

India Asset Management Industry: Strong Potential Ahead

Diversified Financials

India

9 May 2018

HDFC AM is the most profitable company in India's asset management industry, and IPRU AM and Aditya Birla AM are gaining market share

Indian asset managers trade on a premium to global peers



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Increasing Retail Participation to Drive Sector Growth

India's asset management industry is going through a purple patch with a CAGR for average assets under management (AAUM) of 27% over the past four years driven by the shift of household savings from physical assets like gold and real estate to financial instruments such as mutual funds and life insurance products, and by currency demonetization. The financialization of household assets has attracted investors to the asset management industry and helped spur the 6 November 2017 listing of Reliance Nippon Life Asset Management (RNAM IN) (RNAM) as well as the upcoming IPO of HDFC Asset Management (unlisted) (HDFC AM). We see this as a structural trend and given that the International Monetary Fund (IMF) projects real GDP growth in India of 7.4% over the medium term, a CAGR for assets under management (AUM) in the industry of 15–16% over the next 10 years seems to us to be a reasonable expectation. Nevertheless, we think the strong growth in AUM during the last couple of years is an aberration. The industry has shown a high correlation with the equity markets as retail investors have seen mutual funds as a vehicle to gain exposure to stocks and hence they tend to exit mutual funds in bad market conditions. We like India's asset management industry and believe that investors can profit over the long term as we think well run asset management companies can post CAGRs for EPS of 15–20% in the next five years. However, investors should follow asset management company valuation closely because we expect earnings to be volatile over this period.

HDFC AM is India's most profitable asset management company with a net yield (i.e., NP as percentage of AAUM) of 22bps as of FY3/17 as its management fees are high and its employee expenses are low compared with peers. Over the past five years, however, HDFC AM has lost share amongst the top five Indian mutual fund operators with ICICI Prudential Asset Management (unlisted) (IPRU AM) and Aditya Birla Sun Life AMC (unlisted) (Aditya Birla AM) seeing the biggest gains in share. HDFC AM's established brand and strong distribution network have helped keep it at the top of the industry, but there is not much to differentiate it from the other leading mutual fund companies. RNAM is India's only listed asset management company at present and, even though it is not backed by a bank, the mutual fund operator has not lost significant share over the past five years thanks to its robust nationwide network. We have a BUY rating on RNAM.

India's asset management sector is currently trading on a premium to global peers on a market cap-to-AAUM basis. We think this is justified given the Indian sector's high yield on assets and its relatively robust AUM growth rate. Global asset managers with strong yields and AUM growth also trade on a high valuation (e.g., Magellan Financial (MFG AU) traded on 11.7% its AAUM in CY16).

FY3/17 Financial Highlights for Leading India Asset Management Firms

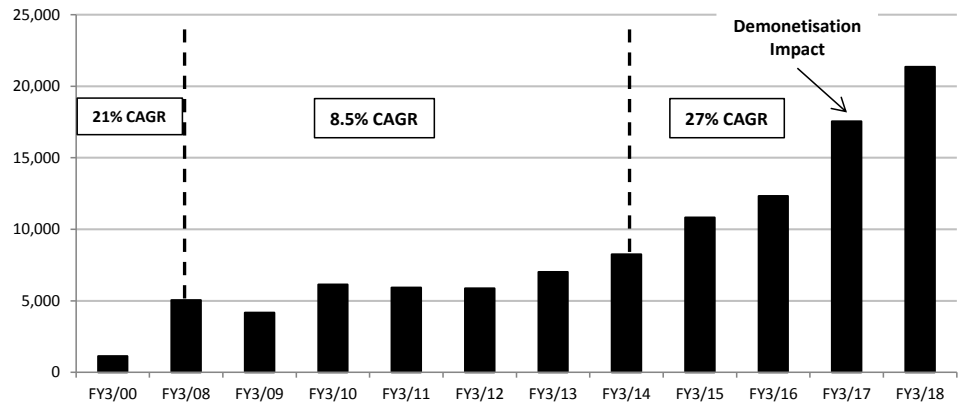
(in Rs mn unless stated)	HDFC AMC	IPRU AMC	RNAM		Aditya Birla AMC	SBI AMC
			FY3/17	FY3/18		
Average Mutual Fund AUM (in Rs bn)	2,460	2,430	2,109	2,449	1,953	1,570
Revenue	15,879	13,497	14,359	18,150	10,145	7,781
PBT	7,998	7,347	5,813	7,260	3,371	3,297
PBT (without Investment Income)	7,116	6,884	4,529	4,970	2,960	2,921
PAT	5,503	4,805	4,028	5,220	2,232	2,241
Network	14,229	7,332	18,504	22,870	9,416	9,416
Gross Yield	65	56	68	74	52	50
Net Yield	22	20	19	21	11	14
RoE	43%	70%	24%	25%	25%	25%
Market Cap / FY18 AAUM (%)	n/a	n/a	6.1%	6.1%	n/a	n/a

Source: Company data

Asset Management Companies Attracting Attention of Investors in India

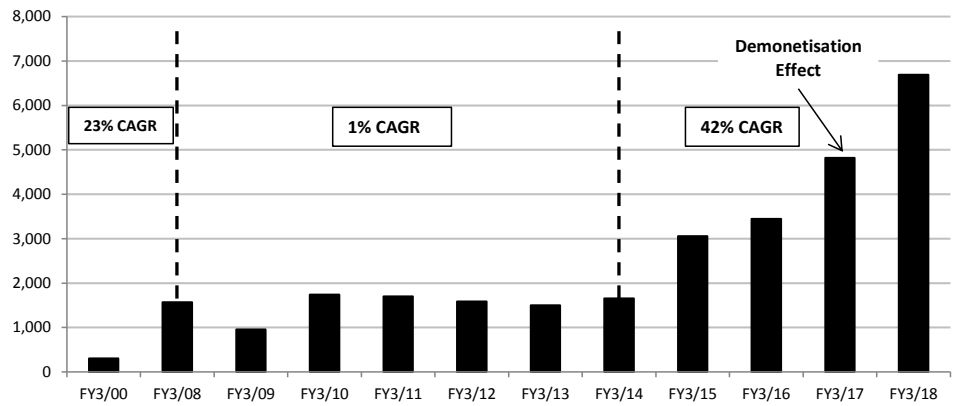
Several Indian asset management firms have been looking to list their shares over the past year. RNAM, the third-largest mutual fund operator in India in FY3/17 in terms of AUM, completed its IPO on 6 November 2017 and HDFC AM filed a red herring prospectus on 14 March 2018. This listing activity has been spurred by the industry’s favorable run over the last couple of years thanks in part to demonetization and to a CAGR for AUM of 27% during March 2014–March 2018. The CAGR for equity AUM in the industry was 42% over this period. AUM for the industry overall reached about US\$328bn in FY3/18 with equity AUM at US\$103bn.

