Reliance Nippon Life Asset Management Limited

Issue Snapshot:

Issue Open: Oct 25 – Oct 27, 2017

Price Band: Rs. 247 – 252

Issue Size: 61,200,000 Equity Shares (Fresh Issue of 24,480,000 eq sh + Offer for sale of 36,720,000 eq sh)

Offer Size: Rs.1511.64 crs – 1542.24 crs

QIB	Upto	30,600,000 eq sh
Retail	atleast	21,420,000 eq sh
Non Institutional	tleast	9,180,000 eq sh

Face Value: Rs 10

Book value: Rs 28.10 (June 30, 2017)

Bid size: - 59 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity: Rs. 587.52 cr

Post issue Equity: Rs. 612.00 cr

Listing: BSE & NSE

Global Co-Ordinator and Book Running Lead Manager: JM Financial Institutional Securities Limited, CLSA India Private Limited, Nomura Financial Advisory and Securities (India) Private Limited, Axis Capital Limited,

Book Running Lead Manager: Edelweiss Financial Services Limited, IIFL Holdings Limited, SBI Capital Markets Limited, YES Securities (India) Limited

Registrar to issue: Karvy Computershare Pvt Ltd

Shareholding Pattern

Shareholding Pattern	Pre issue %	*Post issue %
Promoter and Promoter Group	95.57	85.75
Public & Others	4.43	14.25
Total	**100.0**	**100.0**

Background & Operations:

Reliance Nippon is one of the largest asset management companies in India, managing total AUM of Rs. 3,625.50 billion as of June 30, 2017. It is involved in managing (i) mutual funds (including ETFs); (ii) managed accounts, including portfolio management services, alternative investment funds ("AIFs") and pension funds; and (iii) offshore funds and advisory mandates. It is ranked the third largest asset management company, in terms of mutual fund quarterly average AUM ("QAAUM") with a market share of 11.4%, as of June 30, 2017. It started its mutual fund operations in 1995 as the asset manager for Reliance Mutual Fund, managed QAAUM of Rs. 2,229.64 billion and 7.01 million investor folios, as of June 30, 2017. The company managed 55 open-ended mutual fund schemes including 16 ETFs and 174 closed ended schemes for Reliance Mutual Fund as of June 30, 2017. It has a pan-India network of 171 branches and approximately 58,000 distributors including banks, financial institutions, national distributors and independent financial advisors ("IFAs"), as of June 30, 2017.

As part of the company's managed accounts business, it provides portfolio management services to high net worth individuals and institutional investors including the Employees' Provident Fund Organisation ("EPFO") and Coal Mines Provident Fund Organisation ("CMPFO"). As of June 30, 2017, it managed total AUM of Rs. 1,503.93 billion as part of its managed accounts business. It manages offshore funds through its subsidiaries in Singapore and Mauritius and has a representative office in Dubai, which enables it to cater to investors across Asia, Middle East, UK, US, and Europe. As of June 30, 2017, the company managed total AUM of Rs. 22.07 billion as part of its offshore fund management portfolio. It also acts as the advisor for India focused equity and fixed income funds in Japan and South Korea. Further, as of June 30, 2017, it managed Rs. 52.77 billion of international advisory mandates.

Reliance Nippon is promoted by Reliance Capital Limited ("Reliance Capital"), an RBI registered non-banking finance company with business interests including in asset management and mutual funds, life, health and general insurance, commercial and home finance, stock broking, wealth management services, distribution of financial products, asset reconstruction and proprietary investments. Reliance Capital Limited is a part of Reliance Group (Anil Ambani), which has business interests in financial services, telecommunications, power, energy, infrastructure, and defense. Its co-promoter, Nippon Life Insurance Company ("Nippon Life") is one of the leading private life insurers in Japan with assets of approximately US$ 577.00 billion, as of March 31, 2017. Nippon Life offers a wide range of financial products, including individual and group life and annuity policies.

Objects of Issue:

The Offer consists of the Fresh Issue and the Offer for Sale. The Promoter Selling Shareholders propose to sell an aggregate of up to 36,720,000 Equity Shares held by them. Reliance Nippon will not receive any proceeds from the Offer for Sale.

Objects of the Fresh Issue

The objects for which the Company intends to use the Net Proceeds are as follows:

- Setting up new branches and relocating certain existing branches;
- Upgrading the IT system;
- Advertising, marketing and brand building activities;
- Lending to its Subsidiary (Reliance AIF) for investment as continuing interest in the new AIF schemes managed by Reliance AIF;
- Investing towards its continuing interest in new mutual fund schemes managed by it;
- Funding inorganic growth and other strategic initiatives; and
- Meeting expenses towards general corporate purposes.

Requirement of funds Rs in million

Particulars	Amount
Setting up new branches and relocating certain existing branches	383.1
Upgrading the IT system	406.5
Advertising, marketing and brand building activities	720.9
Lending to its Subsidiary (Reliance AIF) for investment of continuing interest in the new AIF schemes managed by Reliance AIF	1,250.0
Investing towards its continuing interest in new mutual fund schemes managed by it	1,000.0
Funding inorganic growth and strategic initiatives	1,650.0
General corporate purposes	*
Total	*

Competitive Strengths

Leading Asset Management Company with Strong Credentials to Drive Growth: Reliance Nippon is the third largest asset management company in India, in terms of mutual fund QAAUM, as of June 30, 2017, according to ICRA. Its size enables to benefit from economies of scale, particularly in the areas of fund management, marketing and distribution. It has strong relationships with its distributors and investors, consisting of individual (retail and HNIs) and institutional investors and also has a diversified investor base, and as of June 30, 2017, it managed assets for 7.01 million investor folios, which comprised 6.72 million retail folios. As of June 30, 2017, the MAAUM of retail investors managed by the company was the second largest (with a total market share of 13.6%) among asset management companies in India, according to ICRA. As of June 30, 2017, its branches were spread across 145 districts in India. In addition, as of June 30, 2017, 77 of the S&P BSE 100 companies, which includes top 100 companies by market capitalization that are listed on the BSE, has invested with it and also managed assets for other small, medium and large corporates in India. Reliance Nippon's widespread investor base and long-standing relationships with distributors and investors, along with robust investment track record across multiple market cycles has helped drive its growth over the years.

It's QAAUM, total revenues and profit after tax has increased between the financial years 2013 to 2017, by a compound annual growth rate of 22.2%, 18.2% and 15.0%, respectively. Reliance Nippon significantly benefits from its Promoters, Reliance Capital and Nippon Life, including through the use of the 'Reliance' brand. As a result of its strong parentage, it also benefits from access to experienced personnel, industry best practices, modern technology, systems and processes, marketing leverage and operational know-how.

Multi Channel Distribution Network: Reliance Nippon has a strong presence across India, has set up subsidiaries in Singapore and Mauritius and a representative office in Dubai. In India, it has a pan-India network of 171 branches, of which 132 branches are located in B15 locations and approximately 58,000 distributors as of June 30, 2017. Its distributors comprise IFAs, foreign banks, Indian private and public sector banks, broking companies, national distributors and digital platforms. Its strong distribution network in India has helped it garner high retail AUM. As of June 30, 2017, the MAAUM of retail investors managed by it was Rs. 584 billion, which was the second largest among asset management companies in India according to ICRA. Further, it had the highest total mutual fund MAAUM among all asset management companies in India from beyond top 15 locations, as of June 30, 2017. Reliance Nippon also has a separate business vertical, which focuses on developing its business with PSU banks to leverage rural network for widespread distribution of its products. It also has a dedicated team to cater to the investment requirements of HNI investors. Its distribution partners can manage their mutual funds business online using 'Business Easy', a web and mobile based application, which supports them with transaction ability, servicing investor needs, tracking transactions, customer relationship management and product and market updates. In addition, it offers 'Invest Easy (Corporate)', a comprehensive online transaction facility for its institutional and corporate investors.

Comprehensive Suite of Products with Distinguished Investment Track Record*:* Reliance Nippon has a well-diversified product suite across mutual funds and ETFs, managed accounts and offshore funds and advisory mandates. As of June 30, 2017, it managed 55 open-ended mutual fund schemes including 16 ETFs, which covered various indices across different asset classes. As part of its managed accounts business, it provides portfolio management services and manage AIFs and pension funds. It also manages offshore funds, which enable to cater to investors across Asia, Middle East, UK, US, and Europe. The company offers a comprehensive suite of products catering to requirements of investors with varied risk profiles and time-horizons. Several of the equity mutual funds managed by it has shown good performance over economic cycles.

