9th January 2018

Reliance Nippon Life Asset Management

Hitting the sweet spot

JM Financial Institutional Securities Limited

Reliance Nippon Life Asset Management | BUY

Hitting the sweet spot

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We initiate coverage on Reliance Nippon Life Asset Management (RNLAM) with a BUY rating and a target price of INR 350, valuing the company at 28x FY20E earnings (at CMP stock trades at 36x/ 29x FY18E/ FY19E). We believe RNLAM remains in a favourable position to capitalise on twin trends: a) mutual fund (MF) industry tailwinds as inflows remain strong and b) benefits of its own retail distribution franchise. RNLAM is one of the largest asset managers in India (3rd by MF AUM as of Nov'17) and second largest in terms of AUM contributed by individuals (13.6% market share of retail AUM as of 1HFY18). We expect RNLAM to record 21% AUM CAGR and 24% earnings CAGR over FY17-20, along with a rich 65% dividend payout ratio, which would drive stock returns.

- Top-notch non-bank promoted MF franchise: In an industry dominated by bank-promoted players, RNLAM has established itself as a top-notch player, boasting of a strong distribution franchise (171 branches, 58,600 distributors), retail-focused AUM (44% of AUM is contributed by individuals) and profitability trends (23bps PAT/Avg. AUM for FY17), which are among the best-in-class industry numbers. RNLAM's strong distribution capabilities are clear as it has consistently remained among the country's top 3 asset managers and is one of the largest players in B-15 cities. We expect 21% AUM CAGR for RNLAM over FY17-20 with the share of equity assets rising to 36% (from 33% as of 1HFY18) by FY20E.

- Strong beneficiary of the changing savings pattern in the country: We believe India's asset management industry is now coming of age and is set to reap the benefits of the country's changing savings pattern that is moving from physical to financial assets. Asset managers should see secular growth with share of MF AUMs (at just c.11% of GDP) rising significantly over the next few years. Moreover, a growing proportion of the inflows into mutual funds are sticky in nature: from SIPs and further incentivised by tax benefits on LTCG. We expect larger asset managers to continue to consolidate their position in AUMs as well as the industry's profits.

- Profitability rising; operating leverage provides further headroom: Unlike in the recent past (FY14-17), we expect RNLAM's profitability trends to improve and track its top-line/operating profit growth trends with normalisation of tax rates and higher contribution to profits from other businesses (EPFO, AIFs, etc.). While the cost of marketing/distribution will remain high given the competitive intensity in the industry, we believe opex ratios will remain around current levels. We forecast 23% CAGR for its top line and 24% CAGR for profits over FY17-20. Profitability (as measured by PAT/Avg. AUM) is expected to expand to 23bps by FY20E, further aided by improvement in high-yielding equity proportion in AUM mix to 36% by FY20E (from 33% as of 1HFY18).

- Key risks: The key risks to RNLAM's business are: a) regulations that impact distributor commissions, slowing industry AUM growth, b) predatory pricing by participants to gain market share and c) underperformance of funds/schemes leading to redemptions/transfers

Recommendation and Price Target	
Current Reco.	BUY
Current Price Target (12M)	350
Upside/(Downside)	19.4%

Key Data –RNAM IN Equity	
Current Market Price	INR293
Market cap (bn)	INR179.1/$2.8
Free Float	98.2%
Shares in issue (mn)	612.00
Diluted share (mn)	612.00
3-mon avg daily val (mn)	NA
52-week range	311/237
Sensex/Nifty	34,443/10,637
INR/US$	63.7

Price Performance

%	1M	6M	12M
Absolute	15.9	NA	NA
Relative*	12.3	NA	NA

* To the BSE Sensex

Financial summary (INR mn)

	FY16	FY17	FY18E	FY19E	FY20E
AUM (INR bn)	1,461	2,036	2,471	3,018	3,640
YoY growth (%)	13%	39%	21%	22%	21%
% of Equity AUM	33%	30%	33%	35%	36%
Consol. Revenues (INR m)	13,138	14,359	17,763	21,867	26,647
Total Operating expenses (INR m)	7,914	8,546	10,313	12,704	15,224
Consol. PAT (INR m)	3,964	4,027	4,992	6,139	7,654
YoY growth (%)	12%	2%	24%	23%	25%
Consol. PAT / Avg. AUM (RoAUM %)	0.29%	0.23%	0.22%	0.22%	0.23%
RoE (%)	24.3%	22.2%	21.9%	21.5%	24.1%
EPS (INR)	6.7	6.9	8.2	10.0	12.5
Price / Earnings (x)	43.4	42.7	35.9	29.2	23.4

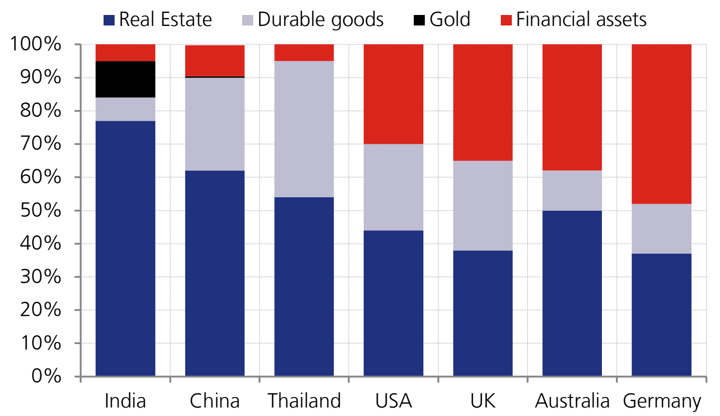
Source: Company, JM Financial

MF Industry : Coming of age

India is changing the way it saves money: Historically high inflation has resulted in Indians preferring physical assets (real estate, gold, etc.) to financial assets, as the latter generally offered lower real (or inflation-adjusted) returns. As a result, c.90% of gross household savings in India is in the form of real estate/gold as opposed to c.60% for China and c.40% for USA, UK and Germany (Exhibit 1). Mutual funds too, as a result, are vastly under penetrated in India (Exhibit 2).

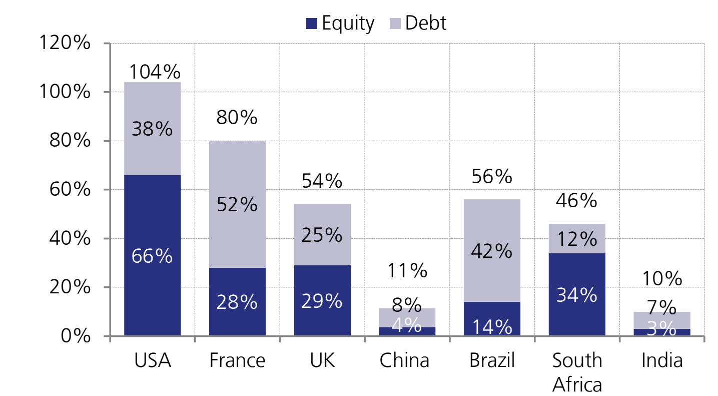
However, with inflation being reined in over the past two years, along with the outperformance of the capital markets and measures taken by the government to formalise the economy (Jan Dhan, Aadhaar, Demonetization, etc.), mutual fund flows have taken flight, albeit from a low base.

Exhibit 1. Household savings pattern across countries



Source: RBI, JM Financial

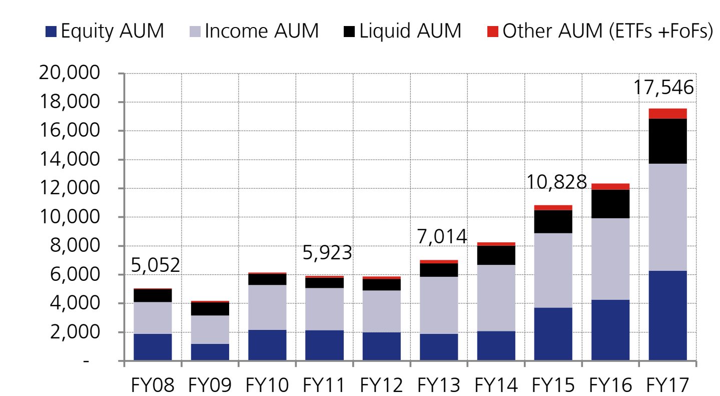
Exhibit 2. MF AUM / GDP ratio across countries



Source: ICRA, JM Financial

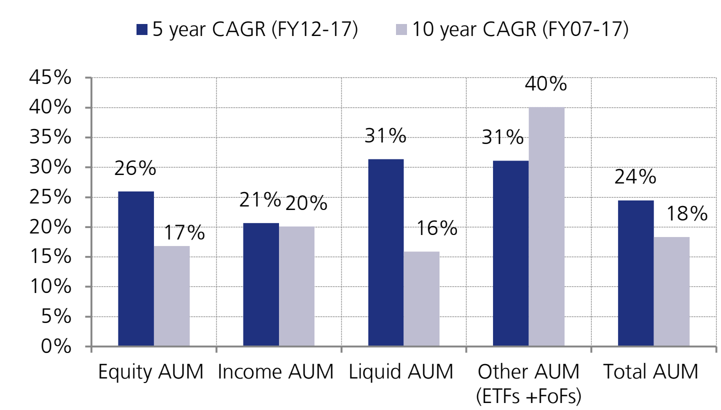
Robust long-period-average growth in MF AUM: Despite AUM growth being dependent on cyclical factors (performance of capital markets for equity and interest rate cycle for debt), the long period MF AUM CAGR has been >16% across categories (Exhibit 4). AUM growth across cycles has hence shown robust performance, despite being largely dependent on AUM appreciation, and not fresh inflows, until recently.

Exhibit 3. Industry AUM movement (INR bn)



Source: Company, JM Financial, AMFI

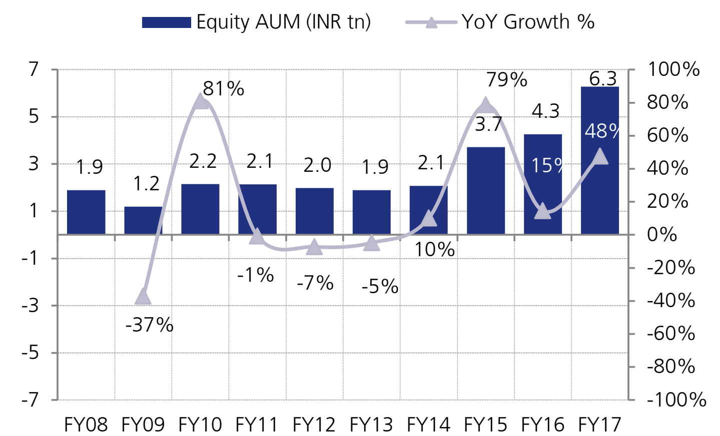
Exhibit 4. Industry AUM movement : CAGR by segment



Source: Company, JM Financial, AMFI

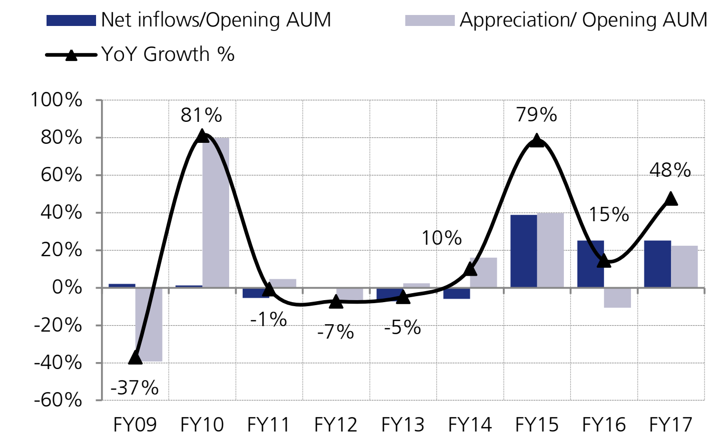
Strong inflows ensure growth now on firm footing: When we divide industry AUM growth into appreciation and inflows , we find that in the case of equity AUM a) growth over FY09-14 largely depended on AUM appreciation (and hence capital market performance) as net inflows were largely muted and b) from FY15, growth took off on the back of appreciation as well as inflows. Strong inflows over the past two years have ensured that equity MF AUM growth now has two firm feet to stand on (inflow + appreciation), as opposed to just one, which was the case in the past, when growth was mainly dependent on AUM appreciation. As a result, going forward, we expect equity MF AUM movement to be less volatile than it was in the past, especially since a growing proportion of these flows are sticky in nature (SIPs, also incentivised by zero LTCG tax on equity).

Exhibit 5. Industry Equity MF AUM growth



Source: Company, JM Financial, AMFI

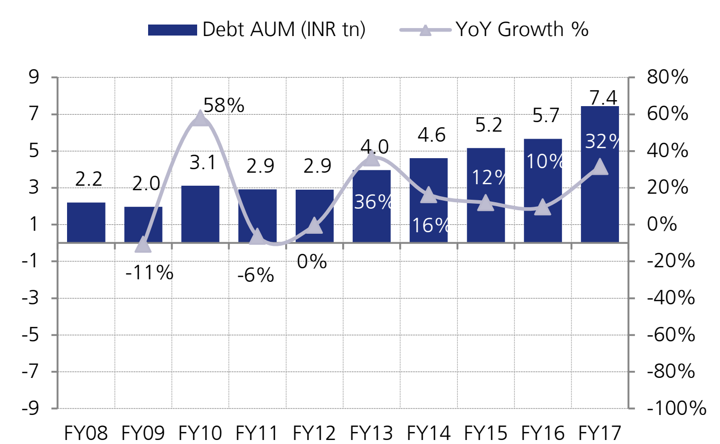
Exhibit 6. Industry Equity MF AUM growth : Net Inflow + Appreciation



Source: Company, JM Financial, AMFI

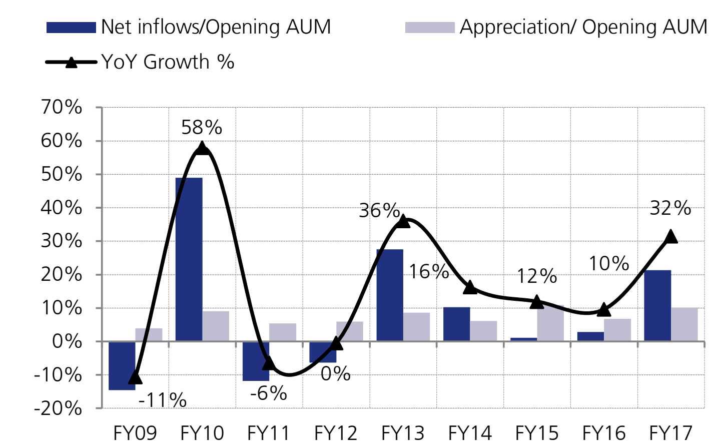
In the case of debt MF AUM, there has been a consistent YoY appreciation over FY08-17 (c.7% on average). With the recent phenomenon of disintermediation of banking credit, bond markets and debt MFs have come under the spotlight, as banks have reeled under the stress of corporate NPAs since FY16. Although bond markets may be under pressure in the near term with sovereign bond yields spiking, we expect this theme of disintermediation of credit to continue to play out over the long term, especially since bond markets offer lower interest-cost borrowing avenues to higher-rated corporates.

