Sundaram Asset Management Company Limited

22nd Annual Report 2018-19

Board of Directors	Pratip Chaudhuri	Chairman
	T T Srinivasaraghavan	
	Rishikesha T Krishnan	
	Arvind Sethi	
	Harsha Viji	
	Sunil Subramaniam	Managing Director
Audit Committee	Pratip Chaudhuri	Chairman
	Arvind Sethi	
	Harsha Viji	
Nomination and Remuneration Committee	T T Srinivasaraghavan	Chairman
	Pratip Chaudhuri	
	Rishikesha T Krishnan	
	Harsha Viji	
Corporate Social Responsibility Committee	Rishikesha T Krishnan	Chairman
	T T Srinivasaraghavan	
	Sunil Subramaniam	
Registered Office	21, Patullos Road, Chennai - 600 002	
Corporate Office	Sundaram Towers, I & II Floor,	
	46, Whites Road, Royapettah, Chennai - 600 014	
	Tel: 044-28569900/40609900, Fax: 044-28262040	
	Website : www.sundarammutual.com	
CIN	U93090TN1996PLC034615	
Auditors	M/s. Suri & Co., Chennai,	Chartered Accountants
Information Security Assurance Auditors	M/s. C V Ramaswamy and Co.,	
	Chennai	

Management Team

Investment Management	**Equity**	**Fixed Income**
	S Krishna Kumar, CIO	Dwijendra Srivastava, CIO
	S Bharath, Head - Research and Senior Fund Manager	Siddharth Chaudhary, Head – Fixed Income, Institutional Business
	Rahul Baijal, Senior Fund Manager	Sandeep Agarwal, Head – Fixed Income, Retail Business
	Rahul Ranjan, Fund Manager	
	Rohit Seksaria, Asst. Fund Manager	
Sales and Marketing	Priya A Kumar	Chief Learning Officer
	Surendra Singh Yadav	National Head - Sales
	Amit Kumar Ray	Head - Sales, Delhi, Uttar Pradesh, Uttaranchal & East Region
	P Nishant	Deputy Head - Sales & Head - Retail Branch & Proprietary Channel
	Rajiv Ashok Chhabria	National Head – Distribution
	Ajit Narasimhan	Chief Marketing Officer
Risk Management, Operations, Customer Service & Compliance	T S Sritharan	Chief Operating Officer
	P Sundararajan	Company Secretary & Head - Compliance
	H Lakshmi	Chief Financial Officer
	Loganathan C M	Head- Products, Credit and Risk Management
	Ramesh Krishnamurthy	Regional Head - Distribution, Middle East and North Africa
Subsidiaries	Sundaram Asset Management Singapore Pte. Ltd.	
	(Incorporated in Singapore)	
	Sundaram Alternate Assets Ltd.	
Bankers	Axis Bank Ltd.	
	HDFC Bank Ltd.	
	ICICI Bank Ltd.	
	Kotak Mahindra Bank Ltd.	
	State Bank of India	

Sponsor

SUNDARAM FINANCE

Sundaram Finance Limited

Registered Office: 21, Patullos Road, Chennai 600 002. India

Sundaram Asset Management Company Limited

A wholly-owned subsidiary of

SUNDARAM FINANCE
Enduring values. New age thinking.

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Financial Highlights

Amount ₹ in crores

Year	Own Funds		Average AUM	PBT	PAT	Dividend %
	Paid-up capital	Free Reserves				
2010-11	15.33	43.94	13,946	20.81	13.36	25
2011-12	15.33	51.38	14,226	15.52	11.00	20
2012-13	15.33	62.86	13,574	24.85	16.86	30
2013-14	15.33	72.75	15,248	22.63	15.27	30
2014-15	20.00	114.05	19,477	31.93	21.69	30
2015-16	20.00	114.12	22,171	12.41	4.42	18
2016-17	20.00	144.85	26,896	47.14	30.73	35
2017-18	Equity 20.00 Preference 15.00	174.74	34,164	44.82	27.46	40
2018-19	Equity 20.00 Preference 15.00	184.70	31,933	31.57	19.86	75

Board's Report

To the Members

Your Directors have pleasure in presenting the 23rd Annual Report along with the audited financial statements for the year ended March 31, 2019. The summarised financial results of your Company are given below:

(₹ in cr.)