Strong Focus on Processes*:* Reliance Nippon regularly monitors its current processes and endeavour to benchmark them against its competitors and incorporate industry best practices in its operations. This focus on processes has contributed significantly to the company's growth. It is certified on the International Quality Standard, ISO 9001:2008 and has implemented a robust Quality Management system. It has instituted well-documented operational processes, extensive trading systems and technology platforms to aid and enhance investment experience for its investors. It has a business excellence team, which focuses on improving customer experience through automation, innovation and business process re-engineering. It has investment policies for different product categories, which define permitted asset classes, criteria for evaluation of investments, credit appraisal process for fixed income instruments, asset allocations and various risk and operating parameters.

Focus on Customer Centricity and Innovation*:* Superior customer service is an integral part of Reliance Nippon's value proposition to its investors. Innovation, an easy and simple on-boarding process, efficient service delivery and robust grievance redressal processes are the key elements of this service value proposition. Its focus on investor satisfaction has resulted in having the lowest investor complaints for the financial year 2017 among the five leading asset management companies in India, according to AMFI. The company processed approximately 26.47 million transactions, one of the highest among asset management companies in India, and received 1,309 investor complaints (0.02% of folios according to AMFI) during the financial year 2017. Improvement in customer experience is the primary focus of technological innovations that it undertakes. In addition to using technology towards its customers, it also leverage technology to improve online interface with its key distributors such as IFAs. Reliance Nippon has also set-up a dedicated learning academy, 'EDGE' to focus on learning and development by launching several modules on financial literacy for its investors and distributors. Further, it has engaged a prominent research agency for investor and distributor satisfaction surveys. These surveys determine and monitor investor satisfaction index in an effort to improve investor relationships and performance, which also enables it to better cater its products and processes to the needs of its investors.

Experienced Management Team*:* Reliance Nippon's operations are conducted by a well-qualified management team that has significant experience in all aspects of its business. The strength and quality of its senior management team and their understanding of the asset management industry enables it to identify and take advantage of strategic market opportunities. Its management team has consistently demonstrated its ability to effectively respond to changing regulatory landscape and macro changes in Indian markets, which has contributed significantly to the growth of AUM. Reliance Nippon's leading market position along with its strong employee value proposition helps it to attract and retain high quality, result-driven people. It has a large investment team comprising of 44 investment professionals that manage its funds and provide advisory services. Members of its senior investment team has an average of approximately 19 years of investment management experience and are a valuable resource to the Company.

Business Strategy:

Expand Investor Base and Focus on Retail Customers: According to ICRA, in India, the retail investors' MAAUM grew significantly by 163% from March 2014 to June 2017 from 1.63 trillion to 4.28 trillion. To leverage this market opportunity, it intends to:

<u>Open new branches:</u> In India, as of June 30, 2017, Reliance Nippon has a pan-India network of 171 branches, of which 132 were in B-15 cities. The B-15 MAAUM in India increased from Rs. 1.4 trillion in March 2014 to Rs. 3.1 trillion in March 2017 at a CAGR of 30% over the three year period. It intends to increase its branch network by adding 150 new branches in B-15 locations and relocating 54 existing branches across India by March 31, 2021.

<u>Grow distributor network:</u> Reliance Nippon worked with approximately 58,000 distributors including banks, financial institutions, IFAs, national distributors and online platforms, as of June 30, 2017. It intends to broaden its distributor base to grow the share of its AUM coming from retail investors including from B15 locations. It also intends to cross sell products to its customers.

<u>Increase investor base:</u> The key elements of growing retail base comprise of the following initiatives: offering a diverse portfolio of equity, debt, hybrid and sector focused funds, including by way of launching new mutual fund schemes; educating the benefits of investing in mutual funds through SIPs; providing a simple, multi-device, app-based and user friendly technology experience; setting up digital kiosks across India as part of investor outreach; and facilitating easy KYC and account opening systems to attract investors. Reliance Nippon will continue to focus on these initiatives to further increase its investor base.

<u>Advertising and marketing initiatives:</u> Reliance Nippon undertake communication across television, print, radio and digital and social channels in order to increase its customer base. Its advertising and marketing initiatives also include publicity and marketing of various mutual fund schemes managed by it. It intends to continue to promote its products including by placing advertisements and commercials on television, newspapers, hoardings and on digital media.

Focus on Developing AIF Business*:* Reliance Nippon's Subsidiary, Reliance AIF is the investment manager to Reliance Capital AIF Trust (Category II) and Reliance Event Opportunities Trust (Category III). Reliance AIF launched its first AIF in 2014 and is currently managing six schemes of which, four are closed for subscription. As of June 30, 2017, Reliance AIF was raising funds in three alternative investment schemes across asset classes in categories including long only equity, sector agnostic credit and high yield real estate structured debt. The total capital commitment raised across these schemes as of June 30, 2017 was Rs. 13,367 million. Reliance AIF intends to introduce and launch various offerings to capitalize on market opportunities. It intends to evolve into a diversified investment manager by managing products across various asset classes and the risk return spectrum, in order to deliver value to investors.

Inorganic Growth through Strategic Acquisitions: In addition to organic growth, Reliance Nippon has demonstrated the ability to successfully acquire and integrate new businesses. Going forward, while continuing to maintain organic growth momentum, it intends to explore inorganic expansion as well by leveraging on the experience it has gained through its previous acquisition. In November 2016, in order to strengthen its ETF offerings, the company acquired the asset management rights to 12 schemes launched by the Goldman Sachs Mutual Fund, and then managed by Goldman Sachs Asset Management (India) Private Limited. It also continues to selectively evaluate targets or partners for strategic acquisitions and investments in order to:

- consolidate market position in existing businesses,
- strengthen and expand product portfolio,
- enhance depth of experience, knowledge-base and know-how and
- increase branch network, customers and geographical reach.

Leveraging Technology to Improve Investor Experience: The mutual fund industry has seen rapid digitalisation, which is expected to further boost the AUMs and the company intends to be well positioned to tap this opportunity. Technology will also allow it to significantly grow business by targeting new customers. Reliance Nippon will continue to leverage technology to make it easy for its investors to carry out transactions. Going forward, it intends to extend this facility to the platform of its other key distributors. Further, a new distribution channel has recently been introduced by SEBI to promote digitization, by allowing asset management companies to accept investment in mutual funds from investors through e-wallets, thereby creating new opportunities in the retail market and it is focused on capitalizing on such opportunity.

Expand Overseas Operations*:* Reliance Nippon offers a comprehensive suite of investment products and advisory services to retail and institutional clients overseas. It has dedicated teams covering investment, product, sales and operations of its offshore funds and advisory mandates, which work alongside the large research and portfolio management set up in India. It intends to leverage its core research and fund management capabilities in India to look for strategic tie-ups globally in order to become a global asset management company. In addition, it regularly evaluate opportunities to obtain additional advisory service mandates to garner additional revenue as well as grow its brand and goodwill in overseas market.

Continue to Focus on Robust Investment Process and Product Innovation: The most effective strategy for continuing the growth of Reliance Nippon's businesses is to align its economic interests with those of its investors and to deliver strong investment performance. It intends to continue to pursue its rigorous in-house research based approach, increase the number of companies covered by its in-house research team and improve the interaction between its research team and fund managers and companies. The company also intends to grow its funds portfolio using market research, innovation and distributor feedback, by launching funds such as real estate funds, multi-asset allocation funds, long-short strategy funds and ETFs and through digital solutions to address the financial needs of retail investors. It has also recently received approval to act as investment manager for an infrastructure investment trust in India, which may become an important additional revenue stream in future for it.