Exhibit 7. Industry Debt MF AUM growth



Source: Company, JM Financial, AMFI

Exhibit 8. Industry debt MF AUM growth :Net Inflow + Appreciation

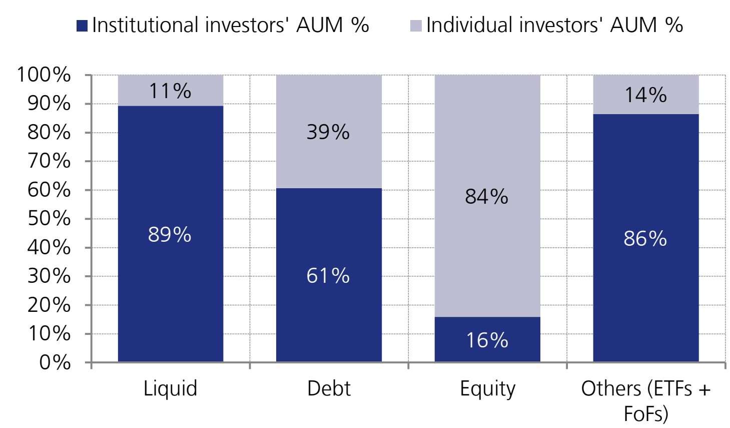


Source: Company, JM Financial, AMFI

Retail penetration: key to growth and profitability

While institutional holdings take the lion's share of the pie in the case of debt/liquid MF assets, contribution by individuals (retail and HNI holdings) dominates the high-yielding equity MF space (84% of overall equity AUM, Exhibit 9). Hence, equity MFs essentially cater to a widely different customer base compared with debt/liquid MFs and should be analysed as separate products. Inflows into equity MFs have been catalysed by a) the financialisation of savings, b) inflation control and c) increasing penetration of financial products. Debt flows, on the other hand – are less dependent on the reach of distribution and are more strongly linked to the a) rate cycle and b) growing disintermediation of banking credit.

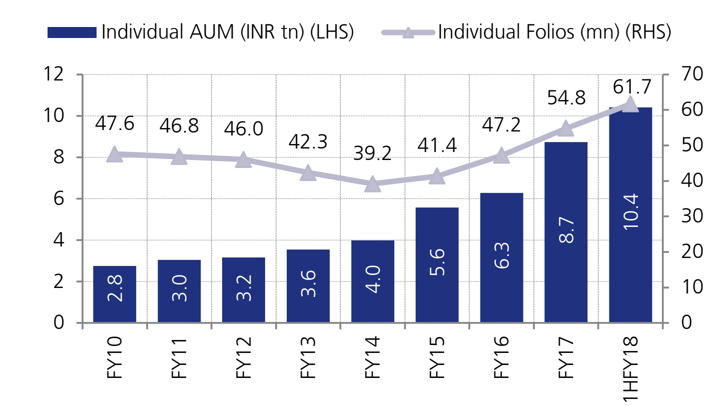
Exhibit 9. AUM split (Sep-17): Equity dominated by individuals, debt/liquid by institutions



Source: JM Financial, Company, AMFI

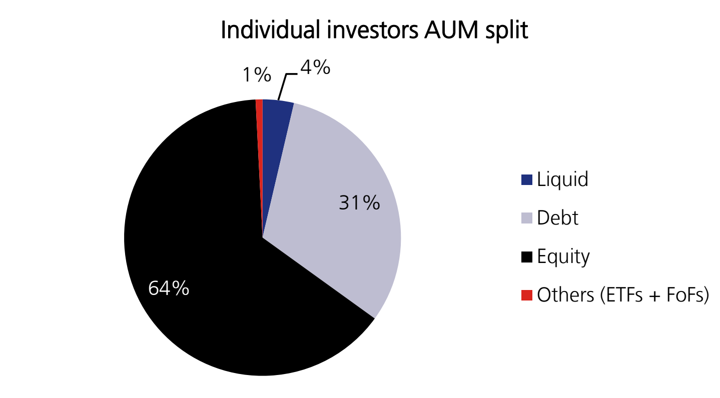
Individual investors' AUMs have been on a strong growth path since FY14, growing to INR 10.4tn (51% of industry assets) as of 1HFY18. The number of folios too, has grown c.50% over the period. Moreover, 64% of individuals' MF assets are tilted towards equity MFs.

Exhibit 10. Individual investors' MF holdings : Folio count and AUM



Source: AMFI, JM Financial

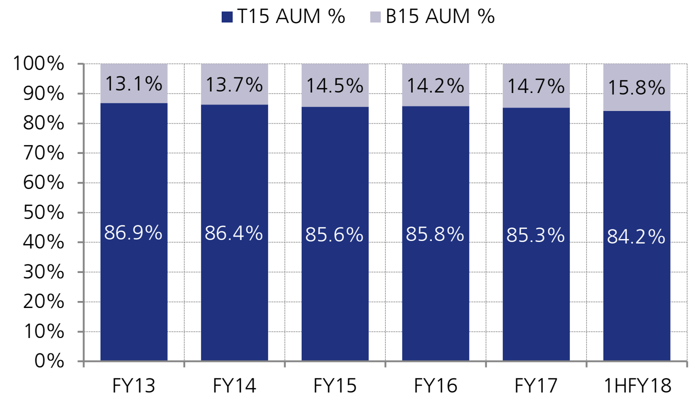
Exhibit 11. Individual investors' MF AUM split (as of Sep -17)



Source: AMFI, JM Financial

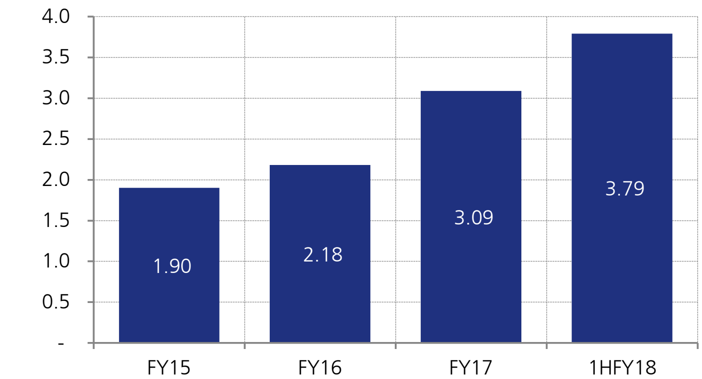
B15 locations offer a new frontier for growth: Industry AUM is skewed towards the top 15 (T15) locations, which account for c.84% of overall AUM. However, the AUM contributed by locations beyond the top 15 (B15 locations) has roughly doubled to INR 3.8tn since FY15. AUM from B15 locations is primarily contributed by individuals (c.74%) and hence is an underpenetrated source of future equity MF flows. Moreover, 79% of the AUM contributed by B15 locations is through distributors (as opposed to direct plan investments), which indicates that penetration of distribution channels is of prime importance in attracting these flows. SEBI has further incentivised MF distribution to these locations by increasing the cap on the allowable expense ratio by 30bps for schemes if net inflows from B15 locations are greater than a) 30% of gross inflows in the scheme or b) 15% of YTD AAUM of the scheme (whichever is higher).

Exhibit 12. Increasing AUM penetration in B15 locations



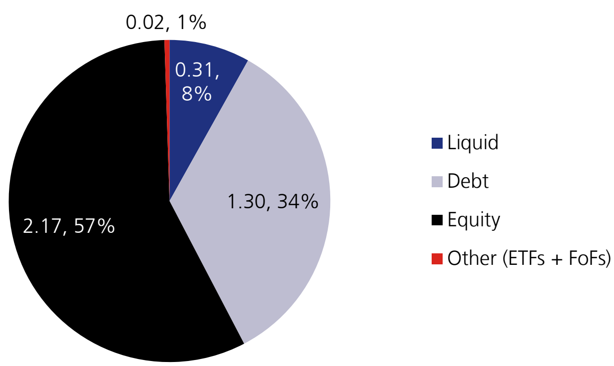
Source: AMFI, JM Financial

Exhibit 13. B15 AAUM has doubled since FY15 (INR tn)



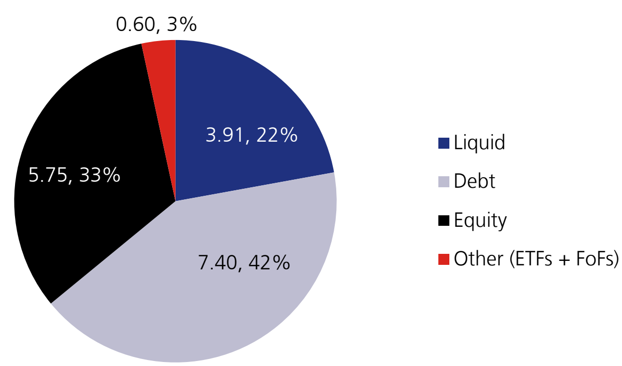
Source: AMFI, JM Financial

Exhibit 14. B15 AAUM has high proportion of equity assets (Sep -17, INR tn)



Source: AMFI, JM Financial

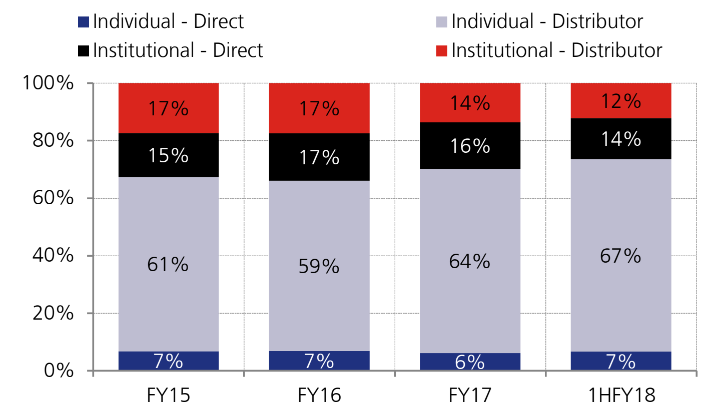
Exhibit 15. T15 AAUM has more debt assets (more institutional investors) (Sep-17 , INR tn)



Source: AMFI, JM Financial

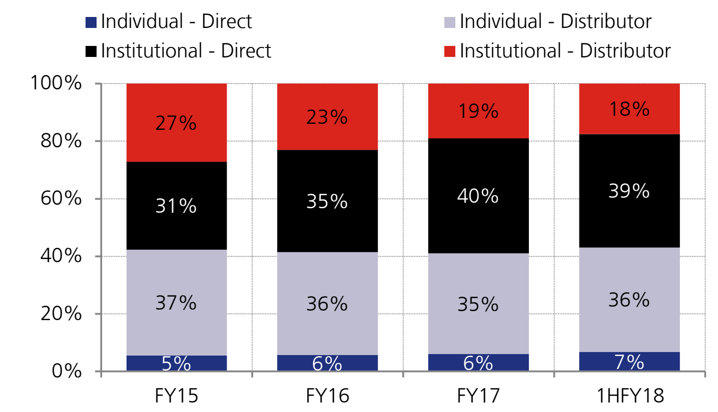
Direct plans more popular among institutional investors: Direct plan AAUMs have more than doubled from c. INR 4.1tn in FY15 to c. INR 8.9tn as of Sep'17. 84% of direct plan AAUM can be attributed to institutional investors, whereas retail and HNI investors account for c.68% of regular plan AAUM (c.INR 12tn as of Jun'17), indicating a clear divide based on financial sophistication. Thus distributors are an important avenue for disseminating information pertaining to the funds, particularly for retail customers, in addition to acting as a point of sale. The importance of channel partners increases further in the context of tier II, tier III cities, or the hinterlands, where the AMC may not have a direct presence.

Exhibit 16. B15 AUM split by distribution channel



Source: AMFI, JM Financial

Exhibit 17. T15 AUM split by AUM channel



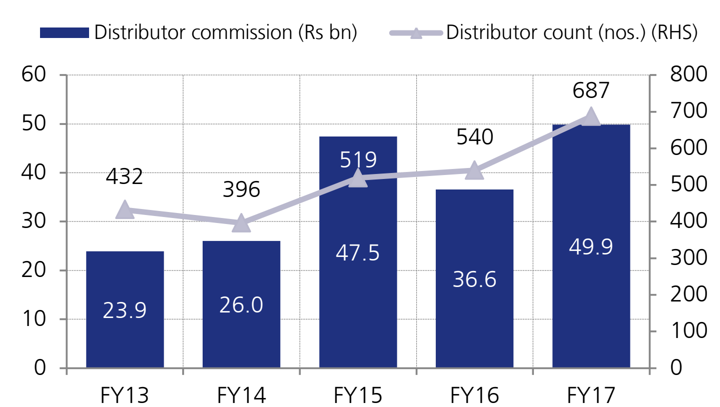
Source: AMFI, JM Financial

Last-mile distribution key to retail AUM growth

Multiple distribution channels: There are four main distribution channels for mutual funds in the country: a) banks, b) national distributors, c) independent financial advisors (IFAs) and d) other empanelled distributors. Given the large network and retail clientele, banks form an important channel for distribution of mutual funds. In 2012, SEBI mandated AMCs to provide a separate plan for direct investments (direct plans), i.e., investments not routed through a distributor. These plans were mandated to have a lower expense ratio excluding distribution expenses, commission, etc. and have since been contributing consistently to AUMs. The investments through distributors are routed through a regular plan.

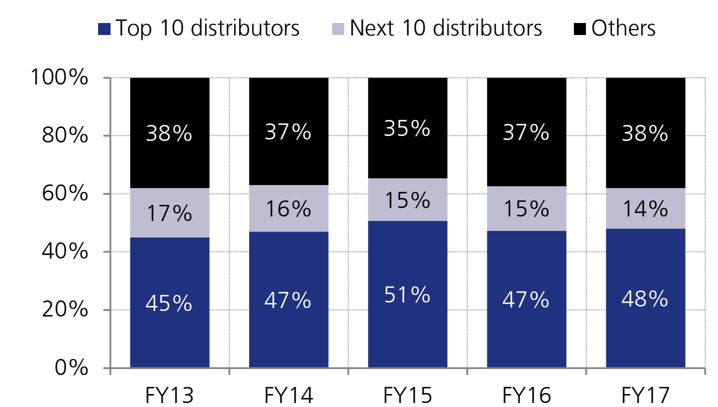
Commissions concentrated among top distributors: The top 10 distributors account for 48% the total commissions paid out by AMCs in FY17 and the top 20 distributors account for c.62%.