Particulars	Standalone		Consolidated	
	Year ended		Year ended	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
Average AUM	31,933	34,164	34,397	36,601
Gross Income	270.43	328.73	330.28	343.53
Less: Operating Expenses	238.86	283.91	287.48	295.14
Profit before Tax	**31.57**	**44.82**	**42.80**	**48.39**
Provision for Taxation	11.71	17.37	13.97	17.37
Profit After Tax	**19.86**	**27.45**	**28.83**	**31.02**

Company Performance

The AIF and Portfolio Management activities pursued by your Company hitherto were demerged into a separate subsidiary Sundaram Alternate Assets Limited effective from 2nd January 2019. In view of this, the current year figures are not comparable with the previous year.

Your Company earned a gross income of ₹ 270.43 cr for the year ended 2018-19 and reported profit after tax of ₹ 19.86 cr. For the said period on a consolidated basis your company earned a gross income of ₹330.28 cr. and a profit after tax of ₹28.83 cr.

Average assets of mutual funds under management is ₹31,933 cr. for the financial year ended 31 March 2019 as against ₹34,164 cr., in the previous financial year.

The overall average assets under management under all the activities of your company and its subsidiaries for the financial year ended 31 March 2019 stood at ₹34,397 cr., as against ₹36,601 in the previous year.

Mutual Fund Industry

During the year, overall assets under management of the Indian mutual fund industry has grown from ₹21.36 Trillion to ₹23.80 Trillion, registering a growth of 11%. The equity assets have grown from ₹9.95 Trillion to ₹11.55 Trillion as at 31 March 2019, registering a growth of 16%.

The gross mobilization by the industry, excluding liquid schemes, for the year was ₹10.08 Trillion as against ₹14.96 Trillion in the previous year, registering a fall of 32%. The industry witnessed a gross redemption of ₹9.74 Trillion excluding liquid schemes as against ₹12.21 Trillion in the previous year. The net new cash generated by the industry (excluding liquid schemes) was of ₹0.34 Trillion when compared to ₹2.75 Trillion in 2017-18.

In 2018-19, Sundaram Mutual Fund schemes mobilized a sum of ₹10,892 cr., excluding liquid schemes, compared to ₹22,915 cr. in 2017-18. This represents a decline of 52%, when compared with the previous year's collections. The gross redemption from Sundaram Mutual schemes was ₹ 10,636 cr. (excluding liquid schemes) in 2018-19, as against the previous year's redemption amount of ₹20,008 cr., (excluding liquid schemes) representing a decline of 47%. The Net new cash (excluding liquid schemes) during the year 2018-19 was ₹256 cr. when compared to ₹2,908 cr. in 2017-18.

The decline in sales is reflecting the industry trend on account of lesser equity fund inflow and partly attributed to regulatory action prohibiting payment upfront commission by the AMCs and on account of sub optimal performance of schemes.

For the year ended 31 March 2019, your company's mutual fund business of ₹31,933 cr. had a market share of 1.30% of industry assets amounting to ₹24,50,019 cr. placing your company in 14th place, and a market share of 2.01% of equity assets placing your company in 13th place.

New Fund Offer

During the year under review, Sundaram Mutual Fund launched 16 schemes mobilizing ₹2,355 cr. Your Company launched equity NFO, Sundaram Services Fund during August 2018 and mobilised a sum of over ₹1019 cr, and on-boarded 67,309 investors into the scheme.

Dividend

Your Directors are pleased to recommend a higher dividend on equity of ₹ 7.50 per share (75% on the face value of ₹10/- per share) for the year ended March 31, 2019. The dividend and

dividend distribution tax together absorbs a sum of ₹18.08 cr.

Your Directors had in January 2019 declared an Interim Dividend of 6.75% amounting to ₹1.01 cr. for the financial year 2018-19 on the Redeemable Cumulative Non-Convertible Preference share capital of ₹ 15 cr.

Your company's net worth stood at ₹205.57 cr. as at 31st March 2019, which is well above the net worth criteria of ₹50 cr. prescribed under SEBI (Mutual Funds) Regulations, 1996.

Ratings

Your company's long term bank facilities are rated "AA" (Highest Degree of Safety) with a "Stable outlook" and short term bank facilities are rated "A1+" (very strong degree of safety) by ICRA.