Total AAUM for Asset Management Firms in India (Rs bn)



Source: Association of Mutual Funds in India (AMFI)

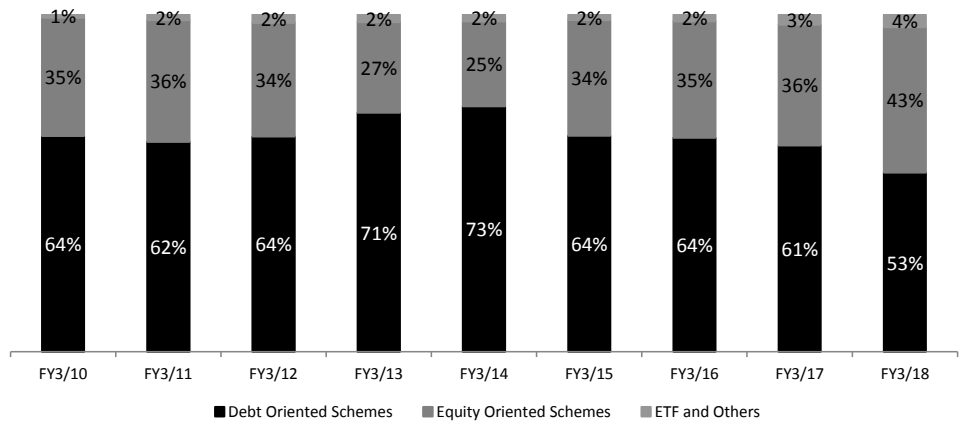
Total Equity AUM for Asset Management Firms in India (Rs bn)



Source: AMFI

India’s asset management industry has gone through a purple patch over the past couple of years supported by demonetization and a CAGR for AUM of 27% during March 2014–March 2018

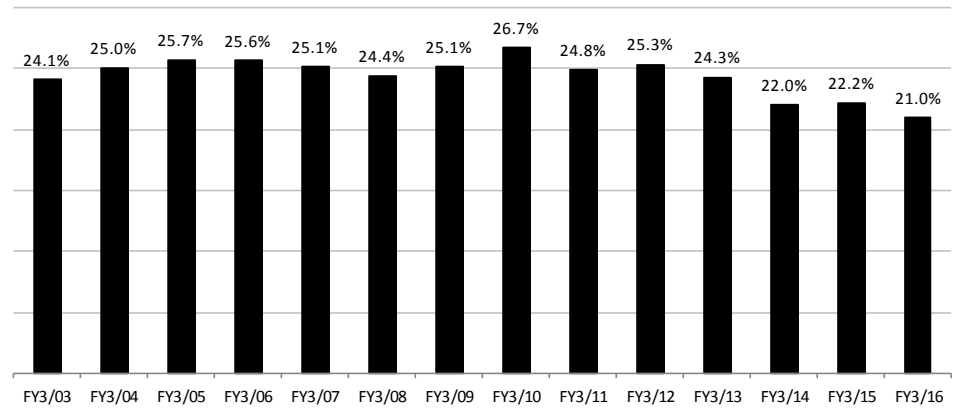
AUM Breakdown for India Asset Management Industry



Source: CEICData

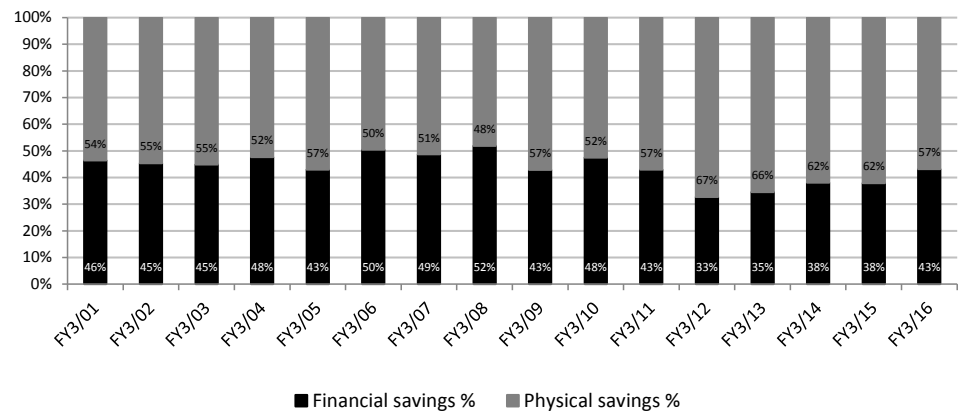
This increase in AUM for India’s asset management industry has been driven largely by the movement of household savings into financial instruments.

India Household Savings as Percentage of GDP



Source: Reserve Bank of India (RBI)

Financial Instruments and Physical Assets as Percentage of Household Savings in India

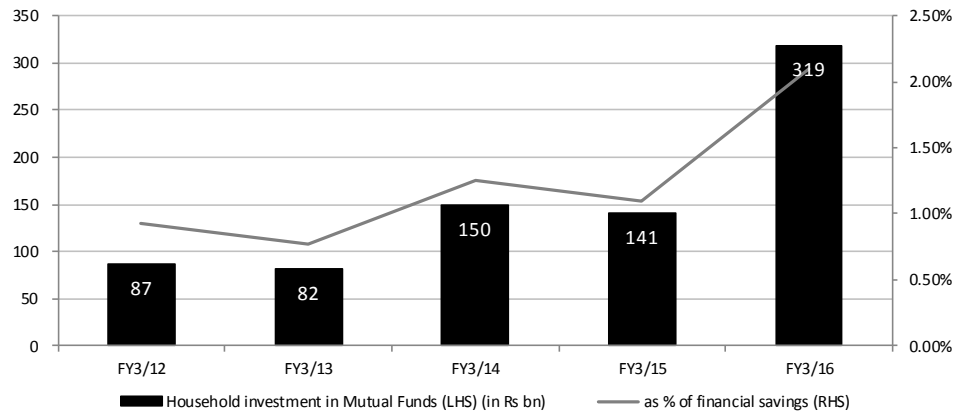


Source: RBI

Financial instruments are increasing as a percentage of household savings

The proportion of household savings moving into mutual funds has picked up significantly in recent years.

India Household Investment in Mutual Funds

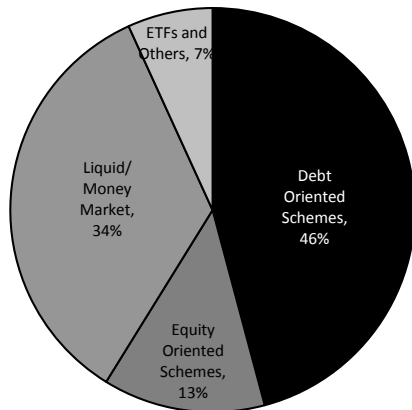


Source: RBI

We Believe Increase in Mutual Funds Participation in India Is Structural Trend

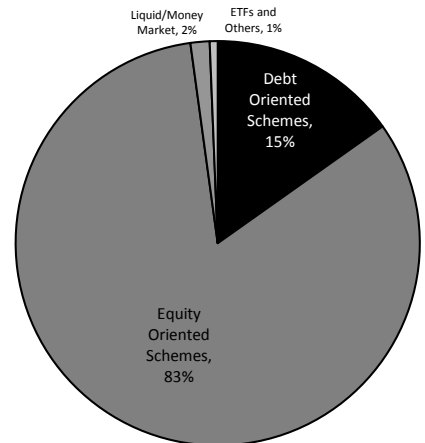
The Indian asset management industry has seen sharp growth in AAUM when equity markets are brisk. There was however a lull in AUM growth during FY3/08–14 accompanying the downturn in the equity markets. The industry has shown a high correlation with the equity markets because retail investors view mutual funds as a proxy for stock investment.