Exhibit 18. Trend in distributor count and commissions



Source: AMFI, JM Financial

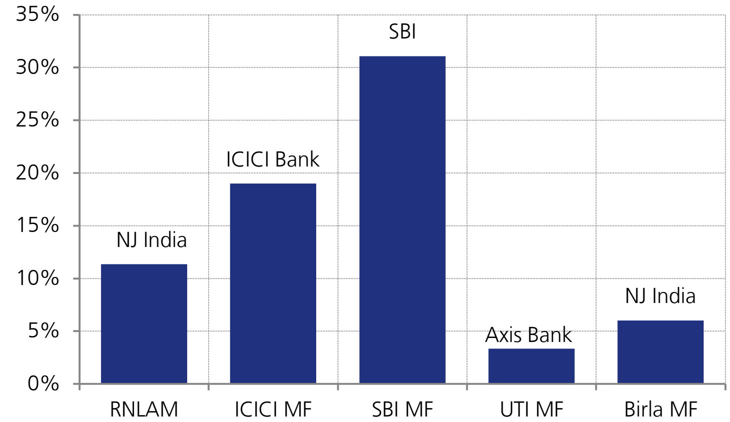
Exhibit 19. Trend in concentration of distributor commissions



Source: AMFI, JM Financial

Fund houses with a banking parent have an inherent advantage: Because of their immense geographic penetration and retail clientele, banks form one of the most important channels for distribution of financial products. As shown in Exhibit 20 below, fund houses with banking parents/associates heavily utilise their banca channels to distribute MF products. All the top funds have their banking relative (if they have one) as their single largest distributor, and have paid out 15-30% of their overall commission expense to them in FY17. AMCs which don't have a banking lineage (Birla, RNLAM, etc.) suffer from not having a 'captive' channel.

Exhibit 20. Percentage of total commissions paid out to the largest single distributor across top funds (FY17)

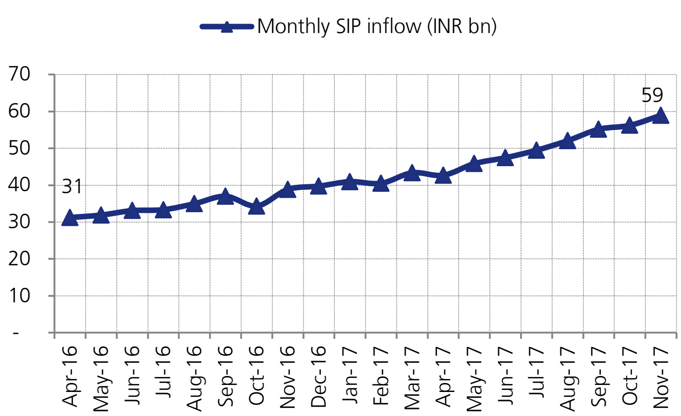


Source: JM Financial, Company, AMFI

How sticky are the MF AUM inflows?

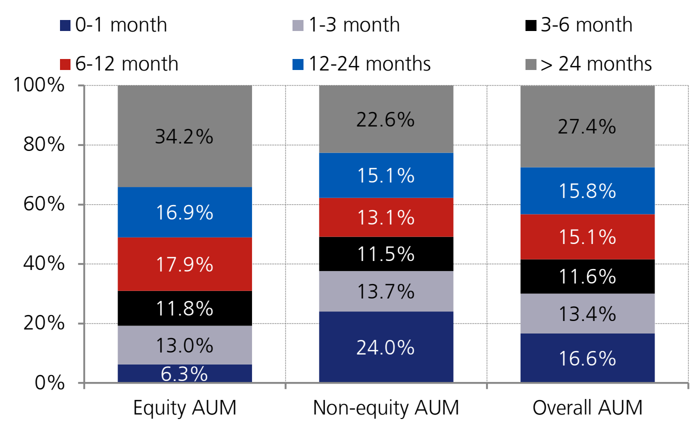
SIP flows have seen a strong uptick: Monthly SIP flows have roughly doubled from INR 31bn in Apr'16 to INR 59bn in Nov'17. The month-wise amount collected through SIP schemes is shown in Exhibit 21 below. As of Nov'17, there were c.18 million SIP accounts through which investors invested in MF schemes. AMFI data shows that the MF industry had added about 0.9 million SIP accounts each month on an average during FY18, with an average SIP size of about INR 3,250 per SIP account.

Exhibit 21. Monthly SIP inflow has doubled since Apr-16



Source: AMFI, JM Financial

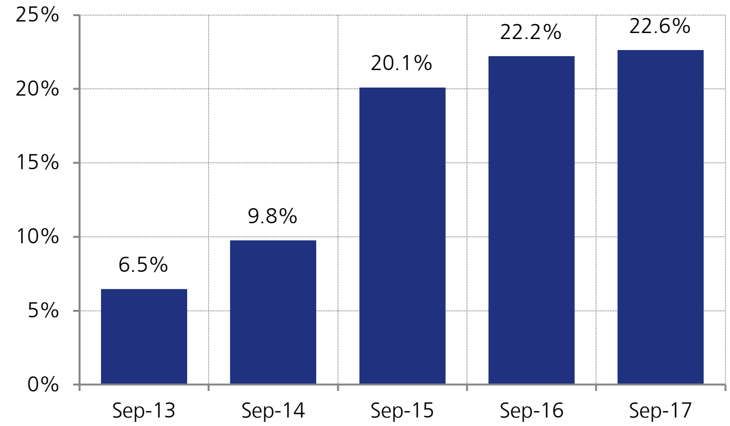
Exhibit 22. Age-wise holdings of MF units (as of Sep-17)



Source: AMFI, JM Financial

Tax incentives leading to improved stickiness: Higher-yielding equity assets have a longer average holding period compared with non-equity assets, as shown in Exhibit 22 above. As of Sep'17, 34% of equity assets have been held for a period greater than 24 months. For non-equity AUM, the proportion of holdings held for a period greater than 24 months has steadily increased from 6.5% as of Sep'13 to 23% as of Sep'17 (Exhibit 23 below). This could be a result of greater incentives by the government for holding debt MF units. The duration for which debt funds are required to be held in order to qualify for indexation benefits under LTCG was increased from 1 year to 3 years in the 2014 Budget. Going forward, we expect these sticky flows to provide a strong support to the AUM base especially in adverse cycles, as well as a robust footing for healthy MF AUM growth.

Exhibit 23. Non-equity MF holdings: Proportion of holdings held for >24 months

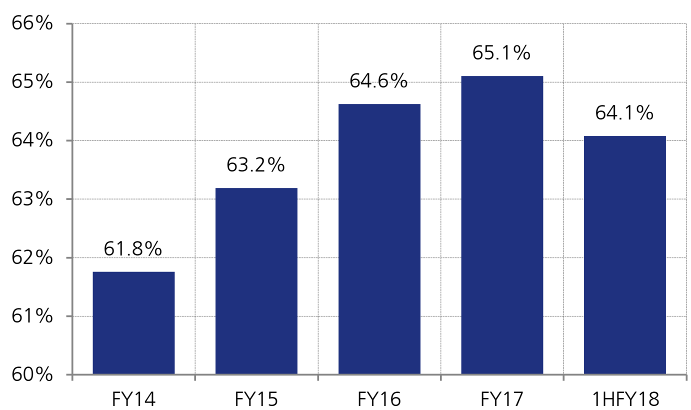


Source: JM Financial, Company, AMFI

Industry profits to remain concentrated at the top

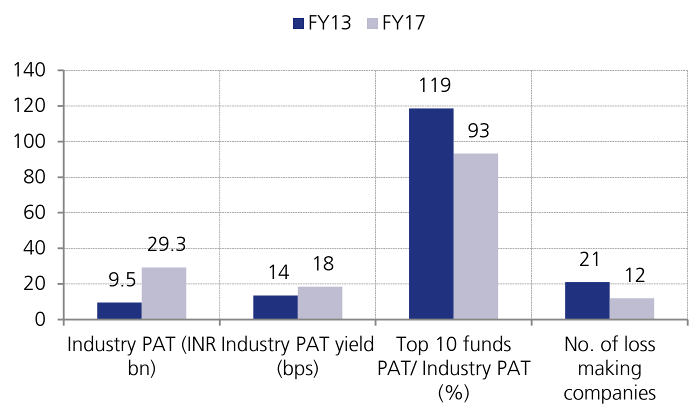
Industry profits rose 3x from INR 9.5bn in FY13 to INR 29.3 bn in FY17. Moreover, profit growth outpaced AUM growth over the same period; while QAAUM posted a CAGR of 24% over FY13-17, PAT CAGR was 32.5%. Scale is crucial for profitable survival in the industry, the top 10 funds contributed to 93% of industry PAT, while contributing 81% to Industry QAAUM in FY17. Overall, industry profitability saw a healthy uptick, with PAT yields expanding from 14bps in FY13 to 18bps in FY17. This is ostensibly a result of the healthy equity AUM growth over the same period. Of the total universe of 42 mutual fund houses, 12 reported losses in FY17, compared with 21 in FY13.

Exhibit 24. Top funds AUM as a % of total industry AUM has increased



Source: Company, AMFI, JM Financial # Top 6 AMCs considered

Exhibit 25. Despite structural improvements industry PAT remains concentrated at the top



Source: Company, AMFI, JM Financial

Consolidation to continue as industry favours scale: With profits skewed in favour of the larger fund houses, the MF industry has been an active turf for M&A activity over the last 5 years. Large parts of the deals have been by way of acquisitions where players have bought out the entire stake in other AMCs. There has been a spate of exits by foreign players from the industry, stakes of whom were bought out by domestic players looking to increase their market share through inorganic routes. The MF business of Standard Chartered was acquired by IDFC, Fidelity by L&T, PineBridge Mutual Fund by Kotak, ING Mutual Fund by Birla, Goldman Sachs by Reliance, Deutsche Asset Management Company by DHFL Pramerica and JP Morgan AMC by Edelweiss.

With many small loss-making players still present, consolidation is expected to continue in the MF space.

Regulatory trends favouring 'retailization at lower cost to investors'

AMFI has capped the upfront commission payable: The commission paid to a distributor comprises an upfront commission based on the quantum of investment inflow, and a trail commission on the AAUM of the channel partner for the period. In Apr'15, AMFI asked MFs to cap upfront commissions at 1% and trail commissions at 1.75%. Before this, it was common practice for AMCs to give upfront commissions of more than 1%. Moreover, commissions were higher in closed-ended schemes wherein many fund houses paid distributor commissions entirely upfront. The move by AMFI was to dissuade distributors from mis-selling schemes and pushing clients to churn their portfolio so that they earned higher commissions.

Exhibit 26. Caps on Expense Ratio chargeable to different fund categories

Category	Expense Ratio
Fund of Fund	2.5% of daily net assets
Index Fund of ETF	1.5% of daily net assets
Equity	2.5% for first INR 1 bn 2.25% for next INR 3bn 2% for the next INR 3bn @1.75% thereafter
Debt	In respect of a scheme investing in bonds such recurring expenses shall be less by at least 0.25% of daily net assets

Source: Company, JM Financial

Bose Committee recommends phasing out of upfront recommendations completely: The committee set up by the Finance Ministry released recommendations for the regulation of distribution of financial products in FY16. One of its recommendations was to completely phase out upfront commissions in the distribution of financial products. This measure, if implemented, could detrimentally impact MF sales through distributors. The lack of an incentive could cause distributors to switch to pushing other financial products which offer higher commissions (eg. pure life insurance where the committee does not recommend phasing out of upfront commissions). Despite the availability of direct option to invest in MF schemes, c.58% of MF AUM is routed through distributors and decline in commissions might adversely affect industry growth. Moreover, smaller fund houses, which rely on high upfront commission payouts to garner market share, might be adversely affected.

The committee has also recommended that all investment products should move to an AUM-based trail model for payment of commissions. Broadly, the committee seeks to level the playing field for distribution of financial products. This could have a positive impact on AUM growth over the long term as MF products typically outperform other financial savings products.

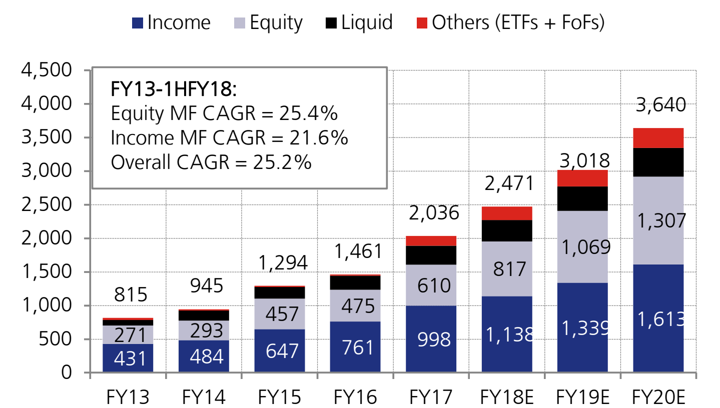
The Bose Committee has recommended lowering the cap on expense ratio with increase in AUM in the MF industry. Currently, the MF expense ratio is capped at 2.50% for equity schemes and 2.25% for debt schemes with few conditions wherein the charges can be increased by 0.50%. If the recommendation is implemented,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

Consolidation of schemes : SEBI has recently released new draft norms on the categorisation and rationalisation of MF schemes, which must be complied to by January 6th 2018. As per these norms, fund houses are required to have only one scheme for the categories of multicap, largecap, midcap, smallcap, etc for each asset group : equity /debt /hybrid /solution oriented and other schemes. While the move by the regulator is intended to simplify the investment process for retail investors, the impact on profitability across fund houses is expected to be manageable.

Reliance Nippon Life Asset Management

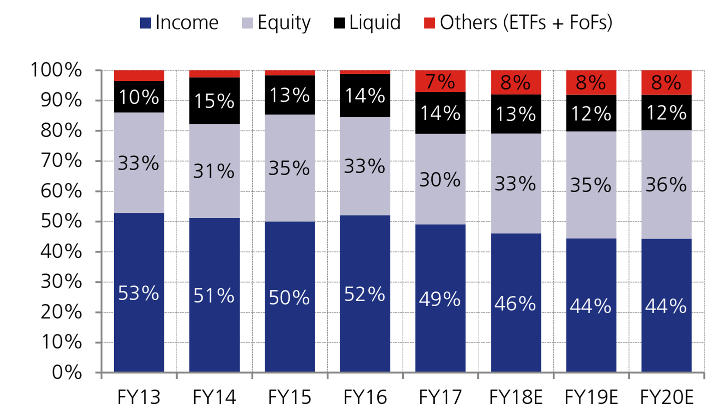
Robust AUM growth with focus on equity assets: RNLAM's strong distribution capabilities can be gauged from the fact that it has remained among the top 3 asset managers in India despite not having a parent bank. As of 1HFY18, RNLAM has a diversified AUM mix comprising equity (33%), debt (46%) and liquid funds (14%). In addition, it has 6% of its AUM in ETFs, which was aided by the acquisition of Goldman Sachs AMC in Nov '16. Moreover, management has demonstrated a prudent focus on profitable growth; equity AUM has been maintained at above 30% of the overall AUM mix since FY10.