Subsidiaries

Sundaram Asset Management Singapore Pte Ltd. (SAMS)

SAMS registered income of ₹19.40 cr. as against ₹16.39 cr. during the previous year. SAMS made a profit before tax of ₹4.52 cr. for the year ended 31 March 2019 as against ₹4.48 cr. reported in the previous year. SAMS have declared a maiden dividend of 3.5% amounting to ₹1.02 cr. for the financial year 2018-19 on the paid-up capital. SAMS is a wholly-owned subsidiary of your Company.

Sundaram Asset Management Singapore Pte Ltd. (SAMS) continues to grow rapidly – Average AUM of Sundaram India Midcap Fund and Sundaram Global Brand Fund, the two schemes of SAMS as at 31 March 2019 was ₹ 1,279 cr. (₹1,126 cr. during the previous year).

Sundaram Alternate Assets Limited (SA)

The average assets under Portfolio Management Services under discretionary and advisory segments stood at ₹1,185 cr., for the financial year 2018-19 as against ₹1,311 cr. recorded during the previous year.

In alternative investment funds, the total investor commitment on March 31, 2019 was ₹1,571 cr. (₹960 cr. as on March 31, 2018). The average assets managed by your Company under Category III and II AIF for the year 2018-19 were ₹ 998 cr. (₹503 cr. as on March 31, 2018).

SA earned a gross income of ₹44.12 cr. and reported a profit after tax of ₹5.24 cr. for the year 2018-19. To conserve resources for meeting the business operations, SA has not recommended any dividend during the year.

Consolidated Financial Statements

The Consolidated Financial Statements, drawn up in accordance with the applicable Accounting Standards, form part of the Annual Report. A separate statement containing the salient features of the financial statements of Subsidiaries in Form AOC-1 forms part of the Annual Report.

The annual accounts of all the Subsidiary Companies have been posted on your Company's website – **www.sundarammutual.com.** Detailed information, including the annual accounts of the Subsidiary Companies will be available for inspection by the members, at the registered office of the Company and will also be made available to the members upon request.

Fund performance

Most of the schemes registered good performance during the year beating the benchmark. In line with our philosophy, several equity and fixed income schemes distributed sizeable dividends.

We are happy to inform you that Economic Times rated Sundaram Large and Midcap Fund among the best large and midcap fund schemes to consider investing in 2019. Further, they reported that the Scheme has delivered healthy risk adjusted returns of 17.84% over the past five years beating the benchmark return of 14.45%.

On a fifteen-year annualized return, Sundaram Midcap returned 22.3% and on a ten year annualized return, Sundaram Midcap returned 23.7% as on 31 March 2019.

Your schemes were recognised by rating agencies and the press. Some of the accolades were:

Scheme Name	Category	Value Research	CRISIL	Morningstar
Sundaram Large and Mid-Cap Fund	Equity	4 stars	Rank 2	4 stars
Sundaram Select Focus	Equity	4 stars *	Rank 2	
Sundaram Equity Hybrid	Equity		Rank 2	4 Stars
Sundaram Low Duration Fund	Debt	4 stars *		5 stars *
Sundaram Medium Term Bond Fund	Debt			4 stars
Sundaram Short Term Debt Fund	Debt	4 stars *		5 stars

Sundaram Short Term Credit Risk Fund	Debt		Rank 1	5 stars *
Scheme Name	**Category**	**Value Research**	**CRISIL**	**Morningstar**
Sundaram Banking & PSU Debt Fund	Debt		Rank 2	4 Stars
Sundaram Corporate Bond Fund	Debt		Rank 2	5 Stars *
Sundaram Debt Oriented Hybrid Fund	Debt			5 Stars

* Direct Plan

Investors and Distributors

During the year, your Company continued its investor awareness initiatives in ten adopted districts in Tamil Nadu. Your Company has been taking active steps in disseminating financial literacy campaign in the districts that it has adopted. For the year 2018-19, Investor Awareness Programs (IAP) was conducted in 284 centres. A sum of ₹6.39 cr. has been spent towards investor education by your Company directly and through AMFI. The Company had 17.92 lakh investors' folio as at 31 March 2019 as against 16.78 lakh investors' folio during the previous year registering an increase of 7%. Sundaram Mutual schemes enrolled 96,076 fresh Systematic Investment Plans (SIP) during the year.

Your Company has 31,637 empaneled distributors. The company supports its investors and distributors through 91 places including 51 branches across the country. In addition, the company has access to over 600 locations operated by Sundaram Finance Limited.