Industry:

The Indian Mutual Fund Industry

Evolution of the Indian Mutual Fund Industry

In 1963 the Indian mutual funds industry commenced operations with the formation of the Unit trust of India ("**UTI**") by an Act of Parliament. For over twenty five years, UTI remained the only player in the mutual funds industry and as per Association of Mutual Funds of India, its AUM increased from Rs. 250 million in 1965, to Rs. 67 billion in 1988. In 1987, public sector financial companies entered the mutual fund industry. Prominent entrants included the State Bank of India, which promoted the first non-UTI mutual fund, the SBI Mutual Fund in June 1987. The total AUM of the mutual fund industry increased to Rs. 470 billion by the end of 1993. In 1993, the mutual fund industry opened up to the private sector. The first mutual fund regulations were formalized, the 1993 SEBI (Mutual Fund) Regulations which were later substituted by more comprehensive and revised Mutual Fund Regulations in 1996. During the period 1993 to 2003, the number of mutual fund houses increased with many foreign mutual funds houses also participating in the industry. By the end of January 2003, there were 33 mutual funds or asset management companies ("**AMC**") with total assets of Rs. 1.22 trillion. In February 2003, following the repeal of the Unit Trust of India Act 1963, UTI was bifurcated into two separate entities, the Specified Undertaking of the Unit Trust of India and the UTI Mutual Fund. Since then the mutual fund industry has witnessed a healthy growth, supported by various regulatory measures as well as investor education initiatives, reaching an AUM of Rs. 17.5 trillion as of March 31, 2017, up from Rs. 3.3 trillion as of March 31, 2007, reporting at a compounded annual growth rate ("**CAGR**") of 18% over this ten year period. The Indian mutual fund industry is expected to cross the Rs. 20 trillion threshold in the current financial year, and a reported AUM of Rs. 19.5 trillion in June 2017.

Types of Mutual Funds
A mutual fund is a professionally-managed investment scheme that raises capital or investment from a group of people and uses that pooled capital to invest in different types of securities like equities, bonds, money market instruments and/or other securities. Mutual funds can be classified under various categories, based on their structure, investment style and the investment objective.

Types of Mutual Funds Based on Structure.
Open-end Fund: An open-end fund is a mutual fund scheme that is available for subscription and redemption on every business day throughout the year. These schemes are perpetual and do not have any maturity date.

Closed-end Fund: A closed-end fund is a scheme which has a specified tenor and a fixed maturity date and is open for subscription only during the initial offer period. Units of Closed-end funds can be redeemed only on maturity. Hence, the units of a closed-end fund are compulsorily listed on a stock exchange after the new fund offer, and traded on the stock exchange just like other stocks. This provides the investors an option to exit from the scheme before the maturity by selling the units on the exchange.

Type of Mutual Funds Based on Investment Objectives and Underlying Securities
Equity Funds / Growth Funds invest a predominant share of the corpus in equity securities, with the main objective of providing capital appreciation over the medium to long term investment horizon. They are high-risk funds and the returns are linked to the performance of the capital markets. There are different types of equity funds such as diversified funds, sector specific funds and index based funds.

Diversified Funds have a portfolio comprising of investments in companies spread across sectors and market capitalization.

Sector Funds invest primarily in equity shares of companies in a certain identified business sector or industry. While these funds may give higher returns during certain periods, they are riskier as compared to diversified funds given the dependence of their performance on a particular sector or industry.

Index Funds invest in the same pattern, that is same securities and in the same proportion, as popular stock market indices like CNX Nifty Index and S&P BSE Sensex. The value of the index fund varies in proportion to the benchmark index.

Tax Saving Funds are diversified equity funds with the added feature of tax benefits to investors under section 80C of the Income Tax Act, 1961. Investors in these funds have a lock-in period of three years.

Debt Fund / Fixed Income Funds invest predominantly in rated debt or fixed income securities like corporate bonds, debentures, government securities, commercial paper and other money market instruments. These are less risky when compared with equity funds.

Liquid Funds / Money Market Funds invest in highly liquid money market instruments and provide easy liquidity. Liquid funds are short duration funds and typically used by corporate, institutional investors and business houses for deploying surplus liquidity for a short period.
Gilt Funds invest in central and state Government securities. Gilt funds have the lowest credit risk.

Balanced / Hybrid Funds invest both in equity shares and debt (fixed income) instruments and strive to provide both growth and regular income.

Exchange Traded Funds ("**ETFs**"): track an index, a commodity or a basket of assets as closely as possible, but trade like shares on the stock exchanges. They are backed by physical holdings of the commodity, and invest in stocks of companies, precious metals or currencies.

Gold Funds are schemes that mainly invest in gold ETFs and other related assets. Unlike for gold ETFs, investing in gold funds does not require a demat account. Further, gold funds do not directly invest in physical gold but take the same position indirectly by investing in gold ETFs.

Types of Mutual Funds Based on Investment Style
Actively Managed Fund: These funds are actively managed by a fund manager who is responsible for curating and monitoring the portfolio. The fund manager is responsible for buying, holding and selling stocks, backed by analytical and technical research and expertise, based on the performance of the stock and the portfolio as well as the investment thesis of the fund or scheme. The fund manager would take the decisions to buy or sell or hold securities based on his assessment and analysis of the markets and the portfolio performance along with the core investment philosophy of the fund.

Passively Managed Funds: Passive investment strategy refers to the strategy of optimizing returns over a long term by mimicking the benchmark index. This strategy is based on an efficient market hypothesis which states 'beating the market' is virtually impossible since security prices at all times reflect all relevant information, owing to stock market efficiency. Thus, with beating the market not an option, matching the market returns emerges as the best option. A passively managed fund, though managed by a fund manager, follows a market index in its composition. The scheme's portfolio mirrors the selected benchmark index and thus comprises of the same securities as in the benchmark index and in exactly the same proportion. The fund manager thus is a passive investor as the security transaction decisions (buy/hold/sell) are based on the benchmark index.

Number of Industry Players / Key Large Players

As of June 2017, there are 41 active AMCs actively operating in the current market comprising of 7 entities sponsored by public sector banks, 2 entities sponsored by financial institutions, 25 AMCs sponsored by the private sector and other financial companies and 7 entities sponsored by foreign players (including joint ventures). In addition, one AMC is yet to start operations. Despite the increase in the number of players, the Indian mutual fund industry remains concentrated with the ten largest AMCs attributing to over 80% of the industry's total AUM from the financial year 2015 to the financial year 2017. ICICI Prudential AMC, HDFC AMC, Reliance AMC, Birla Sun Life AMC and SBI Funds Management are the five largest AMCs, together attributing to 57% of the quarterly average assets under management ("**QAAUM**") for the quarter ending March 31, 2017 and June 30, 2017.

Channel Partners: Industry Structure and Key Trends

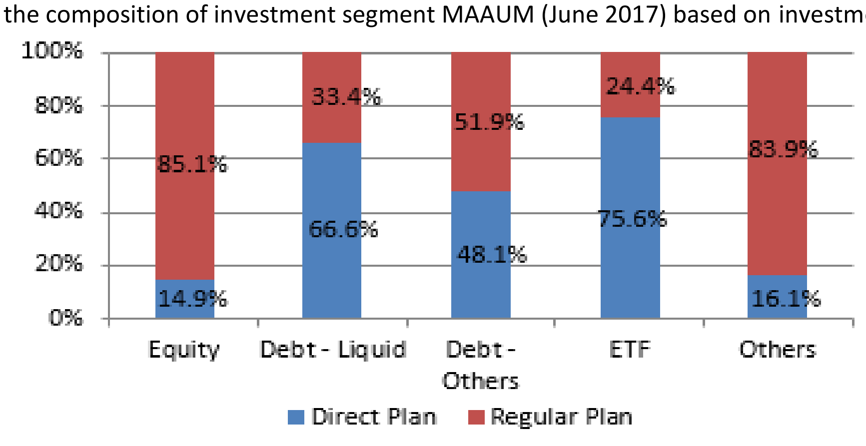
Channel Partners

An investor can invest in mutual funds directly or through a channel partner. There are three main distribution channels for mutual funds in the country, banks, national distributors and independent financial advisors (IFAs). Banks provide their clientele with investment solutions and banking facilities. Given their large network and a retail clientele, banks form an important channel for the distribution of mutual funds. Service providers like wealth management companies and brokerage houses, provide mutual funds as an asset class to their clientele. IFAs offer independent advice and portfolio management services (**"PMS"**) to clients. In September 2012, the SEBI mandated the AMCs to provide a separate plan for direct investments that is for investments not routed through a distributor, in existing as well as new schemes with effect from January 2013. These direct plans were mandated to have a lower expense ratio (excluding distribution expenses and commissions) and to have no commission be paid from such plans. The investments through distributors are routed through a regular plan.