Exhibit 27. RNLAM: AUM growth by segment (INR bn)



Source: Company, AMFI, JM Financial

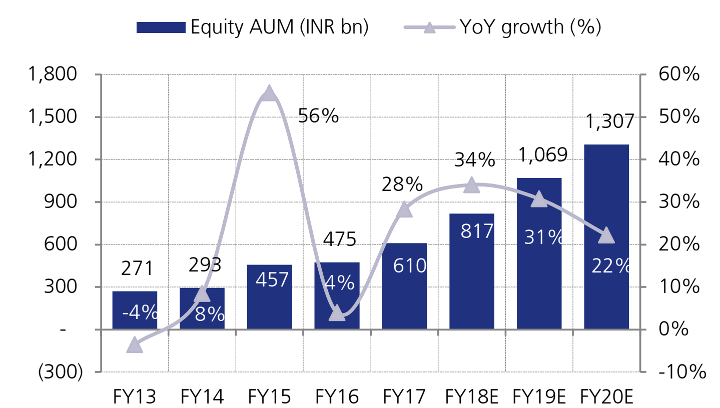
Exhibit 28. RNLAM: Equity proportion expected to rise steadily



Source: Company, AMFI, JM Financial

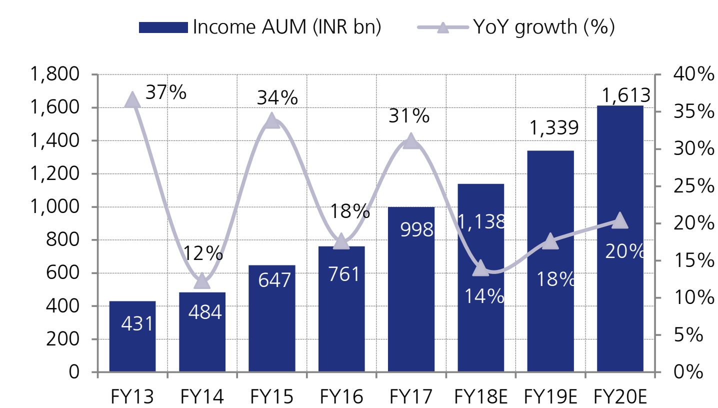
RNLAM has been a beneficiary of strong industry tailwinds impacting equity MF flows. RNLAM's equity AUM has grown c.38% YoY in 1HFY18. As a result the equity proportion in the AUM mix has increased by c.350bps in FY17-1HFY18 (33% of AUM as of 1HFY18). We believe that the strong undercurrent from buoyant equity capital markets, coupled with healthy equity MF flows will enable RNLAM to further increase the equity proportion in the AUM mix to 36% by FY20E, which would have a direct positive impact on profitability.

Exhibit 29. Equity AUM to gain from strong industry tailwinds



Source: Company, AMFI, JM Financial

Exhibit 30. RNLAM: Debt AUM growth expected to moderate



Source: Company, AMFI, JM Financial

Income funds could be under pressure in the medium term due to rising yields in the bond market, which could a) have a direct negative impact AUM appreciation and b) result in short-term borrowings flowing back into the banking system. However, we believe that the overall theme of disintermediation banking credit into bond markets and debt MFs is here to stay over the long term as it provides a market-driven avenue for borrowing, especially for higher-rated corporates.

We expect RNLAM's equity and income MF AUM to post a CAGR of 29%/17% over FY17-20E.

Exhibit 31. RNLAM : Overall breakup of managed AUM

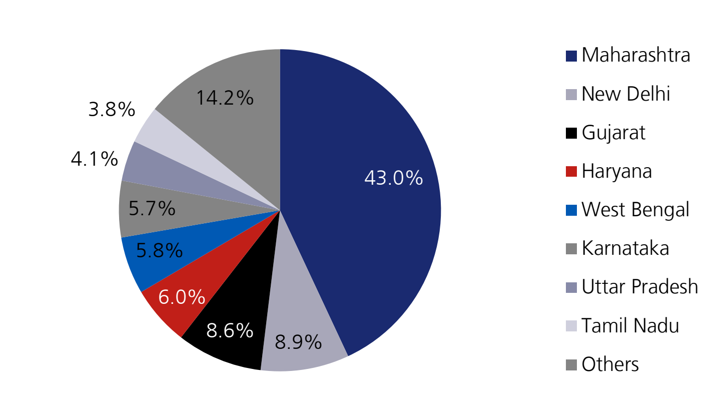
AUM break up (INR bn)	FY13	FY14	FY15	FY16	FY17	1HFY18
MF	815	945	1,294	1,461	2,036	2,239
Pension Funds	708	836	994	1,223	1,427	1,524
AIF	-	-	5	10	13	15
Offshore	63	50	60	43	19	24
PMS	15	15	16	15	13	13
Total	**1,600**	**1,846**	**2,369**	**2,752**	**3,508**	**3,815**

Source: Company, JM Financial

Balanced and diversified distribution mix

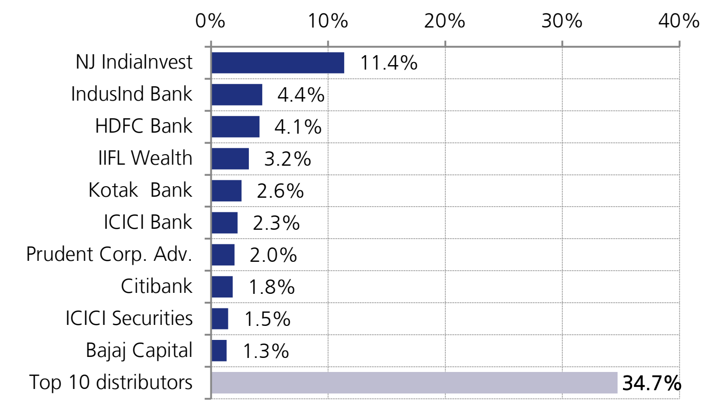
Strong distribution network with large physical presence: RNLAM has an extensive multi-channel distribution network with 171 branches and 58,600 distributors (includes banks, FIs and Independent Financial Advisors). RNLAM works with banks and financial institutions such that no single distributor contributed to more than 5% of the annual increase in AUM in any of the last three years. Diversified distributor relationships aids RNLAM in ensuring no single distributor has undue bargaining power. RNLAM's strong distribution capabilities can be gauged from the fact that it has remained in the top 3 asset managers despite not having a parent bank and has the highest AUM in B15 cities.

Exhibit 32. RNLAM: Geographical distribution of AUM (Nov – 17)



Source: Company, AMFI, JM Financial

Exhibit 33. RNLAM: Top 10 distributors : % total commissions (FY17)



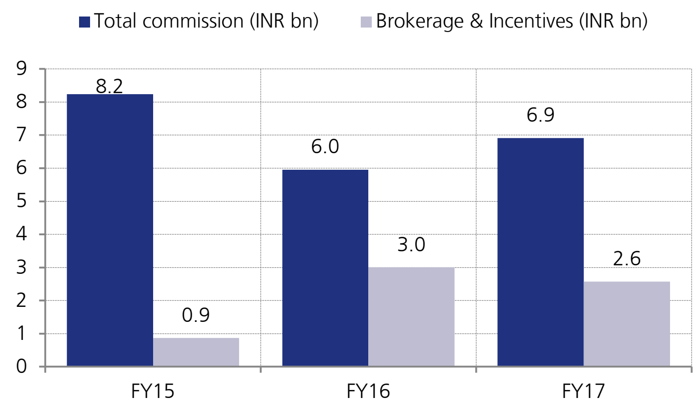
Source: Company, AMFI, JM Financial

RNLAM is not unduly dependent on any single distributor: As shown in Exhibit 33 above, the top 10 distributors account for 34.7% of total commissions paid out by RNLAM in FY17, which is far less than the 48% for the overall industry. Apart from their top distributor NJ IndiaInvest, no single distributor accounts for >5% of the total commissions paid out, which shows that RNLAM is not overly reliant on any single distributor channel.

Commissions paid out by fund houses are expensed through 2 modes: a) through the MF scheme P&L account and b) through the P&L of the AMC as 'brokerage and incentives'. There is a certain amount of fungibility as to where (i.e. a or b) the commission expense can be booked by the fund house, and RNLAM's commission expenses too are partially booked in the scheme and AMC P&L accounts. As shown in Exhibit 34 below, the total commissions paid out by RNLAM in FY17 was INR 6.9bn of which INR 2.6bn was expensed through AMC P&L account as 'brokerage & incentives'. The remainder is ostensibly expensed through the P&L accounts of the various schemes, in which case they are netted off against the investment management revenue from those particular schemes.

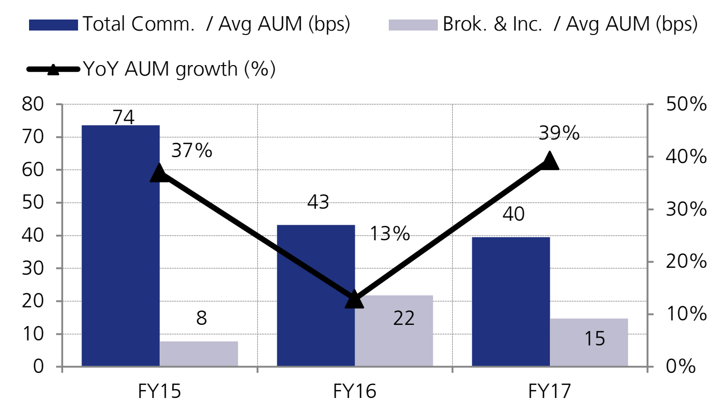
As shown in Exhibit 35 below, overall commission payouts for RNLAM have averaged c. 41bps over FY16-17. Management has a historical track record of pursuing profitable growth, (PAT / Avg AUM of 23bps in FY17), and continues to favour profitable AUM expansion without being overly aggressive on distributor commission payouts. We believe that the absence of over-reliance on any single distributor, coupled with demonstrated focus on profitable AUM expansion, will ensure that subsequent growth too, will not come at the expense of profitability over FY17-20E.

Exhibit 34. RNLAM: Total commission and brokerages paid out



Source: Company, AMFI, JM Financial

Exhibit 35. RNLAM: Commission payout and AUM growth

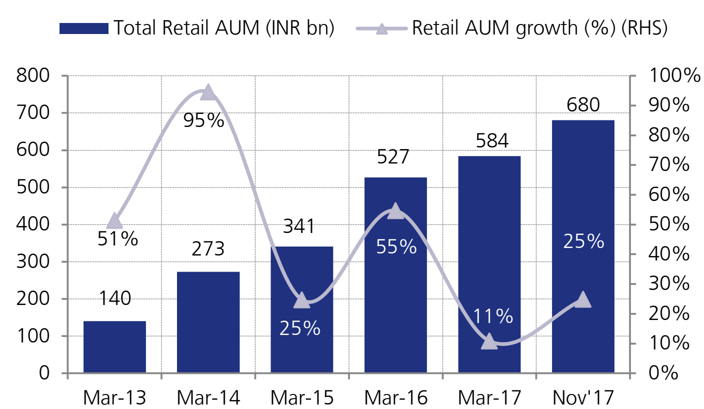


Source: Company, AMFI, JM Financial

Retail AUM growth witnessing healthy trends

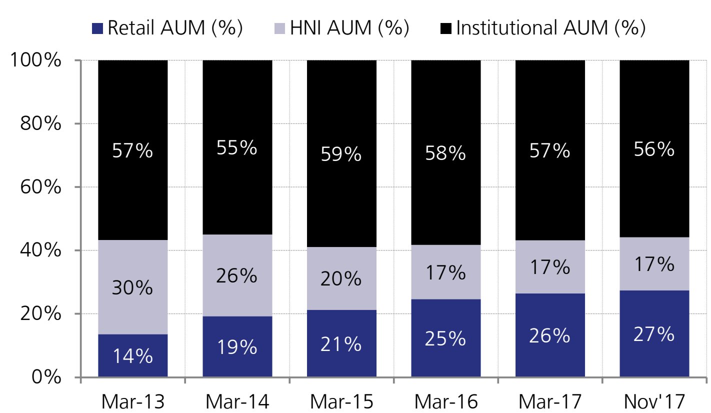
Attracting retail flows is of prime significance in the AMC business owing to the fact that they a) are an underpenetrated source of MF AUM, growing at a robust pace; b) tend to be stickier than corporate flows due to income tax incetives on LTCG and investment modes such as SIP; c) less prone to chunky outflows due to the granular nature of these investments and d) retail AUM being skewed towards higher-yielding equity assets. Retail proportion has steadily increased in RNLAM's overall AUM mix from 14% in Mar'13 to 27% as of Nov-17. Retail AUM was INR 680bn as of 1HFY18.

Exhibit 36. RNLAM: Retail MF AUM on strong growth path



Source: Company, AMFI, JM Financial

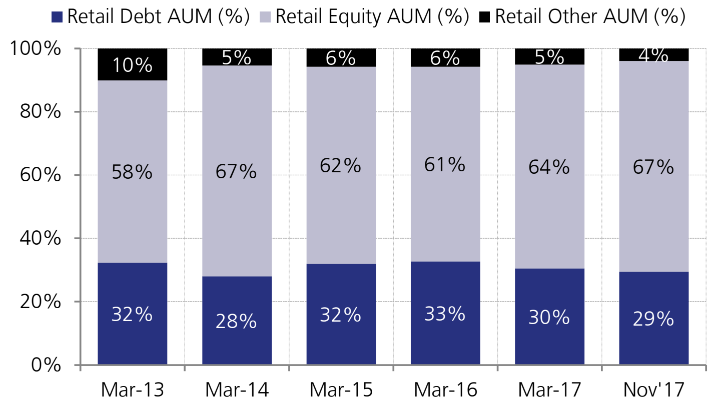
Exhibit 37. RNLAM: Increasing proportion of Retail in AUM mix



Source: Company, AMFI, JM Financial

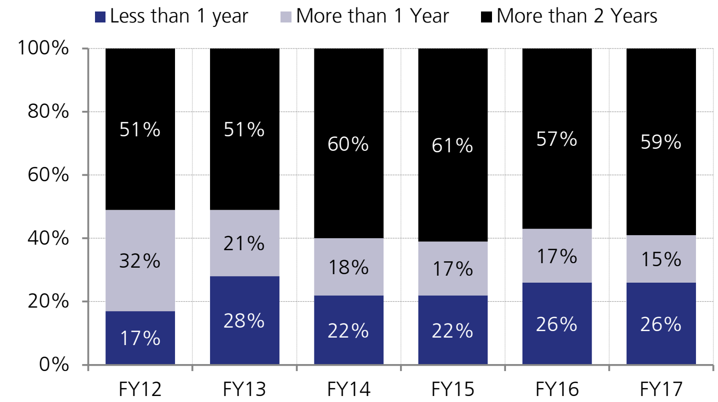
RNLAM's retail AUM market share was 13.6% as of 1HFY18, which is more than its overall MF AUM market share of 11%. This is particularly impressive considering that unlike other top fund houses with banking parents (ICICI, SBI, etc.), RNLAM does not have access to a large 'captive' distribution channel and is dependent on banca partners, IFAs, empanelled distributors and direct channels for distribution of its products. As shown in Exhibit 38 below, RNLAM's retail AUM is skewed in favour of equity MFs (67% as of Nov'17). Moreover, this has a high stickiness quotient, with 59% being held for more than 2 years.