Breakdown of Corporate Investor Financial Instrument Holdings in India (March 2018)



Source: AMFI

Breakdown of Retail Investor Financial Instrument Holdings in India (March 2018)



Source: AMFI

The industry has shown a high correlation with the equity markets because retail investors view mutual funds as a proxy for stock investment

About 83% of retail investors' financial instrument holdings were equity-oriented as of end-FY3/18

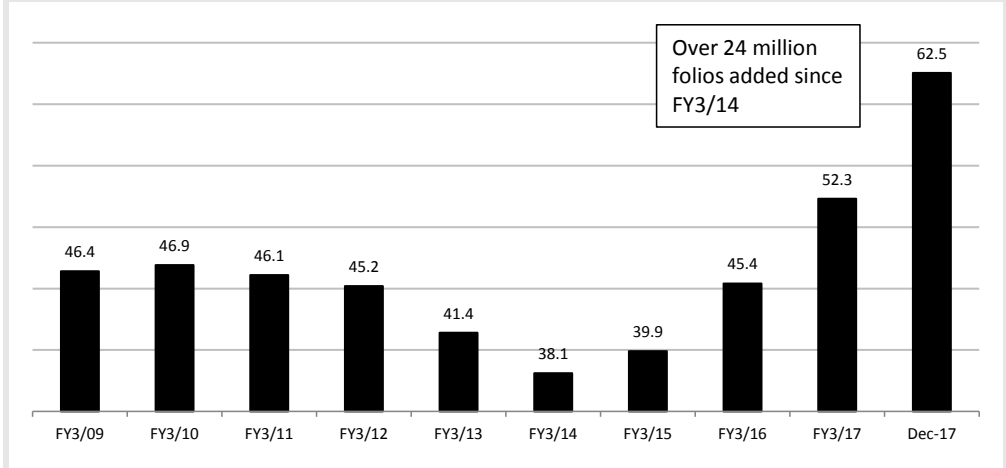
We do not think that the current pace of growth in India's mutual fund industry is sustainable. Nevertheless, we see the asset management industry as a growth segment over the long term because we believe the financialization of household savings is a structural trend. If (a) GDP in India increases 8% annually over the next ten years, (b) total financial savings in India increase from 13.2% in FY3/17 to 20.0% of GDP by FY3/27 (in line with the peak of 19.3% in FY3/07), and (c) India's mutual fund industry is able to retain its share 12% of household financial savings, we would expect to see AAUM growth for India's asset managers of 13% annually over the next ten years to reach Rs65trn by FY3/27.

The recent jump in asset management industry assets in India is attributable to the increase in mutual funds as a percentage of financial savings

Systematic Investment Plans (SIPs) Driving Surge in Mutual Fund Assets

The recent jump in asset management industry assets is attributable to the increase in mutual funds as a percentage of financial savings. The number of retail investor mutual fund folios has reversed course and expanded over the past five fiscal years to 62.5mn at the end 2017.

Number of India Retail Investor Mutual Fund Folios (mn)

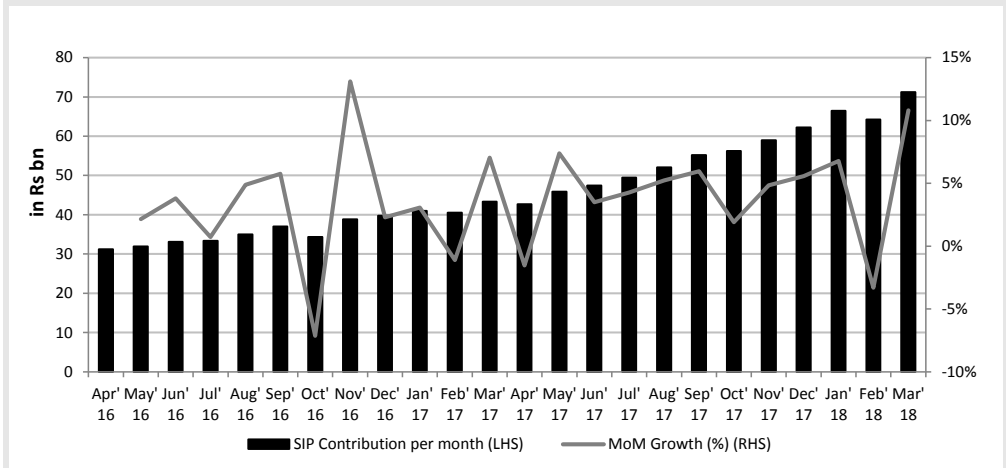


Source: AMFI

According to AMFI, there were about 21.1mn SIP accounts in the Indian mutual fund industry as of end-March 2018

According to AMFI, there were about 21.1mn SIP accounts (which facilitate regularly investment) in the Indian mutual fund industry as of end-March 2018. AMFI data show that on average the mutual fund industry added about 970,000 SIP accounts monthly in FY3/18 (up from 627,000 per month in FY3/17), with the size of the average SIP account at about Rs3,375. The industry collected Rs671.9bn through SIPs in FY3/18, nearly 25% of the net flow into mutual funds for the year.

Monthly Contributions to Mutual Fund SIP Accounts



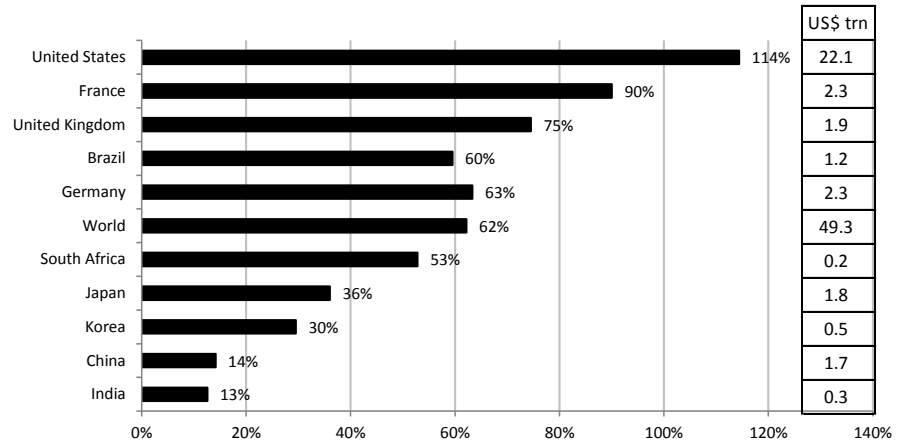
Source: AMFI

The industry collected Rs672bn through SIPs in FY3/18, nearly 25% of the net flow into mutual funds for the year

Comparison of Global and Indian Mutual Fund Companies

The valuation of Indian asset managers (i.e., market capitalization as a percentage of AAUM) appears to be on a premium to the valuation of global asset managers. In our view, a comparison of net yield (i.e., NP/AUM) and AUM growth for the Indian asset managers and their global peers indicates that this premium is justified. AUM for Indian asset managers is just 13% of GDP versus 114% for US peers, 90% for peers in France, and 75% for asset managers in the UK (see charts below).