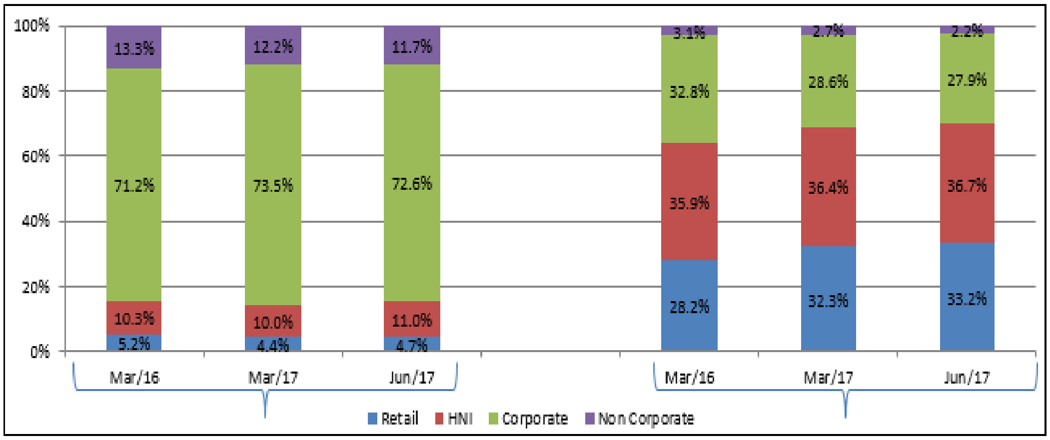
Target Clientele

Mutual funds' investor base comprises of individual investors as well as institutional investors. Distributors form an integral channel for the individual investor segment, which includes retail as well as high net worth investors (**"HNI"**) categories of investors, and account for 87% of the individual MAAUM. With mutual funds being a relatively under penetrated asset class, the awareness levels of products remains low. Thus distributors are an important avenue for disseminating information pertaining to funds, schemes and the investment process, particularly for retail customers, in addition to acting as a point of sale. The importance of channel partners is higher in the context of tier II, tier III cities, or the hinterlands, where the AMC may not have a direct presence. Institutional investors, which include corporate and non-corporate entities, have a higher share of direct investments. With the institutional investor segment being more sophisticated and knowledgeable about financial products, the reliance on distributors is expected to be lower. The composition of investor MAAUM as of June 2017, based on the investment channel for the direct plan was at 9.0%, 17.2%, 64.5% and 78.6% for retail, HNI, corporate and non-corporate entities, respectively. For the regular plan, composition stood at 91.0%, 82.8%, 35.5% and 21.4%, respectively.

The following chart sets forth the composition of investment segment MAAUM (June 2017) based on investment channel:



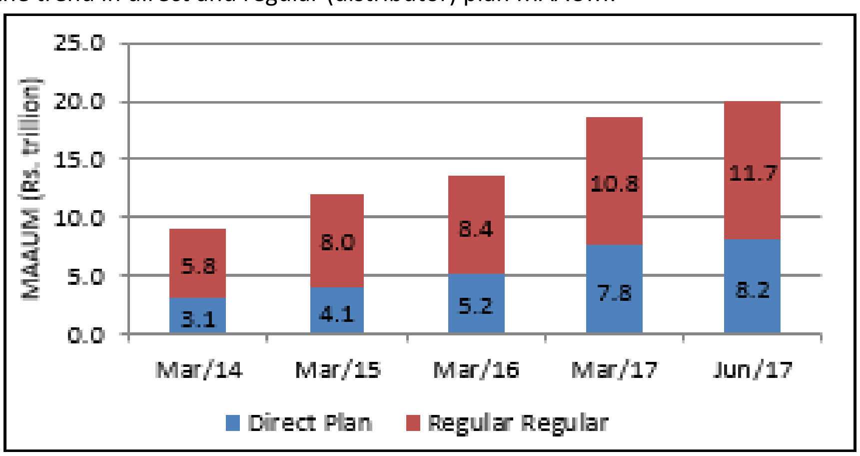
The following chart sets forth the investor type composition of distribution channels MAAUM:



Trend in Direct and Regular Plans

Direct plans were introduced following the SEBI directive of 2012. Additionally, SEBI introduced extensive investor education campaigns, which helped drive the growth of direct plans. However, distributors continue to remain an important channel partner in the industry, particularly to the individual investor segment. Over the past few years, investment through direct plans has increased steadily, for instance, the share of direct plans in the total industry MAAUM has increased to 42% as of March 2017, from 34% as of March 2015. The regular plans have also reported growth, increasing from Rs. 8 trillion in March 2015, to Rs.11 trillion in March 2017. The growth has been higher in the individual client segment. Data from the association of mutual funds in India (**"AMFI"**)shows that as of June 2017, nearly 69.9% of the distributor's MAAUM was attributable to individual investors (which includes 33.2% and 36.7% for retail clients and HNI clients respectively), as compared to 61.3% attributable to individual investors (27.3% and 33.9% for retail clients and HNI clients respectively) as of March 2015 The distributor channel has been instrumental to the increase in the reach of mutual funds for the rest of the market (beyond top 15 cities **"B15"**).

The following chart sets forth the trend in direct and regular (distributor) plan MAAUM:



Trend in Commission

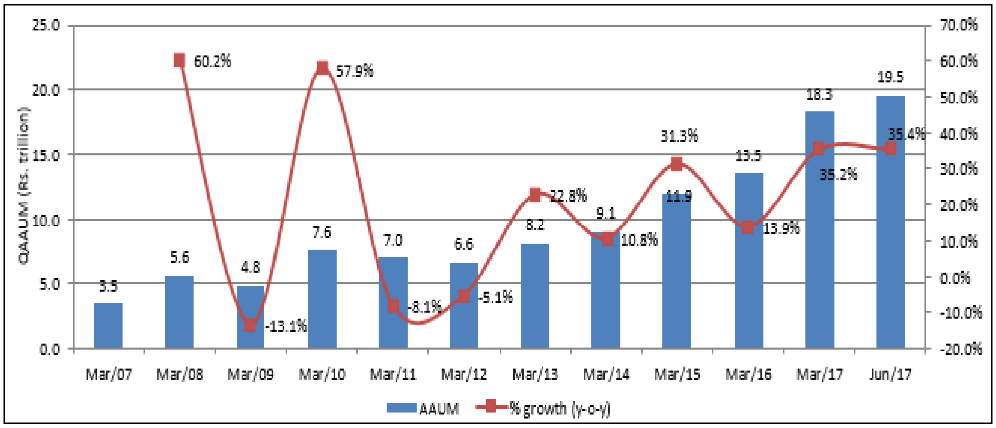
Pursuant to the SEBI circular dated August 22, 2011, AMCs need to disclose the total commission and expenses paid to distributors with respect to non-institutional investors meeting any of the following four criteria: those present in at least 20 locations, those managing assets worth at least Rs. 1 billion, those that received commissions worth at least Rs. 10 million across all mutual funds put together or those that received commission above Rs. 5 million from a single fund house. During the financial year 2017, the mutual fund industry on an aggregate basis paid a commission of Rs. 50 billion to a network of 687 distributors meeting the criterion. The top 10 agents, comprising of seven banks and three national distributors, accounted for 50% of the total commission paid in the financial year 2017.

Past Trends of the Mutual Fund Industry

AUM Growth Trends

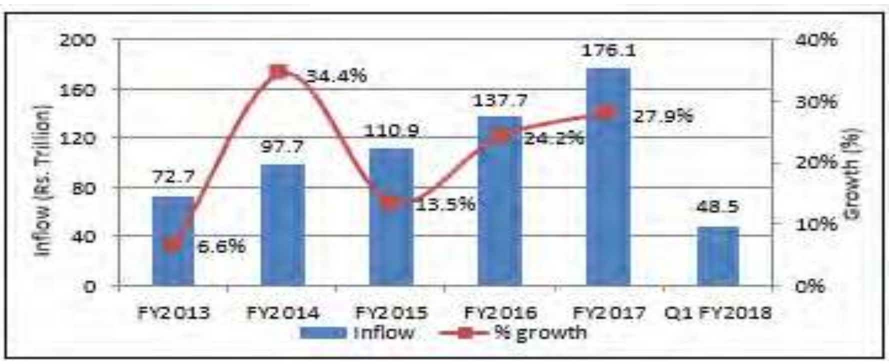
The mutual fund industry witnessed a healthy growth in the past decade, with the average AUM increasing from Rs. 3.5 trillion as of March 2007, to Rs. 19.5 trillion as of June 2017. The industry QAAUM was over Rs. 10 trillion in the financial year 2015 and is now expected to be over Rs. 20 trillion, having grown at a CAGR of 18% over the last ten years.