Exhibit 38. RNLAM: Retail AUM skewed in favour of equity MF



Source: Company, AMFI, JM Financial

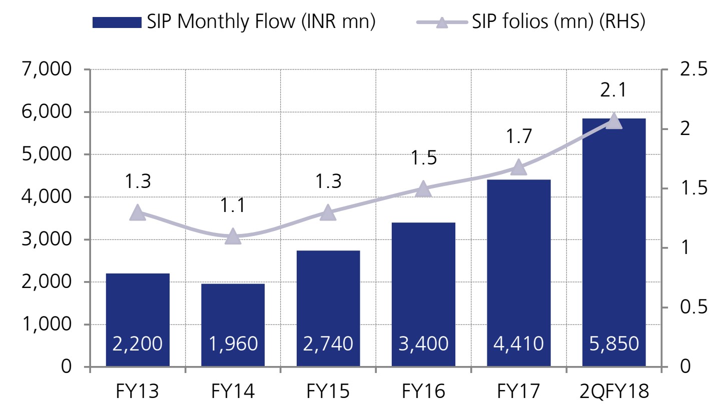
Exhibit 39. RNLAM: ~60% of equity holdings are > 2 year vintage



Source: Company, AMFI, JM Financial

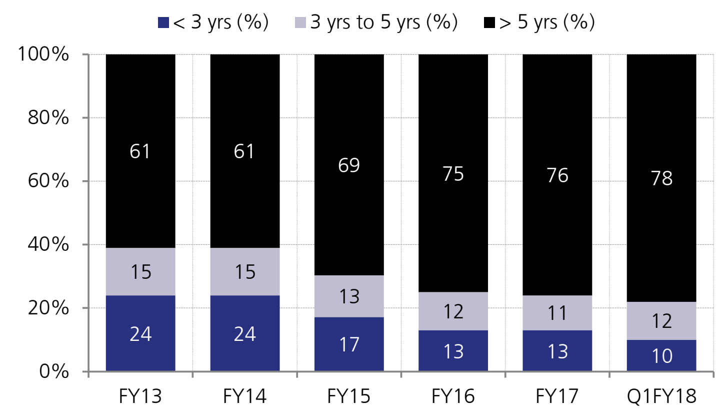
Rising proportion of SIPs increase stickiness of equity AUM : SIPs provide another avenue for locking in retail AUM flows. They are predominantly used as an investment tool by retail investors and are primarily directed towards equity MFs. SIP monthly inflows for RNLAM were INR 5.85bn as of 2QFY18, accounting for 11.2% of industry SIP flows. As shown in Exhibit 41 below, 78% of RNLAM's SIP book had a tenure of more than 5 years as of 1QFY18.

Exhibit 40. RNLAM: Retail AUM skewed in favour of equity MF



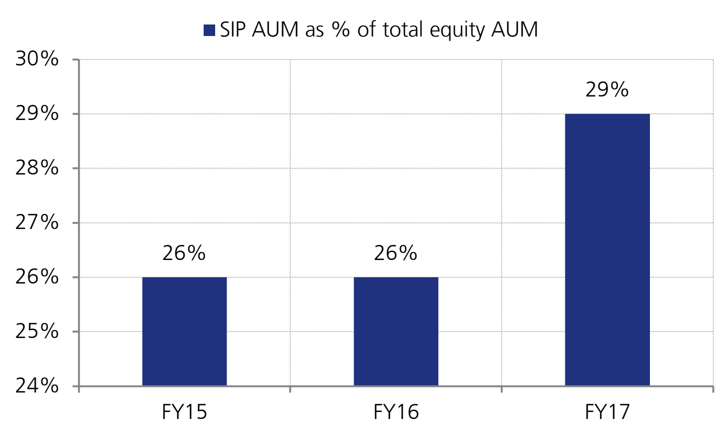
Source: Company, AMFI, JM Financial

Exhibit 41. RNLAM: SIP tenure has gradually increased



Source: Company, AMFI, JM Financial

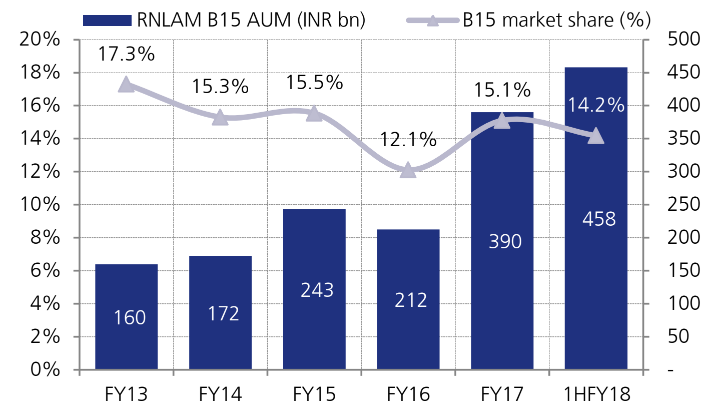
Exhibit 42. RNLAM: SIP AUM accounts for a growing share of equity AUM



Source: Company, JM Financial

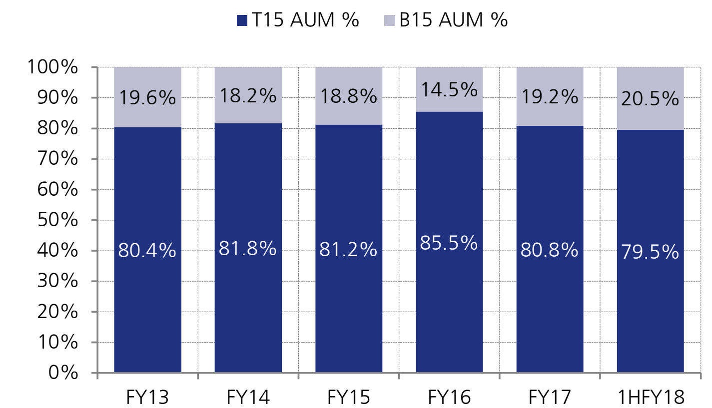
Well-penetrated into B15 locations: As discussed in the industry section above, B15 locations are another lucrative source of retail AUM, with a higher proportion of equity assets. RNLAM has the second highest market share in B15 locations (14.2% as of 1HFY18). RNLAM has been able to leverage its brand to attract flows from these locations, and it is indicative of its massive distributive outreach.

Exhibit 43. RNLAM : Healthy penetration into B15 locations



Source: Company, AMFI, JM Financial

Exhibit 44. RNLAM: Rising proportion of AUM mix from B15 locations



Source: Company, AMFI, JM Financial

Investment performance

Investment performance has been commendable: RMF's equity schemes and funds have shown superior performance over economic cycles. The top 5 equity funds (which make up 57% of total equity AUM), have given returns in the range of 17% to 32% over the last 5 years whereas BSE Sensex returned only 12% during the same period. RMF currently has 55 open ended and 203 close ended schemes with 34 of them in equity.

Exhibit 45. RNLAM : Performance of top 5 equity funds

INR mn	MAAUM as of 1Q18	Since inception	1-yr return (%)	3-yr return (%)	5- yr return (%)
Reliance Equity Opportunities fund		18.9	16.9	10.9	17.5
S&P BSE 100	98,697	13.8	16.9	8.4	13.3
S&P BSE Sensex		13.5	14.5	6.8	12.1
Reliance Tax saver (ELSS) fund		16.1	25.0	14.5	22.3
S&P BSE 100	84,022	11.9	16.9	8.4	13.3
S&P BSE Sensex		11.6	14.5	6.8	12.1
Reliance Regular savings fund - Balanced Option		14.3	20.1	14.4	17.5
CRISIL Balanced Fund - Aggressive index	65,895	11.7	13.9	9.1	11.7
S&P BSE Sensex		13.3	14.5	6.8	12.1
Reliance Growth fund		23.7	24.2	15.6	19.3
S&P BSE 100	63,827	11.4	16.9	8.4	13.3
S&P BSE Sensex		10.4	14.5	6.8	12.1
Reliance Small cap fund		21.3	34.8	24.5	31.9
S&P BSE small cap	39,234	6.4	30.6	14.7	18.7
S&P BSE Sensex		7.1	14.5	6.8	12.1
Total of top 5 funds	3,51,675				
Total Equity MAAUM	6,19,504				
Top 5 Funds as % total funds	57%				

Source: Company, JM Financial

In July 2017, Manish Gunwani joined RNLAM as CIO – Equity Investments. Mr Gunwani has over 21 years of industry experience across equity research and fund management. During his stint at ICICI Prudential AMC, he managed two flagship funds of the mutual fund whose assets grew from USD 1bn to USD 5bn in 5 years. One of the funds grew from USD 50m to USD 3bn to become the second largest fund in the industry. Consistent delivery of alpha over key benchmarks would enable RNLAM to attract higher equity inflows as well as result in AUM appreciation.

Exhibit 46. RNLAM : Performance of top 5 debt funds

INR mn	MAAUM as of 1Q18	Since inception	1-yr return (%)	3-yr return (%)	5- yr return (%)
Reliance money manager fund		**8.4**	**7.8**	**8.3**	**8.7**
Crisil Liquid Fund Index	1,74,604	7.6	6.9	7.8	8.3
Crisil one year T-Bill Index		6.5	6.5	7.6	7.4
Reliance Medium term fund		**7.7**	**8.3**	**8.6**	**8.8**
Crisil Short Term Bond Fund Index	1,11,232	-	8.9	9.1	9.1
Crisil one year T-Bill Index		6.4	6.5	7.6	7.4
Reliance floating rate fund		**7.8**	**8.3**	**8.7**	**8.7**
Crisil Liquid Fund Index	76,698	7.2	6.9	7.8	8.3
Crisil one year T-Bill Index		6.1	6.5	7.6	7.4
Reliance Short term fund		**8.2**	**8.9**	**9.0**	**9.1**
Crisil Short Term Bond Fund Index	1,53,142	7.2	8.9	9.1	9.1
Crisil one year T-Bill Index		5.9	6.5	7.6	7.4
Reliance Regular savings fund - Debt option		**7.2**	**9.5**	**9.4**	**9.4**
Crisil Composite Bond Fund Index	95,551	7.4	11.5	10.9	9.6
Crisil 10 year Gilt Index		6.8	11.7	11.2	8.5
Total of top 5 funds	**6,11,227**				
Total Debt MAAUM	**8,16,741**				
Top 5 Funds as % total funds	**75%**				

Source: Company, JM Financial

Financials - Strong Profitability led by improving AUM mix

Improving equity mix to aid profitability expansion: As shown in Exhibit 29 above, equity AUM are expected to post a CAGR of 29% over FY17-20E. We expect debt MFs to be under pressure in the rising yields regime, and this along with the tailwinds in equity capital markets, are expected to result in improvement in equity AUM in RNLAM's overall mix from 33% in 1HFY18 to 36% by FY20E. Higher proportion of higher-yielding equity assets is expected to boost RNLAM's profitability even further.

We expect PAT yields to expand marginally over FY18-20E, stabilising at c.23bps in FY20E. RoE may be depressed in the near term on a higher capital base after the IPO infusion, but is expected to recover to 24% by FY20E.

Exhibit 47. RNLAM : Consolidated financials - Dupont Analysis

As a % of Avg AUM	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Core Revenues / Avg. AUM	0.76%	0.77%	0.76%	0.87%	0.75%	0.73%	0.74%	0.75%
Other Revenues / Avg. AUM	0.16%	0.12%	0.10%	0.08%	0.07%	0.06%	0.05%	0.05%
Total Revenues / Avg. AUM	0.92%	0.89%	0.85%	0.95%	0.82%	0.79%	0.80%	0.80%
Employee cost / Avg. AUM	0.20%	0.17%	0.14%	0.14%	0.11%	0.09%	0.09%	0.09%
Brokerage / Avg. AUM	0.14%	0.09%	0.08%	0.23%	0.15%	0.15%	0.15%	0.15%
Operating cost / Avg. AUM	0.55%	0.51%	0.44%	0.57%	0.49%	0.46%	0.46%	0.46%
PBT / Avg. AUM	0.37%	0.37%	0.41%	0.38%	0.33%	0.33%	0.33%	0.34%
PAT / Avg. AUM	**0.29%**	**0.31%**	**0.32%**	**0.29%**	**0.23%**	**0.22%**	**0.22%**	**0.23%**
As a % of Balance sheet assets	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Core Revenues / Avg. Assets	78.0%	41.3%	49.7%	66.1%	65.7%	66.5%	67.1%	73.6%
Other Revenues / Avg. Assets	16.1%	6.3%	6.3%	6.3%	6.4%	5.5%	4.9%	5.0%
Total Revenues / Avg. Assets	94.1%	47.6%	56.0%	72.3%	72.1%	72.0%	72.0%	78.6%
Employee cost / Avg. Assets	20.5%	9.2%	9.5%	10.6%	9.8%	8.0%	7.9%	8.6%
Brokerage / Avg. Assets	13.9%	4.6%	5.4%	17.2%	13.0%	13.5%	13.5%	14.3%
Operating cost / Avg. Assets	55.0%	26.2%	28.9%	43.1%	42.2%	41.1%	41.2%	44.4%
PBT / Avg. Assets	37.6%	20.2%	27.2%	28.8%	29.2%	30.2%	30.2%	33.7%
RoA (%)	**29.5%**	**16.6%**	**20.8%**	**21.8%**	**20.2%**	**20.2%**	**20.2%**	**22.6%**
Avg Assets/Equity (x)	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
RoE (%)	**31.6%**	**18.0%**	**23.2%**	**24.3%**	**22.2%**	**21.9%**	**21.5%**	**24.1%**

Source: Company, JM Financial

Profitability on an uptrend: RNLAM has a strong operating leverage play as the increase in AUM is not necessitated by a proportional increase in employee cost and fixed assets. Additionally, diversified distributor relationships aids RNLAM in ensuring no single distributor has undue bargaining power. However, the operating leverage might not kick in the medium term as a result of increasing competitive dynamics in the industry.

Higher tax rate and one-offs lead to PAT CAGR of 11% over FY14-17: Over FY14-17, even though RNLAM saw AUM CAGR of 24%, PAT posted an 11% CAGR over the same period due to a) elevated brokerage/incentives which was on account of change in accounting methodology (AMC started booking such expenditure in their profit and loss account and accordingly higher fees was charged to the respective schemes), b) higher employee cost (FY14-16 CAGR of 21%) led by one-time employee bonuses in FY16, and c) increase in tax rate by 900 bps as tax credit was utilised and the tax rate normalised. Going forward, we expect profitability (as quantified by PAT/avg AUM) to improve on account of operating leverage led by frontloading of commissions and stabilised employee costs.

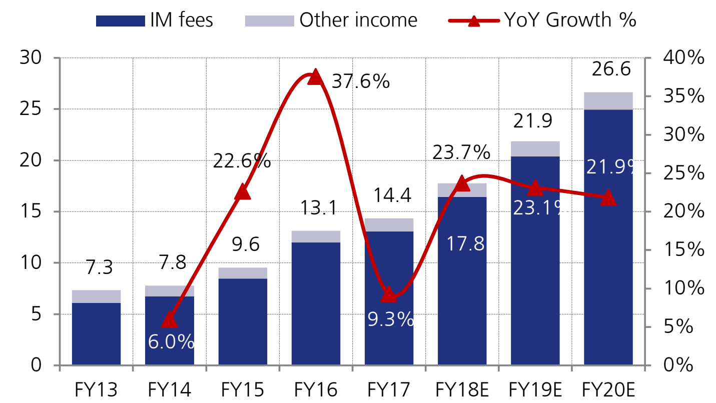
Earnings acceleration ahead

Expect revenue growth to record 23% CAGR over FY17-20

We expect RNLAM to improve its equity AUM proportion to 36% by FY20 led by wider distribution, realigned investments team (which should improve performance) and benefits of industry tailwinds.