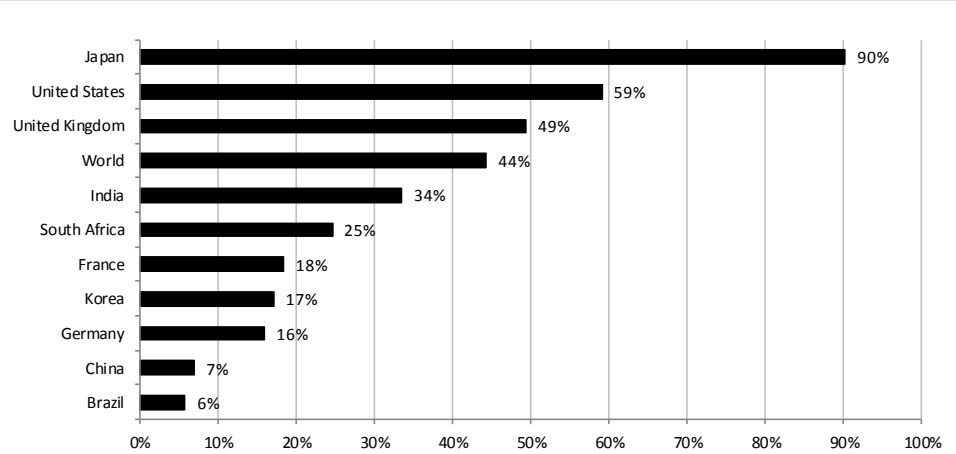
AUM in Asset Management Industry in Various Markets as Percentage of GDP (December 2017)



Source: IIFA

Indian mutual funds are mainly debt funds and money market funds. Highly profitable equity AUM accounts for just 34% of total AUM in India.

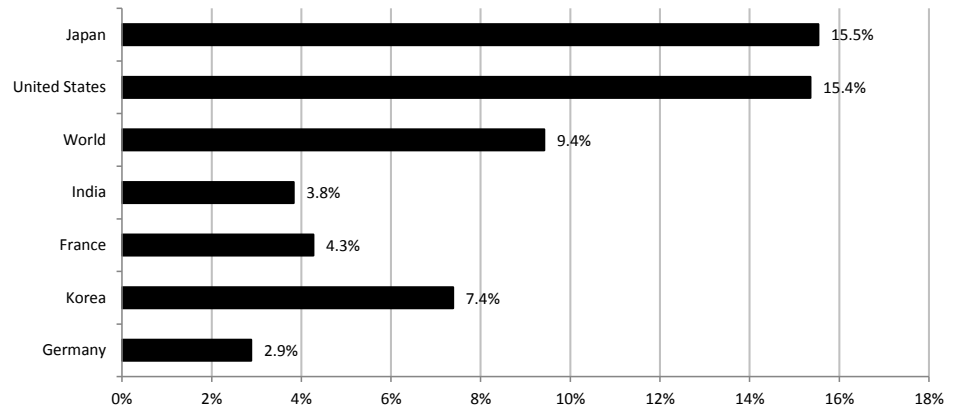
Equity as Percentage of Total AUM in Asset Management Industry in Various Markets (December 2017)



Source: IIFA

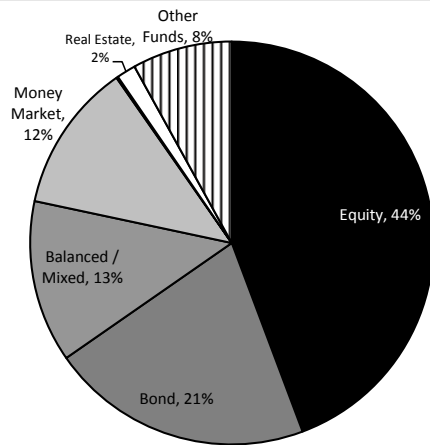
Highly profitable equity AUM accounts for just 34% of total AUM in India

Exchange Traded Funds as Percentage of Total AAUM in Asset Management Industry in Various Markets (December 2017)



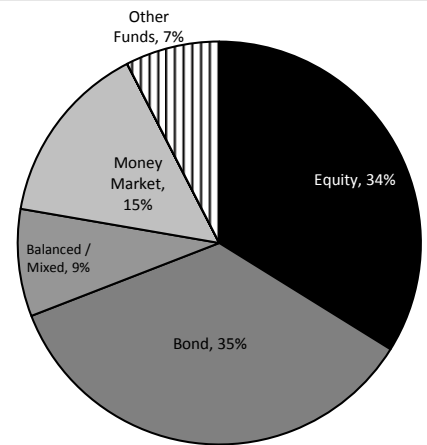
Source: IIFA

Global Mutual Fund AUM Mix (December 2017)



Source: IIFA

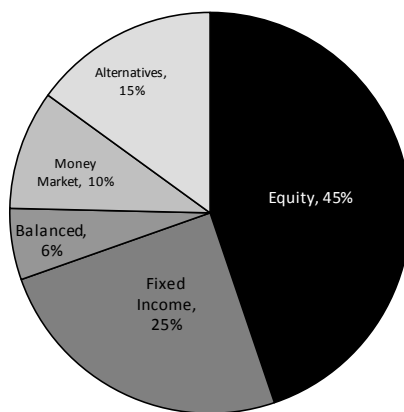
India Mutual Fund AUM Mix (December 2017)



Source: IIFA

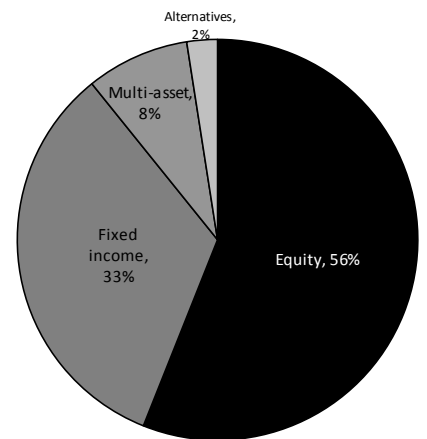
Equity accounts for 34% of AUM in the Indian mutual fund industry, below the level for global peers

Invesco (BLK US) Mutual Fund AUM Mix (CY16)



Source: Company data

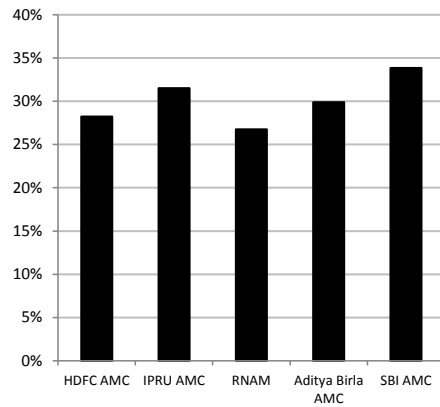
BlackRock (BLK US) Mutual Fund AUM Mix (CY16)



Source: Company data

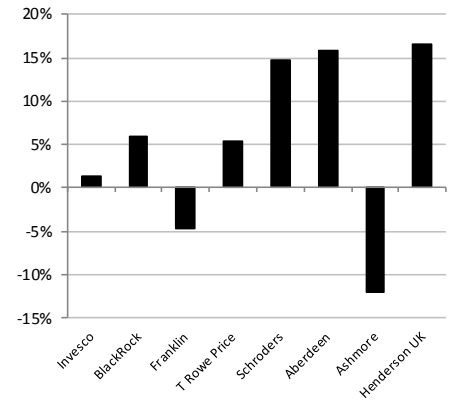
AAUM growth at India's top five mutual fund companies is above that for global peers

AAUM CAGR for Domestic Asset Management Firms (FY3/15-17)