The following chart sets forth the QAAUM Growth:



Mutual Fund Industry's Inflow and Outflow Trend

The following chart sets forth fresh inflows in mutual funds:



The growth in the AUM has been supported by a favorable macro environment, the rising of capital markets, foreign fund inflows as well as growing investor awareness. During the financial year 2017, the fresh investments (or new sales) in the mutual fund industry grew by 28% from Rs. 138 million during the financial year 2016, to Rs. 176 trillion in the financial year 2017. After adjusting for redemption during the year, the net inflow in the industry stood at Rs. 2.19 trillion for the financial year 2017, up from Rs. 1.34 trillion in the previous year. A large part of the inflow is attributable to the debt segment of mutual funds, particularly the liquid schemes, which are a preferred mode of parking short-term surplus for institutional investors. Liquid funds are typically used to park surplus proceeds for a short duration, which could be as low as a day to three months. Considering that these investments thus see multiple cycles of investment and redemption in a year, the inflow and redemptions quantum appears high. A better indicator to gauge the investor interest in mutual funds would be the inflow and redemption in equity mutual funds. As seen in the table below, there has been a net inflow in equity mutual funds since the financial year 2015. The equity mutual funds received a net inflow of Rs. 1.05 trillion in the financial year 2017 (equity QAAUM of Rs. 6.09 trillion in March 2017), up from Rs. 0.81 trillion in the financial year 2015 (equity QAAUM of Rs. 4.21 trillion in March 2015). The growth in fresh sales of equity mutual funds has been healthy at a CAGR 29% over this period.

Projected growth over next 5 years

The Indian mutual fund industry is expected to grow at a CAGR of 20% between the financial years 2018 and 2022, with the average AUM expected to grow to Rs. 45 trillion by March 2022. Growth rates are expected to be higher over the financial years 2018 and 2019 due to buoyant capital markets coupled with an increase in retail participation, after which the growth rate is expected to taper given the gradual increase in scale. In the event of a consistent and prolonged capital markets rally, AUM growth could be higher, with a five year CAGR of 22%, bringing the industry to nearly Rs. 50 trillion by March 2022. A favorable demographic profile with a young working population, rising income levels and the currently low penetration of mutual funds are expected to support the growth. Improving macroeconomic conditions and positive capital market indicators provide a conducive environment for the mutual fund industry. Individual investors are expected to remain a key driver for growth in mutual fund assets. With a large part of the retail portfolio invested in equity schemes, the growth in the retail segment would also help drive the equity AUM growth. The equity AUM is expected to grow at a CAGR of 25%, outperforming the overall industry AUM growth. The share of equity and related schemes in the total AUM is expected to increase to approximately 39% as of March 2022 as against 32% as of March 2017 (based on QAAUM) and 35% as of June 2017 (based on MAAUM). The debt AUM (liquid and other debt funds), is expected to grow at a CAGR of 17%, and the share of debt (inclusive of liquid schemes) is expected to moderate to 58% as of March 2022 as against 65% as of March 2017 (based on QAAUM) and 62% as of June 2017 (based on MAAUM).

The following chart sets forth the AUM growth projections:

Segment-wise

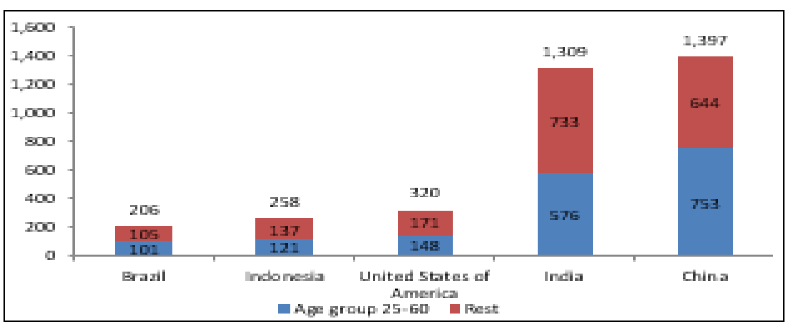
Growth Drivers for the Mutual Fund Industry

Macroeconomic Factors

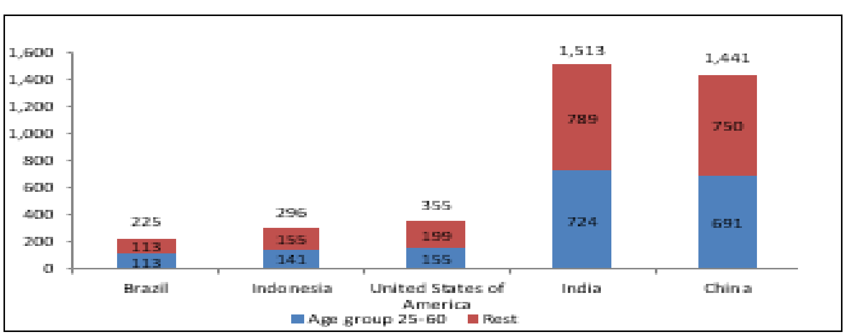
The Indian economy has been the fastest growing economy for 2015 and 2016 as per IMF data. The high growth in the Indian economy has been supported by strong macroeconomic fundamentals, including low external debt, less reliance on commodity exports, robust private and public spending and a high infrastructure investment. Recent progress on structural reforms including the implementation of the goods and services tax, progress on financial consolidation and narrowing current account deficit all bode well for the country's macroeconomic stability and investment. Hence, India remains an attractive investment destination for global investors. The fact that India retained its position as the top recipient of FDI inflows (attracting US dollar 62.3 billion) for the second consecutive year in 2016 highlights investor confidence in the country's economic outlook. The economy has shown progress in other critical macroeconomic indicators. There has been a considerable reduction in India's vulnerability on the external front with the reduction in current account deficit from 1.1% of GDP in the financial year 2016, to 0.7% of GDP in the financial year 2017. Inflation as measured by the consumer price index has moderated considerably to less than 4% at the end of March 2017, from more than 5% at the end of March 2016. As per IMF, the Indian economy is expected to grow at the highest pace as compared to other economies.

Favourable demographics

The following chart sets forth the population for top 5 countries with highest population in the financial year 2015 (in million):



The following chart sets forth the estimated population for the financial year 2030 (in million):



Digitalization

The mutual fund industry has seen increased digitalization, which is expected to further boost the AUM. With digitalization, the distribution reach across the country has expanded. Mobile phones and online applications are used for transactions, as well as tracking portfolios. Increased smart phone usage provides opportunities to the mutual funds houses to directly reach the customers and build a direct interface. Robo-advisory firms, where automated online investment advice is provided based on the spending behaviour, risk profile and future goals are on the rise. With the help of robo advisory, investors can directly invest in the schemes surpassing traditional advisory forms. SEBI has taken initiatives to promote digitalization in the mutual fund industry. The launch of e-KYC has removed the huge amounts of paperwork involved before making any investment. SEBI has allowed investments up to Rs. 50,000 per financial year in mutual funds via e-wallets. A SEBI panel on digitalization of financial services in May 2016, recommended the sale of mutual funds through e-commerce platforms. This will help increase the reach of mutual funds. Digitalization is expected to further widen the market and also help reduce the distribution costs by building a direct interface with customers. With the process being paperless and efficient, a wider customer base is expected to be attracted. With demonetization, there has been an emphasis on digital payments. Mutual Funds houses can look at targeting the customer base which have now been ‘financially included’ by offering products suitable to their needs.