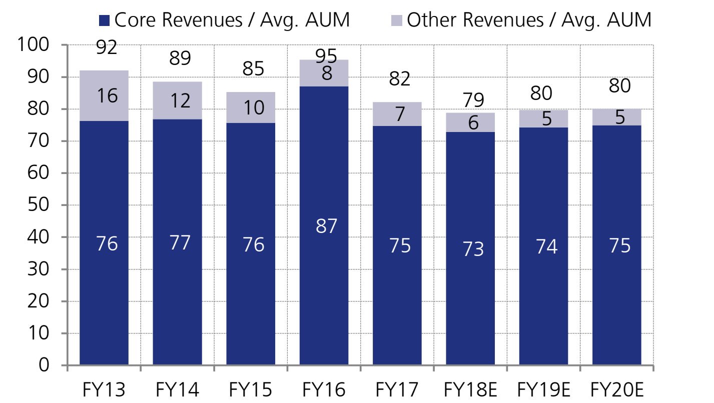
We project core revenues (as % of AUMs) to rise to 75bps by FY20 from 73bps in FY18E resulting in revenue CAGR of 23% over FY17-20.

Exhibit 48. RNLAM : Consol. revenue (INR bn) to post a 23% CAGR



Source: Company, AMFI, JM Financial

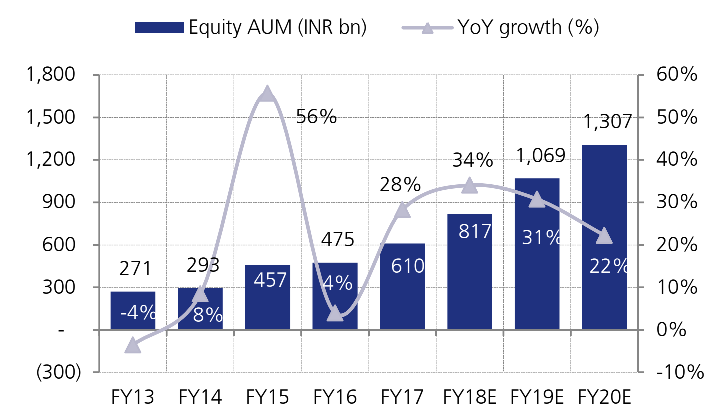
Exhibit 49. RNLAM: Revenue yields (bps) to expand over FY18-20E



Source: Company, AMFI, JM Financial

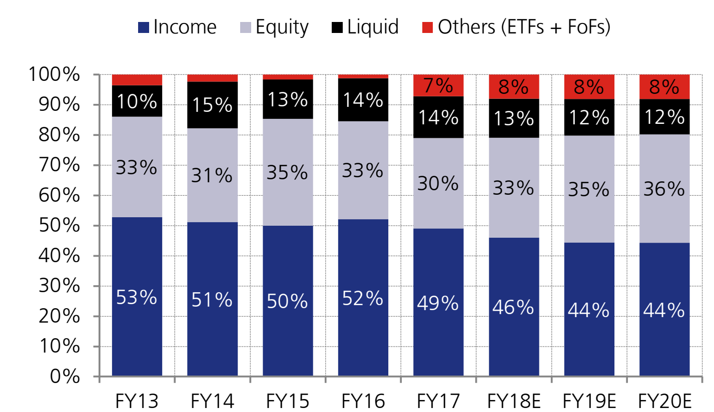
We build an overall AUM CAGR of 21% over FY17-20, which includes a CAGR of 29% on equity assets. Equity assets in the overall AUM mix are expected to expand from 33% as of 1HFY18 to 36% by FY20E, which will have a direct positive impact on RNLAM's profitability (PAT yields).

Exhibit 50. RNLAM : Industry tailwinds to aid robust equity MF growth



Source: Company, AMFI, JM Financial

Exhibit 51. RNLAM: Rising equity in AUM mix to boost profitability



Source: Company, AMFI, JM Financial

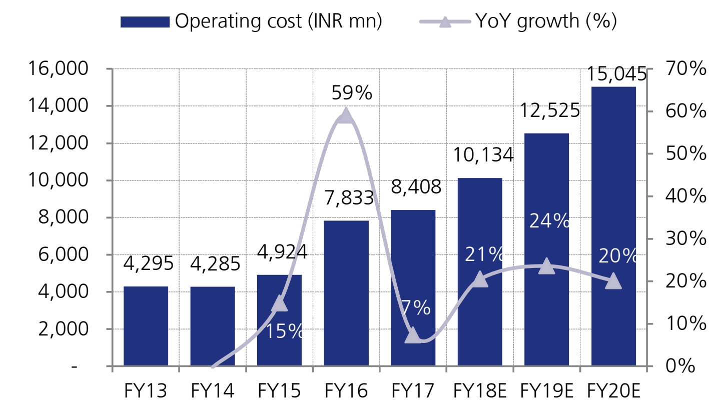
Operating costs to track revenue trajectory

We expect RNLAM's operating costs growth to remain in line with revenue trends given that competitive intensity in the industry remains high and benefits of operating leverage may take longer to bear fruit.

Also, RNLAM remains in an investment phase with respect to its other businesses (e.g. AIF, EPFO) and costs trajectory on that front will continue to be relatively elevated. We expect the operating leverage to play out in employee costs / AUM, which is expected to moderate to 9bps in FY20E from 11bps in FY17. As a result operating costs are expected to moderate to 46bps in FY20E from 49bps in FY17.

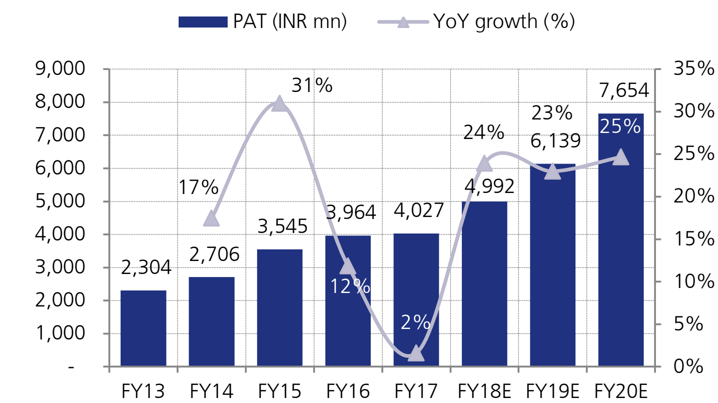
Operating costs are expected to largely track the revenue trajectory, growing at 21% CAGR over FY17-20E.

Exhibit 52. RNLAM : Operating cost to track revenue growth



Source: Company, AMFI, JM Financial

Exhibit 53. RNLAM: Consol. PAT CAGR of 24% over FY17-20E



Source: Company, AMFI, JM Financial

Consolidated PAT is expected to post a CAGR of c.24% over FY17-20E, with RoEs expanding to 24% by FY20E. PAT yields are expected to rise to c.23bps by FY20E, on improving high-yielding equity proportion in AUM mix and operating leverage arising from scale.

Experienced management team

The management team, led by Mr. Sundeep Sikka, is well-supported by highly experienced professionals, who have in-depth industry knowledge. Mr. Sundeep Sikka has been Chairman of the Industry body AMFI in the past. Each of equity and fixed income fund divisions has a distinct investment team that collaborates, through an interactive process, to make investment decisions.

Exhibit 54. RNLAM : Management team

Person	Designation	Profile
Sundeep Sikka	ED & CEO	Mr. Sundeep Sikka is the Executive Director & Chief Executive Officer of Reliance Nippon Life Asset Management Limited (RNLAM). Sundeep has served as both Vice-Chairman and Chairman of the industrial body AMFI (Association of Mutual Funds in India). He joined RNLAM in 2003.
Manish Gunwani	CIO – Equity Investments	Manish has 21 years of work experience primarily in equities spanning roles in equity research and fund management. During his stint at ICICI Prudential AMC, he managed two flagship funds of the mutual fund whose assets grew from USD 1bn to USD 5bn in 5 years. He has also co-founded a technology company in the document management space.
Amit Tripathi	CIO – Fixed Income Investments	Amit has more than 20 years of experience in Financial Services. He has been with RMF for 14 years. Amit has been an integral part of RMF's journey to become one of the largest and most respected fund houses in the country. He has successfully managed various fixed income and hybrid funds which have been recognized for superior performance both nationally and internationally.
Prateek Jain	Chief Financial Officer	Mr. Prateek Jain has over 16 years of experience in finance. Prior to this, he worked with AIG Global Asset Management Company as CFO & Head Risk Management. He has also been associated with organizations like Howden Insurance Brokers India Pvt Ltd. and ICICI Lombard General Insurance Company Ltd.

Source: Company, JM Financial

RNLAM vs. top players – how do they stack up?

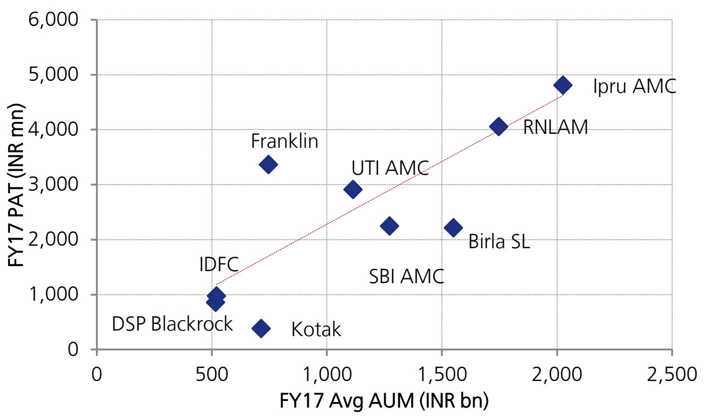
RNLAM, despite not having a natural advantage of a bank-led distribution model, boasts of profitability levels which are among the best in the industry with PAT/AUM at 23bps for FY17. Among the larger players, ICICI AMC has a PAT/AUM ratio of 24bps, also a reflection of the higher share of equity assets (44% of AUM as of 1HFY18). UTI AMC ranks high when it comes to profitability (26bps PAT/AUM).

Given the higher allowable expense ratio on equity funds, equity assets are a key driver of profitability for AMCs. ICICI AMC's high profitability is reflective of 44% share of equity assets in the total AUM. For RNLAM, the proportion of equity assets was at its highest at 35% in FY15 in the last 5 years. However, it dipped to 30% in FY17 and has since bounced back smartly by 300bps to 33% as of Sep'17.

However, among the top AMCs, proportion of equity assets has inched up for all players except the RNLAM and UTI (both being non-bank led). At the same time, it is noteworthy that Birla SL AMC, despite not being bank-promoted, has seen its equity assets swell to over 33% of AUMs (from ~16% in FY13) given the strong performance of its funds.

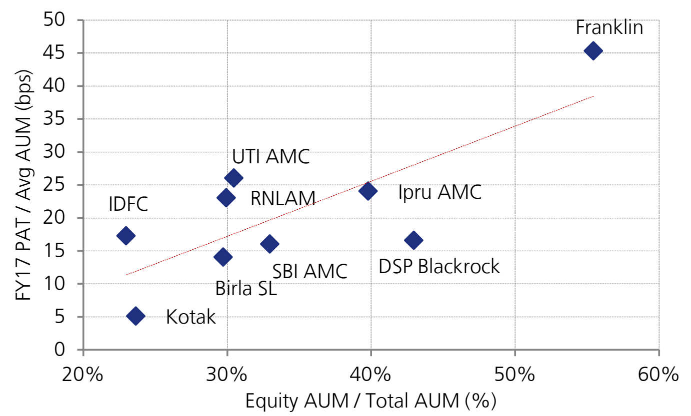
RNLAM has recently seen a dip in its equity market share quite sharply while ICICI Pru AMC, Birla SL AMC have seen significant gains since FY13.

Exhibit 55. PAT vs. AUM for top 10 mutual funds as of FY17



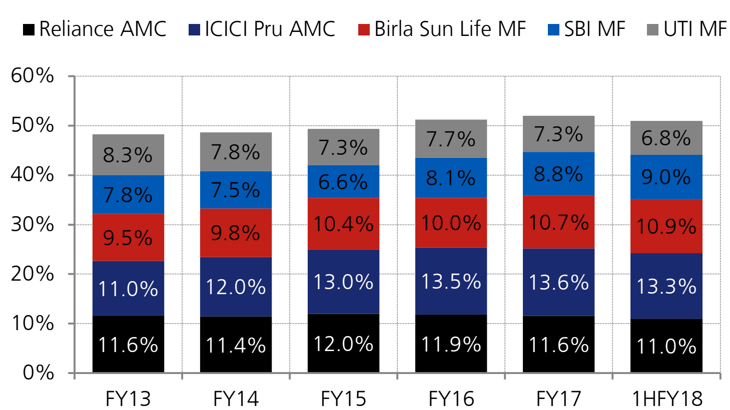
Source: Company, JM Financial, AMFI

Exhibit 56. PAT yield vs. Equity AUM proportion for top 10 MFs (FY17)



Source: Company, JM Financial, AMFI

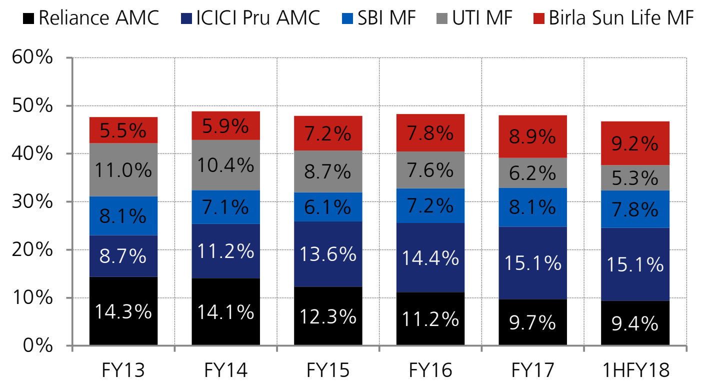
Exhibit 57. Top funds: Overall MF AUM market share