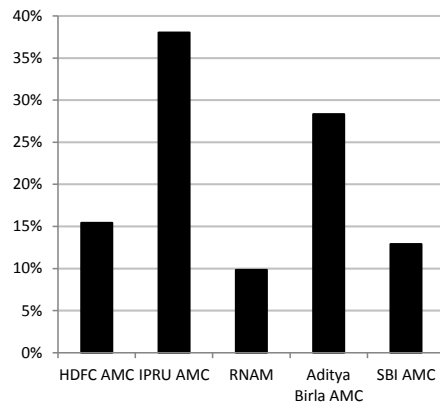
Source: Company data

AUM CAGR for Global Asset Management Firms (CY14-16)



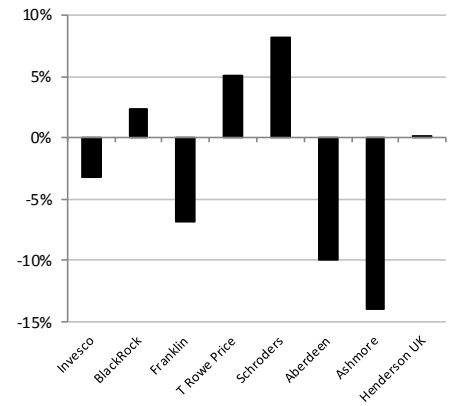
Source: Company data

NP CAGR for Domestic Asset Management Firms (FY3/15-17)



Source: Company data

NP CAGR for Global Asset Management Firms (CY14-16)



Source: Company data

Gross Yield (i.e., Revenue as Percentage of AAUM) for India's Top Five Mutual Funds (bps)

Gross Yield	FY3/14	FY3/15	FY3/16	FY3/17	Average
HDFC AMC	77	64	82	65	72
IPRU AMC	51	57	61	56	56
RNAM	75	70	83	68	74
Aditya Birla AMC	58	46	50	52	51
SBI AMC	61	60	52	50	56
Average Gross Yield	65	59	65	58	62

Source: Company data

Net Yield (i.e., NP as Percentage of AAUM) for India's Top Five Mutual Funds (bps)

Net Yield	FY3/14	FY3/15	FY3/16	FY3/17	Average
HDFC AMC	31	25	26	22	26
IPRU AMC	17	17	19	20	18
RNAM	29	26	25	19	25
Aditya Birla AMC	12	9	14	11	12
SBI AMC	24	22	15	14	19
Average Net Yield	23	20	20	17	20

Source: Company data

The average net yield for Indian mutual fund firms is broadly in line with global peers

Gross Yield for Global Asset Management Firms [bps]

	CY13	CY14	CY15	CY16	Mean
Invesco	45	46	46	43	45
Black Rock	10	10	10	9	10
Franklin Resources	37	37	36	31	35
T Rowe Price	26	26	25	22	25
Schroders	59	54	54	50	54
Aberdeen	56	43	38	34	43
Ashmore	66	51	52	50	55
Henderson	80	74	71	62	72
Magellan	129	78	95	87	97
Average	56	46	48	43	48
Average ex Blackrock	62	51	52	47	53

Source: Company data

Net Yield for Global Asset Management Firms (bps)

	CY13	CY14	CY15	CY16	Mean
Invesco	13	13	12	11	12
Black Rock	7	7	7	6	7
Franklin Resources	29	28	24	22	26
T Rowe Price	17	17	16	15	16
Schroders	17	16	16	14	16
Aberdeen	21	16	14	10	15
Ashmore	37	23	27	30	30
Henderson	29	24	23	18	23
Magellan	71	44	58	52	56
Average	27	21	22	20	22
Average ex Blackrock	29	23	24	21	24

Source: Company data

M&A in India's Asset Management Industry

Date	Acquirer	Target	% stake acquired	Last FY AUM at deal time (Rs bn)	Full entity valuation (Rs bn)	Valuation as % of AUM (trailing)
Dec-07	Eton park	Reliance AMC	5%	773.0	100.2	13.0%
Jul-08	Valiant, Blue Ridge and Eton Park	JM MF	12%	116.6	9.3	8.0%
Mar-08	IDFC	Standard Chart AMC	100%	141.4	8.2	5.8%
Nov-09	T Rowe Price	UTI AMC	26%	768.0	25.1	3.3%
Jul-08	Nomura	LIC AMC	35%	374.0	9.3	2.5%
Sep-09	L&T Finance	DBS Cholamandlam AMC	100%	29.0	0.5	1.6%
Nov-11	Religare	Lotus AMC (distress sale)	100%	55.0	1.0	1.8%
Oct-11	Natixis	IDFC AMC	25%	200.0	12.0	6.0%
Jan-12	Nippon Life	Reliance AMC	26%	907.0	55.8	6.1%
Mar-12	L&T Finance	Fidelity	100%	89.0	5.5	6.2%
Sep-12	Schroder's	Axis MF	26%	89.0	5.4	6.1%
Dec-13	HDFC MF	Morgan Stanley MF	100%	33.0	1.7	5.2%
May-14	Birla MF	ING Investments	100%	11.0	0.6	5.5%
Aug-15	Pramerica	Deutsche	100%	224.3	4.0	1.8%
Oct-15	Reliance	Goldman Sachs	100%	71.3	2.4	3.4%
Oct-15	Nippon Life	Reliance AMC	9%	1,220.0	73.0	6.0%
Mar-16	Nippon Life	Reliance AMC	14%	1,584.1	85.4	5.4%
Average						5.1%

Source: Company data, Bloomberg

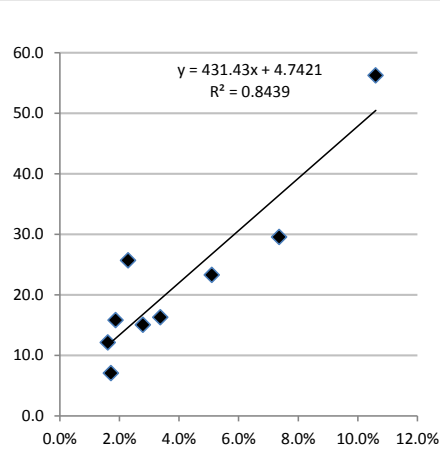
Global Asset Management Firm Valuation (as of 8 May 2018)

Company	BBG Ticker	Market Cap (USD bn)	AAUM (in \$ bn)	EPS 3 year CAGR	Best RoE	best PE	Market Cap as % of AAUM
Blackrock Inc	BLK US Equity	83.9	5,718.0	19%	13%	18.2	1.47%
T Rowe Price Group Inc	TROW US Equity	27.6	901.0	10%	31%	15.9	3.07%
Invesco Ltd	IVZ US Equity	11.6	875.3	8%	12%	9.8	1.32%
Franklin Resources Inc	BEN US Equity	18.0	743.3	-7%	17%	10.6	2.42%
Legg Mason Inc	LM US Equity	3.2	741.3	n/a	6%	10.4	0.44%
Schroders Plc	SDR LN Equity	9.1	563.1	12%	n/a	n/a	1.61%
Standard Life Aberdeen Plc	SLA LN Equity	10.9	630.8	72%	n/a	13.0	1.73%
Janus Henderson Group Plc	JHG US Equity	6.3	235.9	247%	11%	11.0	2.69%
Magellan Financial Group Ltd	MFG AU Equity	4.3	35.0	38%	n/a	n/a	12.23%
Alliancebernstein Holding Lp	AB US Equity	2.6	517.4	6%	n/a	10.6	0.51%

Source: Company data, Bloomberg

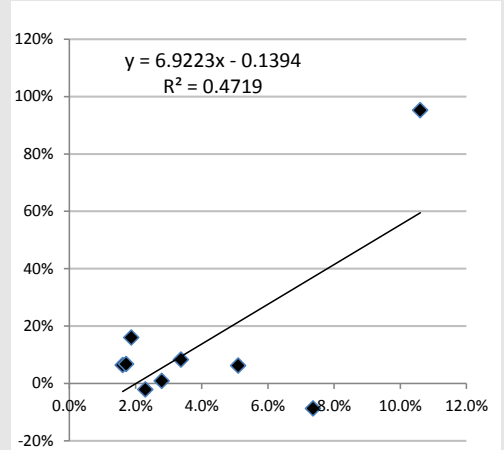
Looking at the valuation for global asset management companies, it would appear that the correlation of valuation (i.e., market cap-to-AAUM) is highest with the net yields of the funds. Asset yields and AAUM growth are higher for Indian asset managers than for most global peers. We would thus expect the stocks of Indian asset managers to trade on a premium to their global rivals.