Tax savings option provided by ELSS and NPS

Equity linked saving schemes (**“ELSS”**) of mutual funds offer tax saving benefits. These are open ended diversified equity schemes offering tax exemption under Section 80C of the Income Tax Act, 1961. The lock in period for ELSS is only 3 years. Further, investment in ELSS offers the opportunity to invest in equity markets. Also, ELSS schemes offered by the mutual funds, are open-ended, diversified equity schemes that offer tax saving benefits. They are the best avenues to save tax under Section 80C. In fact, inflows in ELSS have experienced a 10 year CAGR of 35%. New Pension Scheme (“**NPS**”) is a voluntary based definition contribution retirement scheme. The primary objective is enabling systematic savings during the working life of the subscribers to provide retirees to achieve financial stability during their later years. NPS has seen an increase in interest due to its tax benefits. National Pension System is the most economical and least known Government approved pension scheme for Indian citizens in the 18 to 60 age group. It was launched by Pension Fund Regulatory and Development Authority in 2004. The minimum yearly contribution is Rs. 6,000, which can be paid in one go or in instalments of at least Rs. 500. National Pension Scheme being the cheapest market linked retirement plan among all other Retirement plans (EPF, PPF and Mutual Funds) did not have a recorded maximum number of sales initially due to extremely low payments of incentive / commission to the intermediaries. Also, the fund management cost was limited at 0.0009% and points of presence, where investors open their accounts, were not permitted to charge more than Rs. 20 per account. Also there were other regulatory charges levied on the points of presence and the fund managers which made it unviable to promote this product. The scenario changed in July 2016 when the fund management fee for non-government funds had been increased to 0.25% and increased to 0.0102% for government funds. Also points of presence could charge significantly higher than before the financial year 2016. These changes could slowly manifest into higher allocations towards mutual funds from the NPS corpus. There are currently 7 pension fund managers, Life Insurance Corporation, HDFC Pension, Industrial Credit and Investment Corporation of India Prudential Pension Funds, Kotak Mahindra Pension Fund, Reliance Pension Fund, State Bank of India Pension Funds and UTI Retirement Benefit Pension Fund. NPA offers an option to invest in three categories of investment, equity, corporate bonds and government securities. NPS offers a deduction of Rs. 50,000 from taxable income under Section 80 CCD (1B) over and above the Section 80C limit under the Income Tax Act, 1961 of Rs. 150,000.

Taxation on Capital Gains from Sale of Mutual Fund Units

Taxation on capital gains arising from sale of mutual fund units differs based on the period of holding the units, status of the investor and type of scheme. For equity oriented schemes, the capital gain shall be classified as long-term capital gain (**“LTCG”**) if the units are held for more than 12 months prior to its sale/redemption. In the event of sale of units within 12 months from the date of purchase, the capital gain shall be short-term capital gain (**“STCG”**). For schemes other than equity oriented, capital gain shall be classified as long-term capital gain if the units are held for more than 36 months prior to its sale/redemption. Income arising from sale of units, within 36 months from the date of purchase, shall be classified as short-term capital gain. For NRI investors, the mutual fund house has to deduct tax at source at the applicable tax rates.

Challenges / Risks to the Mutual Fund Industry

Risk of Tightening of Fees & Commissions

AMFI had asked Mutual funds to cap upfront commissions at 1% and trail commissions at 1.75% for every year from April 01, 2015. Before this, the AMCs used to give upfront commissions of more than 2% and this used to be higher in close-ended schemes wherein many fund houses used to pay distributor commission entirely upfront. The move by AMFI is to dissuade distributors from mis-selling schemes and pushing clients to churn their portfolio in an effort to earn higher commissions. The Bose committee, set up by the finance ministry, came out with its recommendations in the financial year 2016. One of the recommendations of the committee was to completely phase out upfront commissions in distribution of financial products. If upfront commissions for mutual funds are discontinued, the sales through distributors might be affected. Also, distributors might switch to pushing other financial products which might be offering higher commissions to the distributors. Despite an option to invest in mutual funds through the “direct route” being available is available, more than half the distribution happens through distributors and decline in commissions might adversely affect the entire industry. Relatively smaller mutual funds have been relying higher upfront commission payouts to gain market share; if the upfront commissions are discontinued, these fund houses' growth might be affected.

Cap on Mutual Fund Expenses

The Bose committee has recommended lowering the cap on expense ratio with increase in AUM in the mutual fund industry. Currently, mutual fund expense ratio is capped at 2.50% for equity schemes and 2.25% for debt schemes with few conditions wherein the charges can be increased by 0.50%. If the recommendation is implemented, there might be adverse impact on profitability of the fund house. However, with AUM of the industry also increasing, the net impact on profitability might be low.

Competition from Unit Linked Insurance Plans

Unit linked insurance plans **("ULIP")** offer insurance cover along with investment into its funds which eventually invest in equity and debt instruments. Also, investment in ULIP is eligible for tax benefit under 80C of the Income Tax Act up to a limit. Also, the proceeds from ULIP are tax free under Section 10(10D) of the Income Tax Act. Investment in mutual funds, only ELSS funds qualify for tax benefit under 80C of the Income Tax Act. Also, proceeds from ELSS funds are subject to securities transaction tax on redemption. Competition from ULIP continues to be a challenge for mutual fund industry with it appealing to the people who want to invest for long term as ULIP requires a lock-in of minimum five years.

Competition from Alternative Investment Fund

Alternative Investment Fund (**"AIF"**), which was introduced in the financial year 2013, is a relatively new segment in the pooled funds investment vehicle domain. While the current AUM for AIFs is modest, AIFs have witnessed a robust growth, with a CAGR of 110% in funds raised and 107% in funds deployed between June 2014 to June 2017, and have established itself as an alternate asset class as compared to mutual funds. However, these investment products are more suitable for more sophisticated and mature investor segment. The minimum investment quantum (from investors) of Rs.10 million makes it a niche product catering to the HNI and ultra-high net-worth individual segment as opposed to the retail segment. AIFs also have a higher risk profile as compared to mutual funds and thus operate in the high risk– high return segments, including high yield debt, early stage equity or debt funding in order to maximize the expected internal rate of return on the funds deployed.

Rise of Inflows in ETFs

ETFs have seen a significant growth with 5 year CAGR of 31% over the financial year 2012 to the financial year 2017. The growth has been higher than the growth witnessed by the overall AUM at a CAGR of 22%. While gold ETFs contributed a significant portion of the overall ETF till the financial year 2016, there has been a major shift in the financial year 2017 with a sharp rise in other ETFs contributed largely by equity ETFs. This growth has largely been driven by EPFOs investing in ETFs. The management fee on ETFs is significantly low thereby impacting the profitability of AMCs. While ETFs has been growing, the share of ETFs is relatively low at 2.7% as on June 2017.

Key Concerns

Future revenue and profit are largely dependent on the growth, value and composition of AUM of the schemes managed by Reliance Nippon, which may decline: The significant majority of Reliance Nippon's revenue comes from management fees charged by it. Its revenue from operations - management fees for the three months ended June 30, 2017 and the financial years ended March 31, 2017, March 31, 2016, and March 31, 2015 was Rs. 3,643.95 million, Rs. 13,074.95 million, Rs. 12,000.86 million and Rs. 8,472.38 million, respectively, representing 92.3%, 91.1%, 91.3% and 88.7% of its total revenue, respectively. Management fees are usually calculated and charged to clients as a percentage of the assets under management ("**AUM**") of the schemes managed by it. Any decrease in such AUM will cause a decline in management fees and therefore total and net revenue. Further, the rate of management fees Reliance Nippon charges differs between fund types and products. Further, the rate of management fees it charges differs between fund types and products. In addition, SEBI imposes a fee cap for domestic mutual funds and the SEBI (Mutual Funds) Regulations impose certain limits on the total expenses that can be charged to a mutual fund scheme. As a result, its operating margins may fluctuate by a higher percentage than changes in revenue.

Underperformance of investment products in respect of which Reliance Nippon provide asset management services could lead to a loss of investors and reduction in AUM and adversely affect the revenue and reputation: The investment products in respect of which Reliance Nippon provides asset management services may at any time not outperform either their relevant benchmarks, or similar investment products provided by its competitors, for many reasons. Many of the investments held by the mutual funds for which it provides asset management services can be illiquid or volatile which may result in losses. Many other investments, including in particular investments in equity, are subject to potential capital losses. The performance of any of such investment products will depend on a number of factors, the majority of which are outside its control and include market, economic and other conditions. Further, certain of its investment management contracts contain restrictions relating to investment policies, for example limiting exposure concentrations in respect of certain asset classes, issuers or industries. Such restrictions may prevent the company from implementing what it deems to be the best investment strategies, which could restrict the performance of its investments.