Source: JM Financial, Company, AMFI

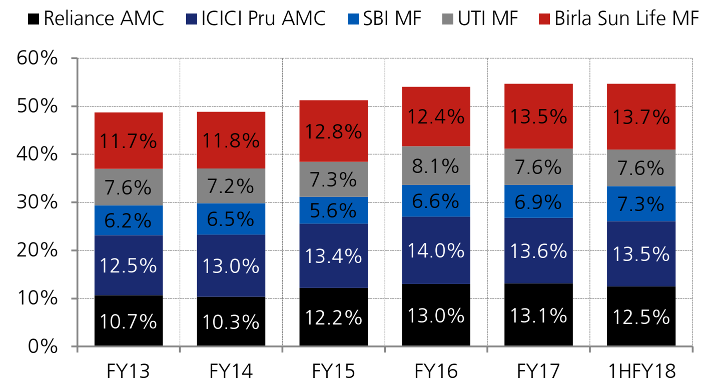
Market share by segment

Exhibit 58. Top funds: Equity MF AUM market share



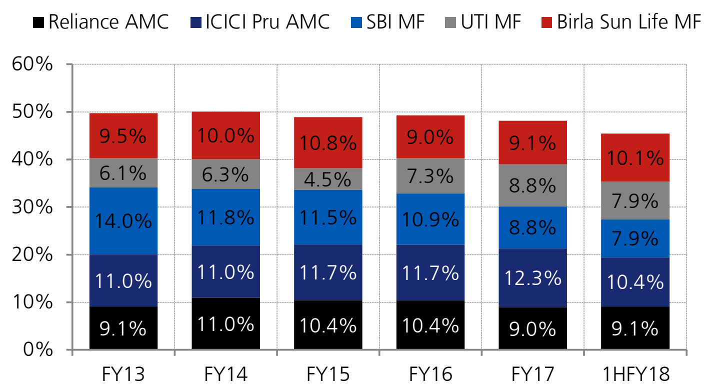
Source: Company, JM Financial, AMFI

Exhibit 59. Top funds : Income MF AUM market share



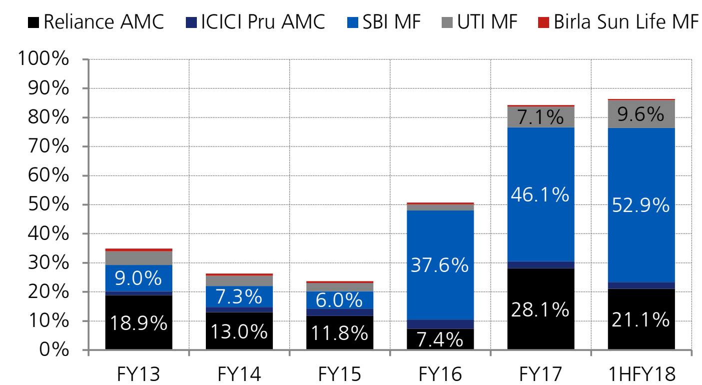
Source: Company, JM Financial, AMFI

Exhibit 60. Top funds: Liquid MF AUM market share



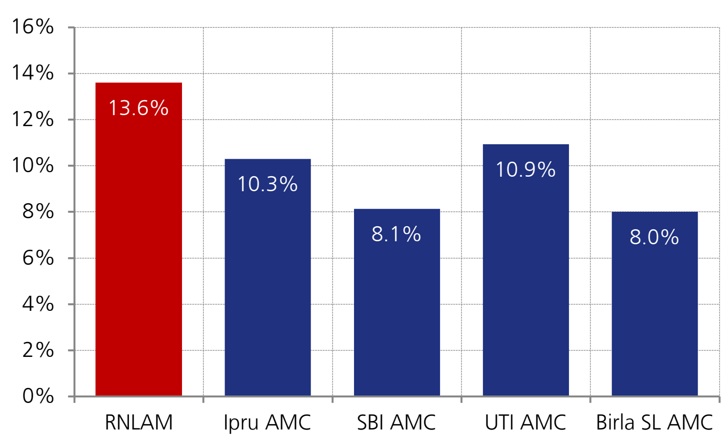
Source: Company, JM Financial, AMFI

Exhibit 61. Top funds : Other (ETF + FoFs) AUM market share



Source: Company, JM Financial, AMFI

Exhibit 62. RNLAM : Second-highest market share in retail AUM (Sep-17)



Source: Company, JM Financial

Dupont Analysis

Exhibit 63. FY17 Dupont analysis

FY17 Dupont analysis	RNLAM	Ipru MF	SBI MF	UTI MF	Birla MF
As a % of Avg AUM					
Core Revenues / Avg. AUM	0.73%	0.64%	0.54%	0.68%	0.60%
Other Revenues / Avg. AUM	0.07%	0.02%	0.03%	0.09%	0.03%
Total Revenues / Avg. AUM	0.80%	0.67%	0.57%	0.76%	0.64%
Employee cost / Avg. AUM	0.10%	0.09%	0.10%	0.23%	0.12%
Brokerage / Avg. AUM	0.15%	0.06%	0.10%	0.01%	0.23%
Operating cost / Avg. AUM	0.47%	0.30%	0.33%	0.41%	0.42%
PBT / Avg. AUM	0.33%	0.36%	0.24%	0.36%	0.22%
PAT / Avg. AUM	**0.23%**	**0.24%**	**0.16%**	**0.26%**	**0.14%**
As a % of Balance sheet assets					
Core Revenues / Avg. Assets	65.0%	143.3%	83.3%	40.4%	84.1%
Other Revenues / Avg. Assets	6.7%	5.4%	4.7%	5.1%	4.5%
Total Revenues / Avg. Assets	71.7%	148.7%	88.0%	45.5%	88.6%
Employee cost / Avg. Assets	9.3%	19.3%	15.1%	13.8%	16.3%
Brokerage / Avg. Assets	13.2%	13.7%	15.1%	0.4%	31.5%
Operating cost / Avg. Assets	41.9%	67.8%	50.7%	24.2%	58.6%
PBT / Avg. Assets	29.8%	80.9%	37.3%	21.3%	30.0%
RoA (%)	**20.8%**	**52.9%**	**25.4%**	**15.5%**	**19.8%**
Avg Assets/Equity (x)	1.1	1.3	1.3	1.1	1.2
RoE (%)	**22.7%**	**70.1%**	**32.0%**	**17.1%**	**24.3%**

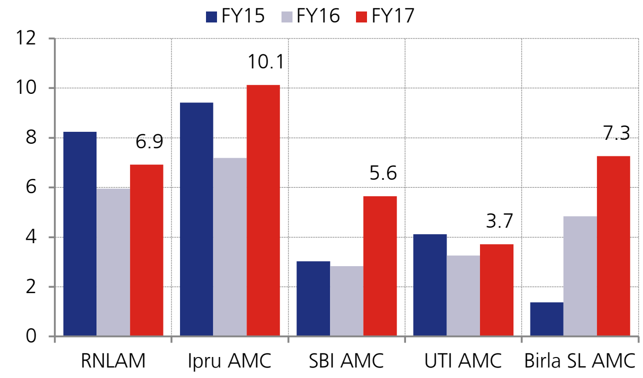
Source: Company, JM Financial

A closer look at the DuPont tables for the top players indicate that revenue yields differ primarily due to variance in recognition of revenues given fungibility with respect to booking management fees on a gross or net (of commissions) basis. Employee costs for all players (except UTI AMC) remain in the 8-10bps range.

Commission payouts

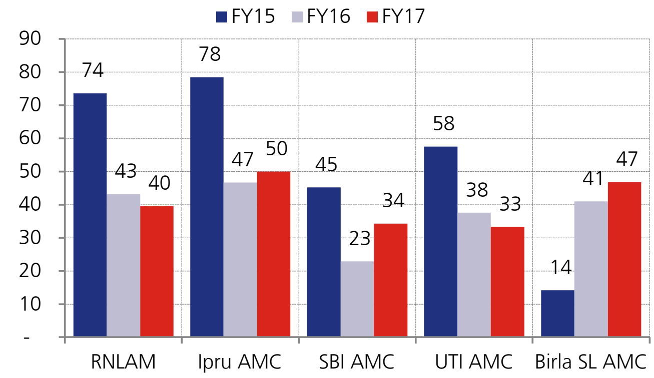
We observe (Exhibit 64-65 below) that gross commissions (i.e. those recognized in AMC P&L as well as those recognised on a scheme basis) are in the range of 40-50 bps of AUMs for top AMCs. Commissions have gradually edged off since FY15 levels, when fund houses were aggressive with upfront commissions to lock-in AUMs in close-ended schemes. Gross commissions paid out by RNLAM (40 bps of AUM in FY17) are comparatively lower, compared with the rest of the industry, presumably due to its strength in direct plans and moreover, due to its well-diversified distributor base which gives it a higher bargaining power RNLAM pays out the one of the lowest gross commissions (c.40bps as % Avg AUM) among the top fund houses. We expect management's continued focus on profitable AUM expansion to hold PAT yields in good stead going forward.

Exhibit 64. Top funds: Gross commission payout (INR bn)



Source: Company, JM Financial, AMFI

Exhibit 65. Top funds: Gross commission/AUM (bps) has declined

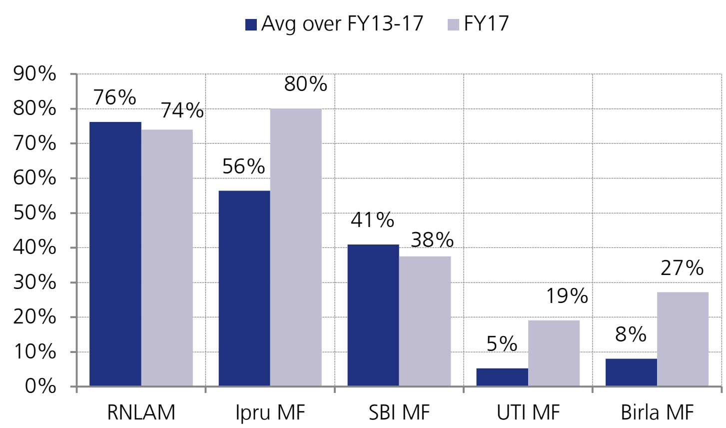


Source: Company, JM Financial, AMFI

Dividend payouts

With respect to dividend payouts, RNLAM ranks quite favourably with respect to other large peers in the industry. Dividend payouts are expected to remain high across the industry as capital requirements towards investments and capex remains minimal.

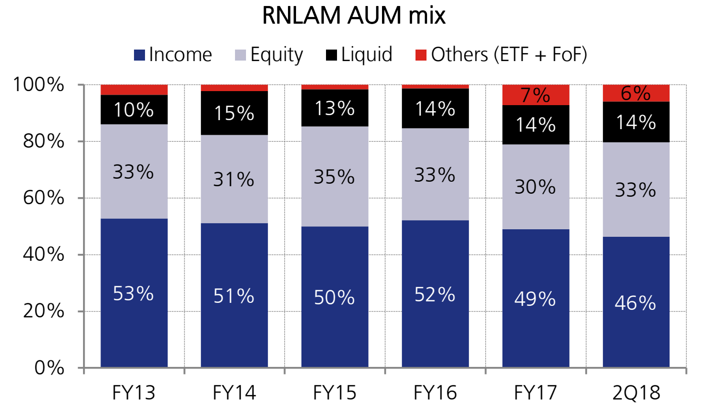
Exhibit 66. Top funds: Dividend payout ratio (Dividend / PAT)



Source: Company, JM Financial

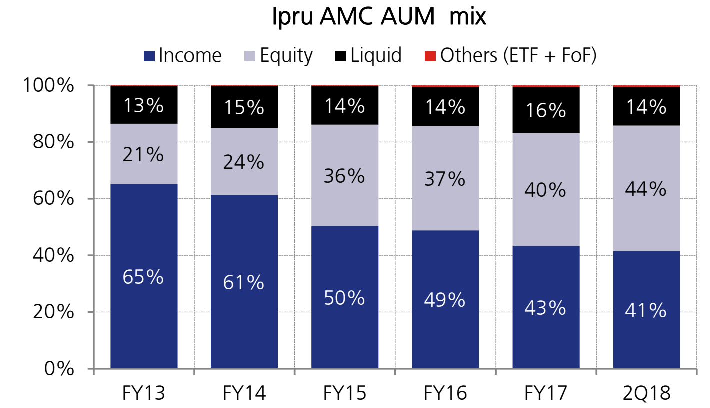
AUM mix

Exhibit 67. RNLAM AUM mix



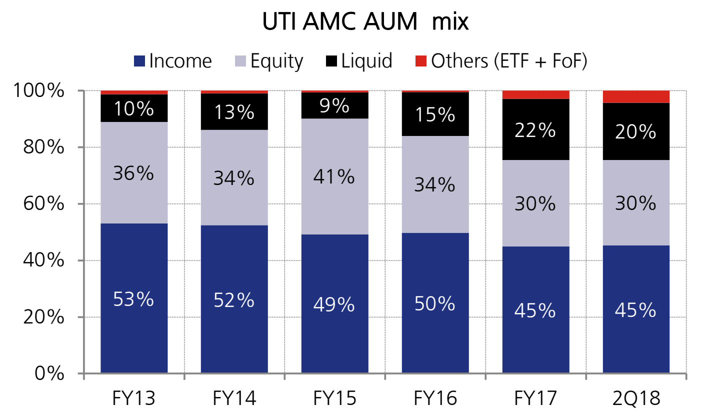
Source: Company, JM Financial, AMFI

Exhibit 68. Ipru AMC AUM mix



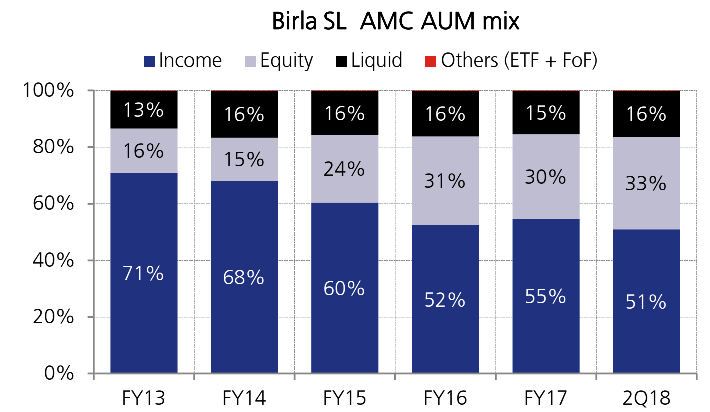
Source: Company, JM Financial, AMFI

Exhibit 69. UTI AMC AUM mix



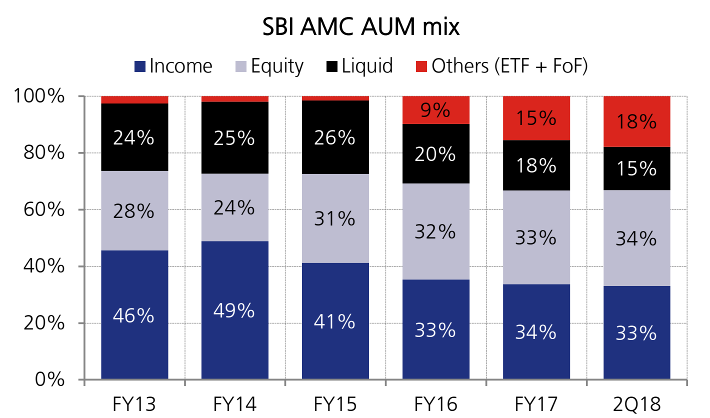
Source: Company, JM Financial, AMFI

Exhibit 70. Birla SL AMC AUM mix



Source: Company, JM Financial, AMFI

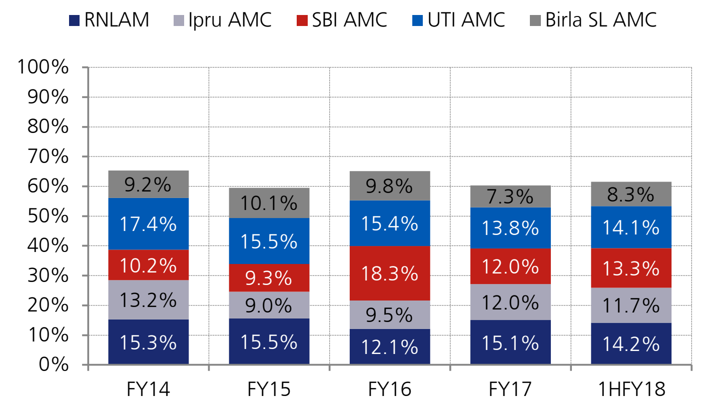
Exhibit 71. SBI AMC AUM mix



Source: Company, JM Financial, AMFI

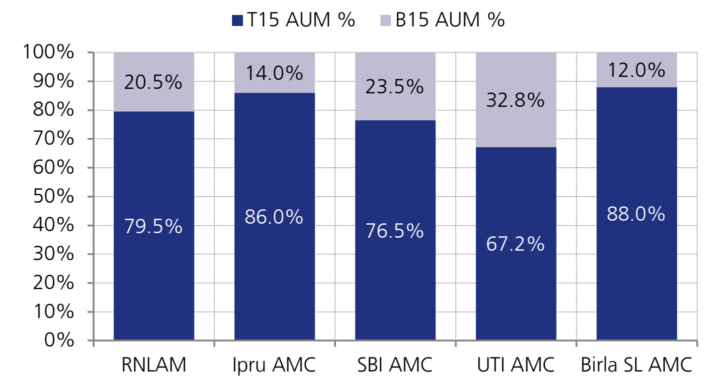
B15 vs T15 locations : AUM mix and market shares

Exhibit 72. Top funds : Market share in B15 locations



Source: Company, JM Financial, AMFI

Exhibit 73. Top funds: AUM split between B15 and T15 locations



Source: Company, JM Financial, AMFI

Key risks to RNLAM

Regulatory risk: The Bose Committee has recommended the complete phasing out of upfront commissions in the distribution of financial products. This withdrawal of upfront incentives, if implemented, could detrimentally impact RNLAM's sales through distributors.