Correlation between Market Cap/AUM and Net Yield for Asset Management Firms



Source: Company data
 Note: Chart includes data for Invesco, Black Rock, Franklin Resources, T Rowe Price, Schroders, Aberdeen, Ashmore, Henderson, and Magellan

Correlation Between Market Cap/AUM and AUM Growth for Asset Management Firms



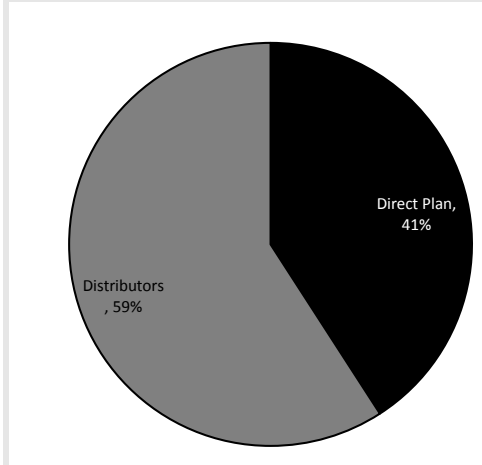
Source: Company data
 Note: Chart includes data for Invesco, Black Rock, Franklin Resources, T Rowe Price, Schroders, Aberdeen, Ashmore, Henderson, and Magellan

Global mutual fund firm valuation appears to be most highly correlated with the net yields of the funds

Distribution Remains Key for Industry

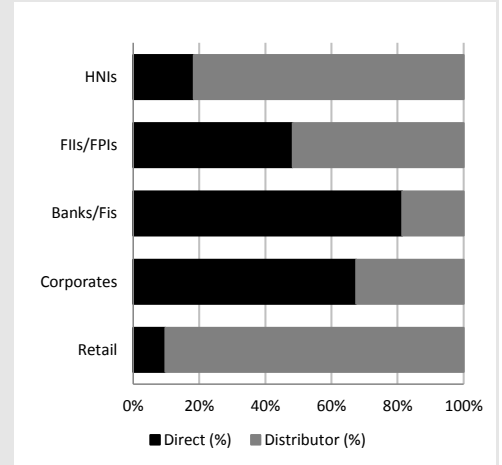
Investment by retail customers, which accounted for around 24% of total AAUM for asset management companies as of March 2018, is a key for the mutual fund industry. Distributors play an important role in the growth of retail mutual fund investment (around 90% of total retail AAUM as of March 2018 came from the distributor channel). In FY3/18, 41% of Indian mutual fund AUM was through direct investment (i.e., without a distributor), but about 85% of retail investments were made through distributors.

Breakdown of AUM Contribution to India Mutual Funds (March 2018)



Source: AMFI

Breakdown of AUM Contribution to India Mutual Funds by Type of Investor (March 2018)

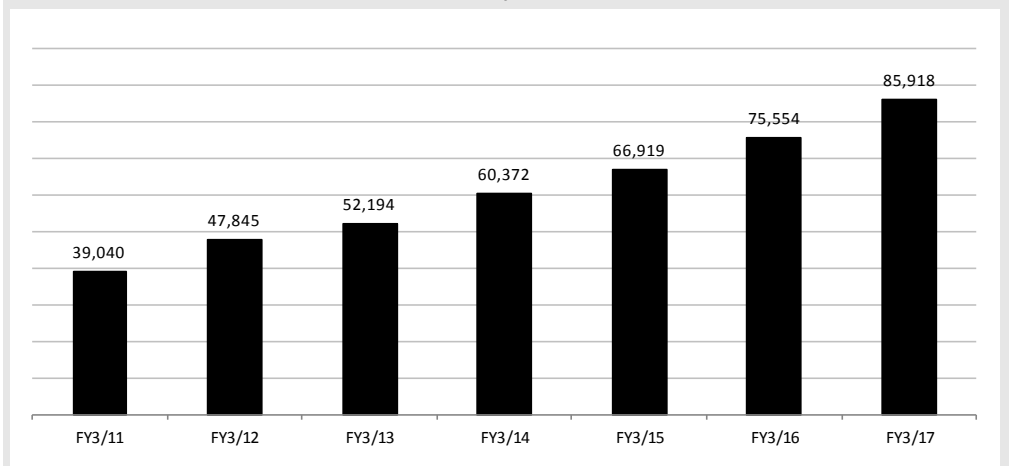


Source: AMFI

Note: HNI = high net worth individuals; FII = foreign institutional investors; FPI = foreign portfolio investors, FI= financial institutions

The number of distributors in the Indian mutual fund industry has been rising. The total reached about 86,000 at end-FY3/17, but this is small compared with the distribution network for the life insurance industry (around 2mn agents in FY3/17).

Number of Distributors in India Mutual Fund Industry



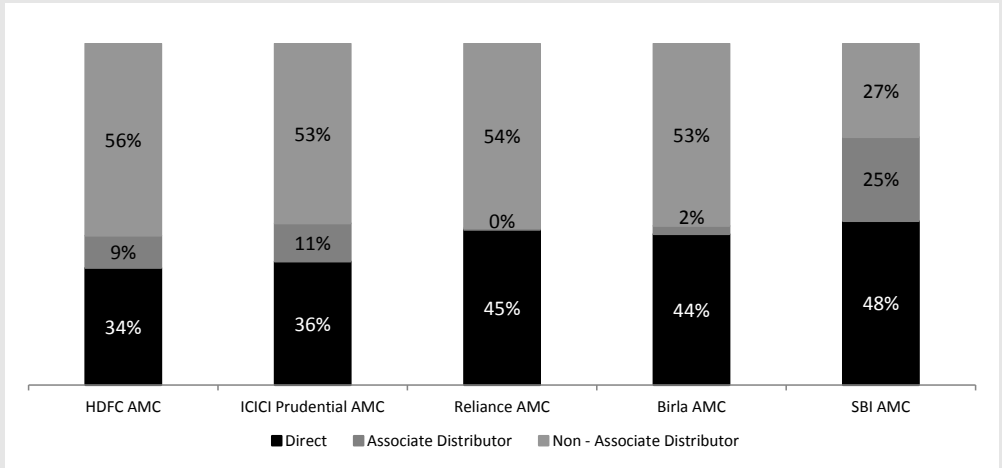
Source: AMFI

For India's top mutual funds, banks have played a significant role not only by operating the mutual funds (as is the case for IPRU AM and HDFC AM), but also by serving as distributors for the funds.