Business has grown consistently in the recent past and such growth might not continue or might reverse: Business of Reliance Nippon and AUM of the schemes managed by it has grown consistently in the recent past. The total AUM of the schemes managed by it (which includes AUM with respect to (i) mutual funds and ETFs; (ii) managed accounts, including portfolio management services, alternative investment funds and pension funds; and (iii) offshore funds and advisory mandates) grew from Rs. 1,600,450 million as of March 31, 2013 to Rs. 3,507,550 million as of March 31, 2017 and reached Rs. 3,625,500 million as of June 30, 2017. Its total revenues grew from Rs. 7,346.09 million for the financial year 2013 to Rs. 14,358.85 million for the financial year 2017. It cannot be assured that its growth strategy will continue to be successful or that it will be able to continue to grow further, or at the same rate. Further, it intends to increase the retail investor base of the mutual fund schemes managed by it, open new branches in India and conduct extensive marketing of its products.

The regulations that apply to the industry in which it operates may change: The investment product industry in India has benefitted from favorable regulation in the recent past (as well as unfavorable regulation in the markets of competing asset classes such as physical asset investment, which has resulted in increased demand for the products and growth in AUM of the schemes managed by Reliance Nippon. It is possible that such regulations may change, or that new areas of regulation are introduced, any of which may affect either its business in particular or the investment product business as whole. Such changes, as well as any regulation, including by the SEBI, in the future that would reduce or impose limits on fees and charges on its products and services or limit the commissions that can be paid to distributors, or any changes that withdraw or reduce incentives provided, may adversely affect the business, including AUM growth.

Non-compliance with SEBI’s observations made during its periodic inspections could expose to penalties and restrictions: SEBI has the power to inspect Reliance Nippon’s books from time to time and ensure that it is in compliance with SEBI regulations and will continue to be subject to SEBI inspections. In its past inspection reports, SEBI has, among other things, identified deficiencies in its operations such as (i) instances where investor’s requests for change of details were not processed and transactions were processed with the old details; (ii) instances where time stamping on payment instruments couldn't be verified; (iii) instances where turnaround time for investor requests/complaints, as specified by SEBI guidelines was not adhered to; and (iv) instances where investor awareness programs were not conducted at the scheduled time and venue. In the event the company is unable to resolve such deficiencies to SEBI’s satisfaction, it may be restricted in Reliance Nippon’s ability to conduct its business as it currently does. While it seeks to comply with all regulatory provisions applicable to it, in the event Reliance Nippon is unable to comply with the observations made by SEBI, it could be subject to penalties and restrictions which may be imposed by SEBI

Competition from existing and new market participants offering investment products could reduce market share or put downward pressure on its fees: The financial services industry is rapidly evolving and intensely competitive. Reliance Nippon expects competition to continue and intensify in the future, primarily from the other large asset management companies. A low barrier to entry has also resulted in a large number of smaller participants entering the market. It is possible that there may in the future be consolidation in the market, amongst the smaller market participants, between such smaller participants and the larger participants, or between the larger participants. Any such consolidation may create stronger competitors in the market overall, or leave it at a competitive disadvantage. In addition, there has not yet been significant international competition in the Indian financial services market. Increased competition may result either in a decrease in AUM market share, or force Reliance Nippon to reduce its management fees so as to preserve such market share, either of which would decrease the total revenue and, to the extent its expenses remained stable, its net revenue.

Depend on third-party distribution channels and other intermediaries, and problems with these distribution channels and intermediaries could adversely affect business and financial performance: Most of the AUM managed by Reliance Nippon are attributable to clients who it access, directly or indirectly, through third-party intermediaries (for example independent financial advisors ("IFAs"), foreign banks, Indian private banks, public sector banks, broking companies, national distributors and digital platforms) known as distributors. Its ability to access clients is dependent on the distribution systems and client bases of these distributors. It also depends on referrals from investment consultants, financial planners and other professional advisors, as well as from its existing clients. Maintaining good relations with these intermediaries is a key to attracting and retaining clients. Loss of any of the distribution channels afforded by distributors, and the inability to access clients through new distribution channels could decrease AUM of the schemes managed by it and adversely affect its management fees and revenues.

May not be able to attract and retain senior investment professionals and other personnel: Reliance Nippon’s performance depends largely on the efforts and abilities of its senior management and other key personnel, particularly its chief executive officer, its chief investment officers, its fund managers and its other investment professionals. There is no guarantee that these individuals or any other members of its senior management team will not leave it or join a competitor or that it will be able to retain such personnel or find adequate replacements in a timely manner, or at all. Any such loss or vacancy could affect its operations thereby increasing expenses or leading to a decline in performance of the mutual funds advised by it and other businesses, or damage its reputation and therefore the attractiveness of its products to clients.

May be required to merge, wind up or change the fundamental attributes of some of the mutual fund schemes managed by it, to comply with the recent SEBI circular dated October 6, 2017*:* SEBI has on October 6, 2017, issued a circular bearing reference no. SEBI/HO/IMD/DF3/CIR/P/2017/114 ("SEBI Circular"), which seeks to categorize and rationalize the mutual fund schemes so as to enable the Investors to better evaluate the different options available and take informed decision to invest in mutual fund schemes. The circular states that, only one scheme per category is permitted to continue to exist/ be launched by a mutual fund, with few exceptions. Further, mutual funds are required to analyse their existing schemes and submit their proposals to SEBI in relation to merging or winding up or changing the fundamental attributes of the schemes within two months from the date of the SEBI Circular, followed by carrying out necessary changes within three months from the date of issuance of observations by SEBI on the submitted proposals. To ensure compliance with the SEBI Circular, Reliance Nippon may have to merge such schemes with other existing schemes or change the fundamental attributes of such scheme(s) or wind up such schemes. Compliance with the SEBI Circular may have an adverse impact on its existing business and operations as Reliance Nippon may have to merge or wind up some of the mutual fund schemes managed by it which may reduce its AUM and investor base. Further, there may be restrictions in launching new schemes beyond the recommended categories which may impact the growth plans.

Dependent on the Reliance Group and Nippon Life for certain aspects of business and operations: Reliance Capital currently holds 46.57% of Reliance Nippon’s Equity Shares. If Reliance Capital, or indirectly in any manner, the Reliance Group, ceases to hold a significant equity interest in its Company, as a result of any transfer of shares or otherwise, its ability to derive any benefit from the brand name ‘Reliance’, or the reputation or operational support of the Reliance Group would potentially be lost. It is possible that the reputation of the Reliance Group may deteriorate for a wide variety of reasons, including many that are out of control or are not related to its business, such as the poor performance (or perceived poor performance), or negative customer or counterparty perception, of other entities in the Reliance Group, or the markets or industries it operates in. In the event the reputation of the Reliance Group deteriorates for any reason, it may lose that ability to attract customers, which could lead to a reduction in AUM of the schemes managed by it. In addition, Reliance Nippon is permitted to use the ‘Nippon Life’ brand under a name and trademark license agreement dated March 17, 2016 between Nippon Life and it. Its association with Nippon Life assists it in growing its overseas operations by leveraging their global presence and long term relationships. Consequently, any deterioration in relationship with Nippon Life or the termination of its name and trademark license agreement may adversely affect the business and prospects.

Investment management agreement and other business commitments may generally be terminated by the counter-parties on little or no notice, making its future client and revenue base unpredictable. Almost all of Reliance Nippon’s management fee income is derived from its role as asset manager of the Reliance Mutual Fund. Therefore, the future and prospects of its business are reliant to a significant extent on maintaining that role. Additionally, its appointment pursuant to the investment management agreement may also be terminated by the unit-holders of the scheme, in terms of the SEBI (Mutual Funds) Regulations. The termination of investment management agreement with Reliance Mutual Fund would have a significant adverse effect on its revenue, such that its business may not be able to continue. Reliance Mutual Fund may also elect to renegotiate the fees it is permitted to charge under the agreement, which could adversely affect its management fees and revenue. Typically, clients to whom Reliance Nippon provides investment advisory services may terminate their investment advisory agreements with it without assigning any reason by giving prior written notice ranging from 30 to 90 days. Were such investment advisory agreements to which a significant amount of AUM and/or revenue relate, individually or in the aggregate, to be terminated, this could result in a significant decrease in AUM managed by Reliance Nippon and its revenue.