Regulation

During the financial year 2018-19, SEBI has introduced the following changes thereby making the industry more transparent and accountable:

SEBI (Mutual Funds) (Fourth Amendment) Regulations 2018 which, with effect from 1st April 2019, reduced Total Expense Ratio (TER) of the various Mutual Fund schemes. The reduction in the limits of TER w.e.f 1.4.2019 was stipulated by SEBI based on the perception that the growth of the mutual fund industry has reached a level where economies of scale are available and the benefits thereof must be passed on to the investors. While the intention seems to be commendable, it could affect the financials of medium and small fund houses. Besides fund mobilisations are predominantly made by distributors and independent financial advisors, such reduction in TER would impact their commission and discourage them from selling MF products.

SEBI has also introduced go green initiative in mutual funds, reduced additional expenses to be charged from 0.20% to 0.05%, all scheme related expenses including commission paid to distributors shall necessarily be paid from the scheme only within the regulatory limits and not from the books of the AMC. SEBI has also introduced creation of segregated portfolio in mutual fund schemes in case of credit event at issuer level and portfolio concentration norms for equity exchange traded funds and index funds.

Your directors welcome all these guidelines and prudential norms and this will improve the compliance standards and strengthen the MF industry in the long run.

Capital Market Outlook

The Indian equity markets continued the optimism in the financial year 2019-20 as the markets ended in April 2019 on a positive note except midcap and small cap. The benchmark indices, S&P BSE Sensex and NSE Nifty 50, gave around 1% returns during April 2019. The midcap and small cap stocks underperformed in April 2019. The midcap and small cap indices gave around -3% and -2% returns during April 2019.

Credit defaults and rating downgrades continued to remain in focus for the debt markets in April 2019. The 10-yr benchmark G-sec yield increased by six bps during the month to reach 7.41% by 30 April 2019; the exact closing levels witnessed two months ago. Reflecting the cautious approach by the investors due to recent credit events, the 10-year credit spreads for an AAA-rated entity increased by eight bps to 88 bps as at the end of April 2019. On the other hand, positive US economic indicators helped the dollar appreciate against the other currencies including the Indian Rupee and Indian currency ended the month at ₹ 69.56 per USD as against ₹ 69.11 per USD at March-19 end.

The fiscal remained a point of concern for FY19 with doubts on the achievability of the government's 3.4% GDP fiscal deficit target. However, despite revenue shortfalls, government news flows suggest that FY19 fiscal deficit target had been achieved. Contained inflation helped the RBI cut rates once in FY19 and saw a follow up rate cut in April FY20. The RBI's language appears to indicate more cuts in the offing, provided the monsoon and other external variables remain favourable.

FY20 growth in India is likely to remain marginally positive with contained inflation and an accommodative central bank.

While the long-term outlook continues to stay intact, the near-term volatility needs to be closely watched out. The markets have remained in over-valued range, as the current P/E Ratio for both the benchmark indices is significantly higher than the 10-year average. Going forward, the impact of US Sanctions on Iran Crude Oil import needs to be seen, along with the final verdict of the Nation's democratic exercise that comes out on May 23. US-China trade war fears have also re-emerged further enhancing market volatility.

Risk management

The Company has a well-established Enterprise Risk Management (ERM) framework. The core of the ERM framework consists of internal risk control guidelines and policies, risk monitoring and control tools, risk reporting and exception handling mechanisms. The fund portfolio risk and operational risk parameters are tracked regularly to ensure adherence to the risk norms and limits. The company has framed policies on various areas such as equity and fixed income risks, derivatives, Inter Fund Transfers.

Risk control and mitigation mechanisms are constantly reviewed for their effectiveness and practicality and suitable changes are introduced to adapt to a changing business environment. The overall functioning of Risk Management team is overseen by the MD and governed by the mandate provided by the audit committee and the Board.

The reports of the internal auditor and independent auditor of the schemes relating to the financials and operations of the Company and schemes were reviewed by the Audit Committee which oversees Risk Controls in the system.

Internal Control System and Adequacy

The Company has an adequate internal control system commensurate with nature and size of its business activity with regard to efficiency of its operations, financial reporting, compliance with applicable laws and regulations. The internal control system is supplemented by audits conducted by the internal auditors.

Board of Directors

The Board of Directors of the company is vested with general power of superintendence, direction and management of the affairs. During the year under review, seven Board Meetings were held.

Mr. Harsha Viji (holding DIN: 00602484), retires at the ensuing General Meeting and being eligible, offers himself for re-appointment.