The number of distributors in the Indian mutual fund industry is low compared with the life insurance industry

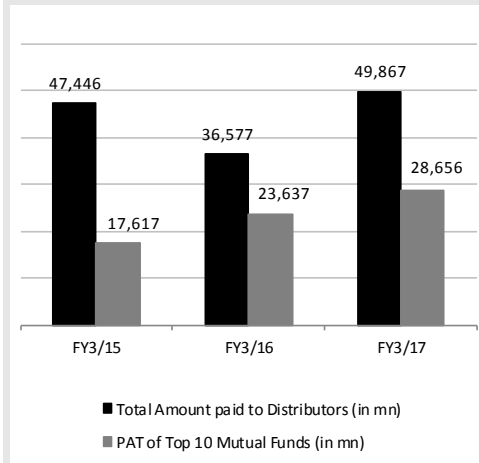
Banks play a significant role in India's mutual fund industry as they serve as both fund operators and distributors

Breakdown of AUM by Investment Channel for Leading India Mutual Fund Operators (March 2018)



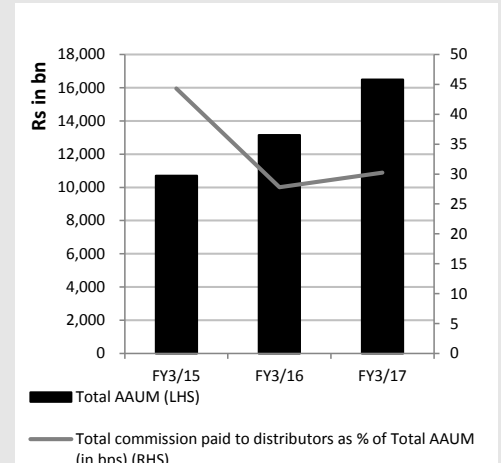
Source: AMFI

Gross Amount Paid to Distributors and NP for India's Top Ten Mutual Funds (Rs mn)



Source: AMFI

Total AAUM and Total Distributor Commissions as Percentage of Total Indian Mutual Fund AAUM



Source: AMFI

The SEBI has relaxed the total expense ratio (TER) for mutual funds by adding 30bps to the limit in some locations in order to spur increased investment in mutual funds outside of India's largest cities

Expense Ratio Calculation Guidelines for India Mutual Fund Operators

	- 2.50% of daily net assets of the scheme for fund of funds scheme
	- 1.50% of daily net assets of the scheme for index fund scheme or exchange traded fund
	- For any other scheme:
Equity Mutual Fund Scheme	- 2.50% of daily net assets on first Rs 1 billion
	- 2.25% of daily net assets on the next Rs 3 billion
	- 2.00% of daily net assets on the next Rs 3 billion
	- 1.75% on the balance of the assets
Debt Mutual Fund Scheme	- The expense ratio will be lesser by at least 0.25% of daily net assets
Brokerage and Transaction Costs	- not exceeding 0.12% for cash market transactions and 0.05% for derivatives transactions
Additional Expenses for Gross New Inflows from specified cities	- 0.30% of daily net assets, if the new inflows from such cities as specified by SEBI/AMFI from time to time are at least 30 % of gross new inflows in the scheme or 15 % of the average assets under management (year to date) of the scheme, whichever is higher

Source: Securities and Exchange Board of India (SEBI)

Leading Distributors for HDFC AM (FY3/17) (Rs mn)

Name	Total Commission and Expenses	Gross Inflows	Average AUM FY3/17	Distributor's AAUM as % of Total AAUM FY3/17	Commission as % of Distributor's AAUM
HDFC Bank	1,743	271,257	173,171	7.0%	1.0%
NJ IndiaInvest	695	33,164	51,549	2.1%	1.3%
IIFL Wealth Management	410	305,535	61,338	2.5%	0.7%
ICICI Securities	286	29,283	38,238	1.6%	0.7%
Citibank N.A	202	33,935	37,589	1.5%	0.5%
Credit Suisse Securities India	176	6,364	25,457	1.0%	0.7%
Prudent Corporate Advisory Services	169	28,663	13,379	0.5%	1.2%
Kotak Mahindra Bank	164	31,212	38,117	1.5%	0.4%
Julius BaerWealth Advisors (India)	143	23,559	32,842	1.3%	0.4%
Hongkong & Shanghai Banking Corporation	140	7,553	23,249	0.9%	0.6%
% of Total	57%				
Total of all Distributors	7,268	Total Commissions Paid / Distributors AAUM			0.46%

Source: Company data, AMFI

Leading Distributors for Aditya Birla AM (FY3/17)

<i>(in Rs mn unless specified)</i>	Total Commission and Expenses	Gross Inflows	Average AUM FY3/17	Distributor's AAUM as % of Total AAUM FY3/17	Commission as % of Distributor's AAUM
NJ India Invest	438	24,842	31,771	1.6%	1.4%
HDFC Bank	353	118,565	44,975	2.3%	0.8%
Citibank N.A	259	37,253	39,878	2.0%	0.6%
Kotak Mahindra Bank	188	43,366	38,054	1.9%	0.5%
ICICI Bank	187	17,705	24,785	1.3%	0.8%
SPA Capital Services	182	88,356	26,854	1.4%	0.7%
ICICI Securities	146	21,881	20,020	1.0%	0.7%
Standard Chartered Bank	116	12,845	15,747	0.8%	0.7%
Hongkong & Shanghai Banking Corporation	112	12,868	25,127	1.3%	0.4%
Prudent Corporate Advisory Services	106	11,731	10,887	0.6%	1.0%
% of Total	46%				
Total of all Distributors	4,507	Total Commissions Paid / Distributors AAUM		0.40%	

Source: Company data, AMFI

Leading Distributors for State Bank of India Asset Management (SBI AM) (FY3/17)

<i>(in Rs mn unless specified)</i>	Total Commission and Expenses	Gross Inflows	Average AUM FY3/17	Distributor's AAUM as % of Total AAUM FY3/17	Commission as % of Distributor's AAUM
State Bank of India	1,767	760,931	195,964	12.5%	0.9%
NJ IndiaInvest	521	23,163	33,630	2.1%	1.5%
ICICI Securities	177	11,061	15,498	1.0%	1.1%
HDFC Bank	144	80,693	22,184	1.4%	0.6%
Kotak Mahindra Bank	116	9,781	14,730	0.9%	0.8%
Citibank N.A	82	9,567	6,646	0.4%	1.2%
IIFL Wealth Management	76	54,805	10,439	0.7%	0.7%
Prudent Corporate Advisory Services	71	5,307	5,576	0.4%	1.2%
Axis Bank	69	11,926	10,561	0.7%	0.6%
ARventure Funds Management	63	9,407	7,353	0.5%	0.9%
% of Total	68%				
Total of all Distributors	4,507	Total Commissions Paid / Distributors AAUM		0.55%	

Source: Company data, AMFI

Leading Distributors for IPRU AM (FY3/17)

<i>(in Rs mn unless specified)</i>	Total Commission and Expenses	Gross Inflows	Average AUM FY3/17	Distributor's AAUM as % of Total AAUM FY3/17	Commission as % of Distributor's AAUM
ICICI Bank	1,925	162,091	160,902	6.6%	1.2%
HDFC Bank	517	132,288	63,128	2.6%	0.8%
Kotak Mahindra Bank	410	58,363	68,856	2.8%	0.6%
ICICI Securities	308	34,549	41,467	1.7%	0.7%
Citibank N.A	287	37,661	54,128	2.2%	0.5%
Axis Bank	231	121,457	32,036	1.3%	0.7%
IIFL Wealth Management	218	260,962	56,207	2.3%	0.4%
NJ India Invest	214	11,111	22,919	0.9%	0.9%
Standard Chartered Bank	207	26,270	28,690	1.2%	0.7%
Hongkong & Shanghai Banking Corporation	158	12,656	27,263	1.1%	0.6%
% of Total	60%				
Total of all Distributors	7,451	Total Commissions Paid / Distributors AAUM		0.47%	