The Bose Committee has recommended lowering the cap on expense ratio with increase in AUM in the MF 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 an adverse impact on RNLAM's profitability.

A recent SEBI proposal seeks to split the role of an investment advisor and distributor in order to prevent the mis-selling of financial products. The report recommends that banks, NBFCs, and other corporates should not simultaneously provide distribution services alongside investment advisory services in financial products, either directly or indirectly through a subsidiary/associate. If implemented, this could have a detrimental impact on the overall industry which relies on the banking channel for c.40% of AUM flows. We believe that if this regulation comes into place, it could level the playing field among fund houses; AMCs with banking parents will be more adversely affected. It could be a positive for RNLAM from the perspective of gaining market share, however, overall industry growth may be adversely impacted.

Predatory pricing by participants to garner market share : India has 41 AMCs, indicating the potential for consolidation or competition. In the future, rising competitive pressure may push some AMCs towards predatory pricing to acquire higher market share leading to shrinking yields and consequently profitability for AMCs.

Fund performance: Consecutive negative or underperformance by various schemes or the market at large may lead to outflows from AUM leading impacting the business. While majority of schemes under RNLAM have consistently outperformed their benchmark, any future underperformance will impact pace of inflows to the funds.

Inter-corporate deposits: As of Jun-17, RNLAM held INR 4.45bn (c.24% of total standalone assets) as inter-corporate deposits (ICDs). Management has guided towards winding down of these ICDs by March-2018 and it remains a key monitorable. Moreover, winding down these ICDs could free up capital for utilisation towards the core business, which could have a positive impact on RoE.

Valuation

We value RNLAM using 2-stage Gordon Growth Model on consolidated financials. We value RNLAM at 27.7x FY20E EPS of INR 12.5. Our 12-month TP takes into account an expected PAT CAGR of c.24% over FY17-20E, with RoE expected to touch 24% by FY20E. Moreover, we forecast dividend payout at 65% over this period.

Our assumptions and target price are given below:

Exhibit 74. RNLAM :Valuation summary

Initial no of years	10
Growth rate for the first 10 years (%)	25%
Payout ratio for the first 10 years (%)	65%
Perpetual growth rate (%)	7%
Perpetual payout ratio (%)	80%
K1	12.1
K2	15.6
FY20E EPS (INR)	12.5
Target multiple on FY20E EPS	27.7
Fair value (rounded off)	**350**

Source: Company, JM Financial

Sensitivity Analysis

The table shows the variation in FY19E PAT with change in Revenue / MF AUM and Operating cost / MF AUM . Our FY19E PAT estimated of INR 6,139 mn factors in revenue / MF AUM of 80bps and Opex / MF AUM of 46bps.

Exhibit 75. RNLAM : FY19E PAT sensitivity to Revenue / AUM and Opex / AUM

FY19E PAT (INR mn)		Total revenue / AUM (%)				
		0.76%	0.78%	0.80%	0.82%	0.84%
Total Opex / AUM (%)	0.42%	6,318	6,685	6,943	7,421	7,789
	0.44%	5,916	6,283	6,541	7,019	7,387
	0.46%	5,514	5,881	6,139	6,617	6,985
	0.48%	5,246	5,613	5,871	6,349	6,717
	0.50%	4,978	5,345	5,603	6,081	6,449

Source: Company, JM Financial

Our FY20E PAT estimated of INR 7,654 mn factors in revenue / MF AUM of 80bps and Opex / MF AUM of 46bps.

Exhibit 76. RNLAM : FY20E PAT sensitivity to Revenue / AUM and Opex / AUM

FY20E PAT (INR mn)		Total revenue / AUM (%)				
		0.76%	0.78%	0.80%	0.82%	0.84%
Total Opex / AUM (%)	0.42%	7,695	8,141	8,588	9,034	9,480
	0.44%	7,228	7,674	8,121	8,567	9,013
	0.46%	6,761	7,207	7,654	8,100	8,546
	0.48%	6,294	6,740	7,187	7,633	8,079
	0.50%	5,827	6,273	6,720	7,166	7,612

Source: Company, JM Financial

Global peer group valuations

Globally AMCs are witnessing a shift away from active fund management towards passive management. As a result, most fund houses in the US involved in active fund management have seen revenues remain flat or decline over the past 3 years. Blackrock, the single largest listed US AMC with c.$6tn in AUM, has c.62% of its AUM in passive equity and debt funds (as of CY2016). As a result, it commands a valuation premium to its peer group as shown in Exhibit 78.

Price to AUM comparisons are not strictly comparable to Indian fund houses for 2 reasons : a) US AMCs are in a phase of stagnant or declining revenue trajectory and b) PAT yields (PAT / AUM) are generally much lower in the case of these AMCs : In CY2016, Blackrock recorded – 6bps, Franklin 23bps , T Rowe 16 bps, Invesco 12 bps , Legg Mason 3bps.

Exhibit 77. Global peer valuations

Company	AUM ($bn) (30 Sep '17)	Market cap ($bn) (30 Sep '17)	Price to AUM (%)	Consensus Price to FY19E Earnings (x)
Blackrock	$ 5,976.9	$ 71.8	1.2%	18.4
T Rowe Price Group	$ 947.9	$ 22.0	2.3%	16.4
Invesco	$ 917.5	$ 14.3	1.6%	11.5
Affiliate Managers	$ 803.7	$ 11.1	1.4%	10.9
Franklin Resources	$ 753.2	$ 24.7	3.3%	14.2
Legg Mason	$ 754.4	$ 3.6	0.5%	10.6
Alliance Bernstein	$ 534.9	$ 2.3	0.4%	10.1
Eaton Vance Corp	$ 405.6	$ 5.7	1.4%	16.5
Federated Investors	$ 35.4	$ 0.7	2.1%	15.3
Waddell & Reed	$ 80.9	$ 1.7	2.1%	12.4
Cohen & Steers	$ 61.5	$ 1.8	3.0%	17.6
Pzena Investment Management	$ 35.4	$ 0.7	2.1%	11.4
Average multiple			**1.4%**	**13.8**

Source: JM Financial, Bloomberg

Financial Tables (Consolidated)

Income Statement (INR mn)	FY16	FY17	FY18E	FY19E	FY20E
Invst. Mgmt. Fees	11,581	12,676	16,001	19,870	24,301
PMS Fees	418	398	412	512	640
Share of Profit in LLP	2	1	2	2	2
Investment Management fees	**12,001**	**13,075**	**16,415**	**20,384**	**24,942**
Total Other income	1,137	1,284	1,348	1,483	1,705
Total Revenue	**13,138**	**14,359**	**17,763**	**21,867**	**26,647**
Employee costs	1,923	1,957	1,977	2,414	2,912
Admin & Other expenses	2,159	2,559	3,188	3,960	4,936
Mktg & publicity expenses	3,752	3,892	4,968	6,151	7,197
Total Operating Expenses	**7,833**	**8,408**	**10,134**	**12,525**	**15,045**
Depreciation/Diminution in LT	81	138	179	179	179
Total Expenditure	**7,914**	**8,546**	**10,313**	**12,704**	**15,224**
PBT	**5,224**	**5,813**	**7,450**	**9,162**	**11,423**
Tax	(1,260)	(1,786)	(2,459)	(3,024)	(3,770)
PAT (Pre-Extraordinaries)	**3,964**	**4,027**	**4,992**	**6,139**	**7,654**
Less: Share of Minority	(0)	-	-	-	-
Reported Proft (PAT)	**3,964**	**4,027**	**4,992**	**6,139**	**7,654**
Dividend	1,737	3,003	3,245	3,990	4,975
Retained earnings	**2,227**	**1,025**	**1,747**	**2,149**	**2,679**

Source: Company, JM Financial

Key Ratios					
As a % of Avg AUM	FY16	FY17	FY18E	FY19E	FY20E
Core Revenues / Avg. AUM	0.87%	0.75%	0.73%	0.74%	0.75%
Other Revenues / Avg. AUM	0.08%	0.07%	0.06%	0.05%	0.05%
Total Revenues / Avg. AUM	**0.95%**	**0.82%**	**0.79%**	**0.80%**	**0.80%**
Employee cost / Avg. AUM	0.14%	0.11%	0.09%	0.09%	0.09%
Brokerage / Avg. AUM	0.23%	0.15%	0.15%	0.15%	0.15%
Operating cost / Avg. AUM	0.57%	0.49%	0.46%	0.46%	0.46%
PBT / Avg. AUM	0.38%	0.33%	0.33%	0.33%	0.34%
PAT / Avg. AUM	**0.29%**	**0.23%**	**0.22%**	**0.22%**	**0.23%**
As a % of Balance sheet assets	FY16	FY17	FY18E	FY19E	FY20E
Core Revenues / Avg. Assets	66.1%	65.7%	66.5%	67.1%	73.6%
Other Revenues / Avg. Assets	6.3%	6.4%	5.5%	4.9%	5.0%
Total Revenues / Avg. Assets	72.3%	72.1%	72.0%	72.0%	78.6%
Employee cost / Avg. Assets	10.6%	9.8%	8.0%	7.9%	8.6%
Brokerage / Avg. Assets	17.2%	13.0%	13.5%	13.5%	14.3%
Operating cost / Avg. Assets	43.1%	42.2%	41.1%	41.2%	44.4%
PBT / Avg. Assets	28.8%	29.2%	30.2%	30.2%	33.7%
RoA (%)	21.8%	20.2%	20.2%	20.2%	22.6%
Avg Assets/Equity (x)	1.1	1.1	1.1	1.1	1.1
RoE (%)	**24.3%**	**22.2%**	**21.9%**	**21.5%**	**24.1%**

Source: Company, JM Financial

Balance Sheet (INR mn)	FY16	FY17	FY18E	FY19E	FY20E
Share capital	115	115	6,120	6,120	6,120
Reserves & Surplus	17,504	18,511	20,921	23,815	27,478
Networth	**17,619**	**18,626**	**27,041**	**29,935**	**33,598**
Preference shares	300	300	-	-	-
Minority interest	89	-	-	-	-
Current Liabilities	1,190	1,372	1,509	1,660	1,826
Provisions	110	216	269	337	421
Total Liabilities	**19,308**	**20,513**	**28,819**	**31,932**	**35,845**
Net Fixed Assets	119	2,511	2,793	3,104	3,449
Non-Current investments	5,272	5,895	6,452	7,429	8,565
Total Non-current assets	**9,335**	**10,005**	**10,924**	**12,297**	**13,866**
Total Current investments	3,836	3,570	3,749	3,936	4,133
Total Current Assets	**9,972**	**10,507**	**17,488**	**17,954**	**18,684**
Total Assets	**19,308**	**20,513**	**28,819**	**31,932**	**35,845**

Source: Company, JM Financial

Growth ratios (YoY %)	FY16	FY17	FY18E	FY19E	FY20E
Inv mgmt fees	41.6%	9.0%	25.5%	24.2%	22.4%
Other income	5.4%	12.9%	5.0%	10.0%	15.0%
Revenue	**37.6%**	**9.3%**	**23.7%**	**23.1%**	**21.9%**
Employee cost	19.2%	1.8%	1.0%	22.1%	20.6%
Admin & other exp	19.3%	18.5%	24.6%	24.2%	24.7%
Marketing & publicity exp	150.0%	3.8%	27.6%	23.8%	17.0%
Total operating exp	59.1%	7.3%	20.5%	23.6%	20.1%
PBT	**12.6%**	**11.3%**	**28.2%**	**23.0%**	**24.7%**
Tax	15.2%	41.8%	37.7%	23.0%	24.7%
PAT	**11.8%**	**1.6%**	**23.9%**	**23.0%**	**24.7%**
Total Assets	**13.5%**	**6.2%**	**40.5%**	**10.8%**	**12.3%**
Equity AUM	4%	28%	34%	31%	22%
Debt AUM	18%	31%	14%	18%	20%
Liquid AUM	22%	37%	13%	15%	17%
Other AUM	-11%	706%	36%	24%	20%
Total AUM	**13%**	**39%**	**21%**	**22%**	**21%**

Source: Company, JM Financial

AUM (INR bn)					
QAAUM as at Q4,	FY16	FY17	FY18E	FY19E	FY20E
Equity	475	610	817	1,069	1,307
Debt	761	998	1,138	1,339	1,613
Liquid	207	283	318	365	427
ETF	18	145	197	244	293
Total AUM	**1,461**	**2,036**	**2,471**	**3,018**	**3,640**

Source: Company, JM Financial

Valuation	FY16	FY17	FY18E	FY19E	FY20E
Shares in issue (mn)	587.5	587.5	612.0	612.0	612.0
EPS (INR)	**6.7**	**6.9**	**8.2**	**10.0**	**12.5**
EPS (YoY)(%)	12%	2%	19%	23%	25%
PER (x)	**43.4**	**42.7**	**35.9**	**29.2**	**23.4**
BV (INR)	30.0	31.7	44.2	48.9	54.9
BV (YoY)	17.0%	5.7%	39.4%	10.7%	12.2%
P/BV (x)	9.8	9.2	6.6	6.0	5.3
DPS (INR)	3.0	5.1	5.3	6.5	8.1
Div. yield (%)	1.0%	1.7%	1.8%	2.2%	2.8%

Source: Company, JM Financial

APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U65192MH1995PLC092522

Member of BSE Ltd. and National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: BSE - INZ010012532, NSE - INZ230012536 and MSEI - INZ260012539, Research Analyst – INH000000610

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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