Necessary resolution is submitted for your approval.

Meeting of Independent Directors

During the year, the Independent Directors of the Company met on 14 March 2019 (i) to review the performance of non-independent directors and the Board as a whole, (ii) to review the performance of the Chairperson of the Company and (iii) to access the quality, quantity and timeliness of flow of information between the company management and the Board.

The Company has received necessary declaration from each Independent Director as required to be given under Section 149(7) of the Companies Act, 2013.

Annual Evaluation by the Board

The Board has made a formal evaluation of its own performance and that of its committees and individual directors as required under Section 134(3) (p) of the Companies Act, 2013.

Board Committees

1. **Audit Committee**

   The Audit Committee reviewed the internal audit plans, financial statements, adequacy of internal control systems and the reports, the observations of the internal / external auditors with the responses of the management.

2. **Nomination and Remuneration Committee**

   The Committee in accordance with the mandate, formulated the criteria for determining qualifications, positive attributes and independence of a director and recommended to the Board a policy relating to the remuneration for the directors, key managerial personnel and other employees, during financial year 2014-15, which is available on the company's website under the following link:

   https://www.sundarammutual.com/pdf2/2018/Docs/Policy_on_Directors_Appointment_and_Remuneration.pdf

   The salient features of the policy are as under:

- Any person who in the opinion of the Board is not disqualified to become a Director, and in the opinion of the Board, possesses the ability, integrity and relevant expertise and experience, can be appointed as Director of the Company.
- For appointing any person as an Independent Director he/she should possess qualifications as mentioned under Rule 5 of The Companies (Appointment and Qualification of Directors) Rules, 2014 and he / she should satisfy the independence criteria as laid down in Section 149(6) of the Companies Act, 2013 and SEBI (Mutual Funds) Regulations, 1996.
- The Managing Director is appointed by the shareholders at a general meeting.
- The Board decides payment of commission to Non whole-time directors every year within 1% of the net profits of the Company approved by the members.
- The Company pays remuneration by way of salary, perquisites and allowances, performance bonus to its Key Managerial Personnel based on the recommendation of Nomination and Remuneration Committee.
- The remuneration of other employees mainly consists of basic remuneration, perquisites, allowances and performance Bonus. The components of the total remuneration vary for different employee grades and are governed by industry patterns, qualifications and experience of the employee, responsibilities handled by them, their individual performances, etc.

  The committee recommended to the Board the appointment and re-appointment of directors and carried out evaluation of director's performance.

  The committee has also evaluated the performance of the key management personnel and approved the proposal of the management on remuneration to key managerial personnel and other employees.

3. Corporate Social Responsibility Committee (CSR)

In terms of Section 135 of the Companies Act, 2013, the particulars such as composition, CSR Policy and report on the CSR activities are set out in the prescribed format vide **Annexure I**.

Disclosure as per Secretarial Standard on meetings of the Board of Directors (SS-1)

The number and dates of Meetings of the Board and Committees held during the financial year indicating the number of Meetings attended by each Director is furnished in **Annexure II**. Your Company has complied with applicable Secretarial Standards issued by Institute of Company Secretaries of India.

Public Deposits

Your company has not accepted any deposits from the public.

Secretarial Audit

In terms of Section 204 of the Companies Act, 2013 and the rules thereunder, the Company has appointed Mr A Kalyana Subramaniam, Practising Company Secretary as the Secretarial Auditor of the Company. Secretarial Audit Report as provided by Mr A Kalyana Subramaniam, Practising Company Secretary is annexed to this Report vide **Annexure III**.

Annual Return

The extract of the annual return pursuant to Rule 12 (1) of the Companies (Management and Administration) Rules, 2014 is attached vide **Annexure IV**.

The annual return referred to in sub-section (3) of Section 92 is available in our website under the following link.

https://sundarammutual.com/AMC/2019/Annual_Return.pdf

Personnel

Your Company had 326 employees on its rolls as on 31 March 2019. During the year, your Company had carried out various employee engagement activities and welfare measures. Your Board of Directors place on record their acknowledgement for the support, dedication and unswerving commitment displayed by the employees of the Company.

Particulars of Employee Remuneration

Particulars of employee remuneration pursuant to Rule 5(2) of Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, are set out in the **Annexure VI** to the Directors' Report. Any shareholder interested in obtaining a copy of the said annexure may write to the Company Secretary at the Registered Office of the Company.