the Middle East, and rest of Asia. USA and Europe also present large business potential and your company will continue to develop appropriate asset raising and product capabilities for such markets.

JAPAN

Your company launched the first Japan Equity Fund in Indian Mutual Funds market, marking the firm's entry into international strategies that are known to provide diversification opportunities from a global market perspective. The company will launch other international equity funds this year, depending upon the market attractiveness and strategic fit in our product basket. During the year, the India Equity and Debt funds were launched through our partner Nissay Asset Management, Japan, a subsidiary of Nippon Life Insurance Company and directly advised by your Company in India; these funds have been well accepted among Japanese retail and institutional investors with combined AUM exceeding 63.8 billion Japanese Yen [approximately USD 533 million] as on March 31, 2015. The funds are also being offered by several regional intermediaries, increasing its appeal across Japan. Your

company continues to leverage the global capabilities of Nippon Life Insurance Company in expanding the development of offshore products in Japan, asset raising efforts and other opportunities globally.

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 910 million assets under management. During the year under review, RAMS will continue to act as the offshore investment manager but has realigned its equity and fixed income strategies to be advised by your Company from India, to take advantage of the Regulations 24 of SEBI (Mutual Fund) Regulations 1996. RAMS continued its efforts through the launch of few FMP products with over USD 150 million raised from the local markets this year. RAMS has also commenced investment management of an offshore equity fund advised by your Company from India.

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.

SOUTH KOREA

Your Company has entered into a Memorandum of Understanding with Samsung Asset Management Co. Ltd., the largest asset management company in South Korea managing assets over USD 165.8 billion as of February, 2015, with an 18% market share. As part of this MOU, both the Companies will explore the possibilities of using their expertise for developing, managing, marketing and distributing each other's investment products in their respective home countries.

CORPORATE SOCIAL RESPONSIBILITY

As part of its initiatives under "Corporate Social Responsibility (CSR)", the Company has undertaken projects in the areas of promoting preventive health care in accordance with Schedule VII of the Companies Act, 2013.