Regularly introduce new products for customers, and there is no assurance that new products will be profitable in the future: Reliance Nippon regularly introduce new products and services in its existing lines of business (including new equity and real estate AIF funds, a UK UCTIS fund, and its acquisition of the asset management rights (along with liabilities and obligations thereof) of 12 schemes launched by Goldman Sachs Mutual Fund, and then managed by Goldman Sachs Asset Management (India) Private Limited. Several products that it launches may also require prior approval from SEBI, which Reliance Nippon may not obtain in a timely manner, or at all. If it fails to develop and launch these products successfully, it may lose a part or all of the costs incurred in development and promotion or discontinue these products entirely, which could in turn increase its expenses without a corresponding increase in revenue, leading to a decrease PAT.

The asset classes the company manage may become less attractive to investors: Net investments into mutual funds are, in part, determined by the relative attractiveness to investors of securities as an asset class and of the particular types of securities, which are the focus of such mutual funds. In the event that securities, or particular types of securities, were to become less attractive to investors or investors were to invest more through index based investment products, there may be reduced sales and/or increased redemptions from those mutual funds. If, as a result of the foregoing, there was reduced investment into and increased redemptions from such mutual funds, it could result in a decrease in the AUM of the schemes managed by Reliance Nippon.

Credit risks related to the company's investments, loans and advances may expose to significant losses: Reliance Nippon is exposed to credit risks in relation to its investments. In addition, issuers of the debt securities that it owns may default on principal and interest payments. It cannot be assured that it is able to identify and mitigate credit risks successfully. As a result, a probable downgrade in the credit rating of the debt securities owned by it may lead to a reduction in value of its debt portfolio, and could have an adverse effect on its financial condition, results of operations and prospects.

Exposed to significant market risks that could impair the value of investment portfolio: Changes in prevailing interest rates could affect Reliance Nippon's investment returns, which in turn could affect its investment income, results of operations and prospects. While falling interest rates could result in an increase in the mark-to-market value of its debt portfolio, they also subject it to reinvestment risk, which could result in the portfolio yields falling. Accordingly, declining interest rates could have an adverse effect on its investment income, results of operations, financial condition and prospects. On the other hand, an increase in interest rates could also adversely affect its profitability. Interest rates are highly sensitive to inflation and other factors including, government monetary and tax policies, domestic and international economic and political considerations, regulatory requirements and other factors beyond its control. Any adverse effect on the factors affecting equity markets in India could affect investment returns, which in turn could affect Reliance Nippon's results of operations, financial condition and prospects.

Nippon Life, one of its Promoters, is involved with one or more ventures which are in the same line of activity or business as that of the Company: Nippon Life through its 3 (three) subsidiaries and 2 (two) affiliates is currently engaged in the business of asset management outside India. Nippon Life may have interests in respect of other companies, entities, and ventures (including as a member or shareholder) that are engaged in undertaking businesses of asset management outside India. Other than in respect of the Company or its subsidiaries, Nippon Life has no controlling interests in any company or entity that is engaged in undertaking a business of asset management in India. It cannot be assured that it will be able to successfully compete with Nippon Life, if and when such conflict arises.

AUM and the future of the fund management industry is dependent on the performance of the Indian economy and securities market: In the recent past the growth of Reliance Nippon's business has to a certain extent been a result of the growth of the Indian economy, securities market and asset management sector. Any slowdown or reversal in the growth of the Indian economy could result in a reduction in wealth in the Indian economy that can be diverted to savings and investment, a reduced interest in investment in the securities market and reduced foreign investment. Any such reductions could result in a reduction in AUM of the schemes managed by the company or the management fees it can charge for its services.

Ability to raise foreign capital may be constrained by Indian law: As an Indian company, Reliance Nippon is subject to exchange controls that regulate borrowing in foreign currencies. Such regulatory restrictions limit its financing sources and could constrain ability to obtain financings on competitive terms and refinance existing indebtedness. In addition, it cannot be assured that any required regulatory approvals for borrowing in foreign currencies will be granted to it without onerous conditions, or at all. Limitations on foreign debt may have an adverse effect on its business growth, financial condition and results of operations.

The securities investment business in India may be adversely affected by changes in the present favorable tax regime: Under the Indian income tax regime, long term capital gains received by investors in respect of listed equity shares is exempt from income tax. In addition, no tax is payable on dividend income received by domestic investors ("Other than individuals, HUF, Firm") or up to Rs. 1 million (for "individuals, HUF, Firm") from domestic company. Short-term capital gains above these thresholds are subject to tax at 15%. Securities transaction tax ("STT") is payable on purchases of securities at the rate of 0.125% per transaction. Any change in the present tax regime may reduce the returns Reliance Nippon can create for its investors and therefore interest in investment in the securities market.

Profit & Loss **Rs in million**

Particulars	Q1FY18	FY17	FY16	FY15
Revenue from Operations - management fees	3644.0	13075.0	12000.9	8472.4
Other Income	304.0	1283.9	1137.3	1078.8
Total Income	3948.0	14358.9	13138.2	9551.2
Total Expenditure	2562.6	8366.6	7871.1	4844.0
Employee benefits expenditure	609.1	1956.8	1922.7	1612.7
Administrative and other expenditure	751.1	2559.1	2159.0	1810.4
Marketing and publicity expenditure	1202.5	3892.4	3751.6	1500.8
Diminution/(Write back) in value of long term investments	0.0	-41.6	37.8	-80.0
PBIDT	1385.4	5992.2	5267.1	4707.3
Interest	0.0	0.0	0.0	0.0
PBDT	1385.4	5992.2	5267.1	4707.3
Depreciation	81.4	179.1	43.1	68.7

PBT	1304.0	5813.1	5224.0	4638.5
Tax (incl. DT & FBT)	426.1	1785.6	1259.6	1093.7
Tax	417.1	1737.1	1275.9	1037.6
Deferred Tax	9.1	48.5	-16.3	56.1
Reported Profit After Tax before Minority Interest	877.9	4027.6	3964.4	3544.9
Less: Share of minority Shareholders	0.0	0.0	0.1	0.3
Adj. Profit	877.9	4027.6	3964.3	3544.6
EPS (Rs.)	1.5	6.9	6.7	6.0
Equity	5875.2	5875.2	5875.2	5875.2
Face Value	10.0	10.0	10.0	10.0
OPM (%)	29.7	36.0	34.4	42.8
PATM (%)	24.1	30.8	33.0	41.8

Balance Sheet: **Rs in million**

Particulars	Q1FY18	FY17	FY16	FY15
Equity & Liabilities				
Shareholders Funds	**16802.9**	**18925.7**	**17919.0**	**15360.3**
Share Capital	415.2	415.2	415.2	412.7
Reserves and surplus	16387.7	18510.5	17503.8	14947.6
Minority Interest	0.0	0.0	88.7	88.6
Non-Current Liabilities	**134.7**	**116.0**	**75.3**	**33.2**
Other long-term liabilities	0.0	0.0	0.5	0.9
Long-term provisions	134.7	116.0	74.8	32.3
Current Liabilities	**2343.8**	**1471.3**	**1224.7**	**1534.4**
Outstanding dues of creditors other than MSMED	925.2	1083.3	650.3	933.7
Other current liabilities	1282.3	288.5	539.4	505.0
Short term provisions	136.3	99.5	35.0	95.8
Total Equity & Liabilities	**19281.4**	**20513.1**	**19307.7**	**17016.5**
Assets				
Non-Current Assets	**10019.3**	**10005.7**	**9335.8**	**7239.5**
Fixed assets				
Property plant and equipment	94.5	86.5	85.4	44.3
Intangible assets	2356.7	2424.9	33.8	26.8
Non-current investments	5758.8	5894.8	5271.6	4029.4
Deferred tax assets (net)	28.0	37.1	85.6	69.3
Long-term loans and advances	1707.2	1488.2	3780.7	3029.2
Other non-current assets	74.2	74.1	78.7	40.4
Current Assets	**9262.1**	**10507.4**	**9971.9**	**9777.0**
Current Investments	1852.6	3570.4	3836.0	4319.6
Trade receivables	676.4	431.6	594.2	175.4
Cash and bank balances	793.7	397.2	795.1	602.3
Short-term loans and advances	5552.1	5840.0	4601.8	4508.2
Other current assets	387.4	268.2	144.9	171.6
Total Assets	**19281.4**	**20513.1**	**19307.7**	**17016.5**

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: compliance officer@hdfcsec.com Phone: (022) 3045 3600

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