Source: Company data, AMFI

Leading Distributors for RNAM (FY3/17)

<i>(in Rs mn unless specified)</i>	Total Commission and Expenses	Gross Inflows	Average AUM FY3/17	Distributor's AAUM as % of Total AAUM FY3/17	Commission as % of Distributor's AAUM
NJ India Invest	786	115,251	62,166	2.9%	1.3%
Indusind Bank	303	13,340	11,403	0.5%	2.7%
HDFC Bank limited	286	93,677	43,858	2.1%	0.7%
IIFL Wealth Management Limited	224	101,766	33,081	1.6%	0.7%
Kotak Mahindra Bank limited	181	24,206	23,488	1.1%	0.8%
ICICI Bank Limited	157	12,143	17,635	0.8%	0.9%
Prudent Corporate Advisory Services	139	8,954	13,400	0.6%	1.0%
Citibank N.A	128	25,372	23,006	1.1%	0.6%
ICICI Securities Limited	102	13,269	16,532	0.8%	0.6%
Bajaj Capital	93	7,471	11,362	0.5%	0.8%
% of Total	50%				
Total of all Distributors	4,801	Total Commissions Paid / Distributors AAUM		0.42%	

Source: Company data, AMFI

Trailing return data for Indian mutual funds show that the number of equity-oriented schemes that have outperformed their stated benchmarks has increased over the past five years

Majority of India Mutual Funds Outperforming Stated Benchmarks

Trailing return data for Indian mutual funds show that the number of equity-oriented schemes that have outperformed their stated benchmarks has increased over the past five years. In FY3/17, 84% of equity-oriented funds outperformed their stated benchmarks, up from 59% in FY3/13. Most debt-oriented funds over the past five years have also outperformed their benchmarks (see table below).

India Mutual Fund Performance versus Stated Benchmarks

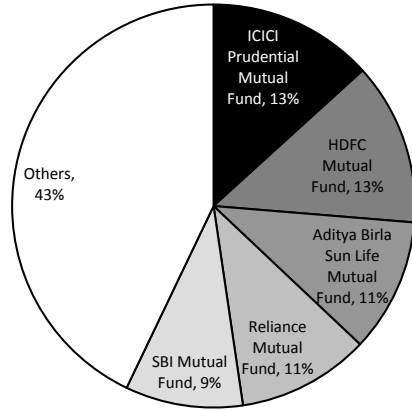
Category	FY3/13	FY3/14	FY3/15	FY3/16	FY3/17
Equity-oriented schemes					
Number of schemes	241	261	278	304	312
Schemes outperforming their stated benchmark	59%	66%	82%	84%	84%
Schemes underperforming their stated benchmark	41%	34%	18%	16%	16%
Debt-oriented schemes					
Number of schemes	179	190	207	224	236
Schemes outperforming their stated benchmark	66%	67%	70%	56%	52%
Schemes underperforming their stated benchmark	34%	33%	30%	44%	48%

Source: AMFI, CRISIL Research

The top five mutual funds in India accounted for 57% of total fund industry AAUM as of end-March 2018

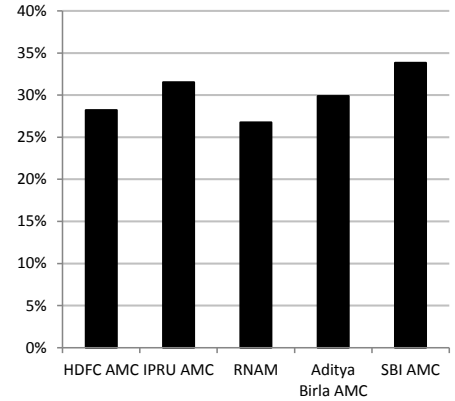
India Mutual Fund Industry Data

Market Share for Leading Asset Management Firms* (FY3/18)



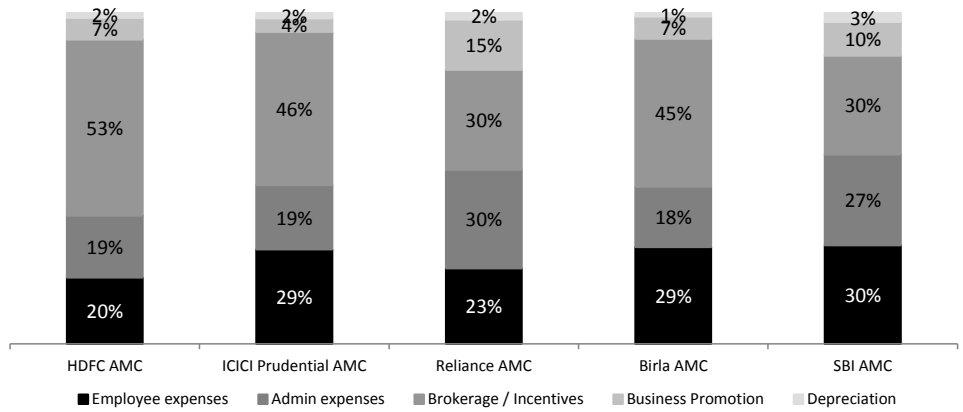
Source: AMFI
*Leading firms in terms of average AUM for the year

CAGR for AAUM at Leading Indian Asset Management Firms* (FY3/15-17)



Source: Company data
*Leading firms in terms of average AUM for the year

Expense Breakdown for India's Leading Mutual Funds* (FY3/17)

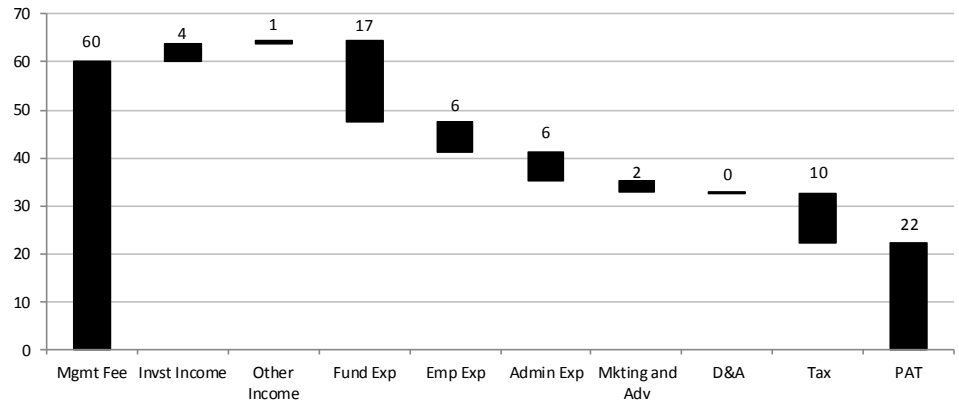


Source: Company data
*Leading firms in terms of average AUM for the year

In our view, the key differentiators for profitability at mutual funds are management fees, commission payouts to distributors, and administrative and marketing expenses

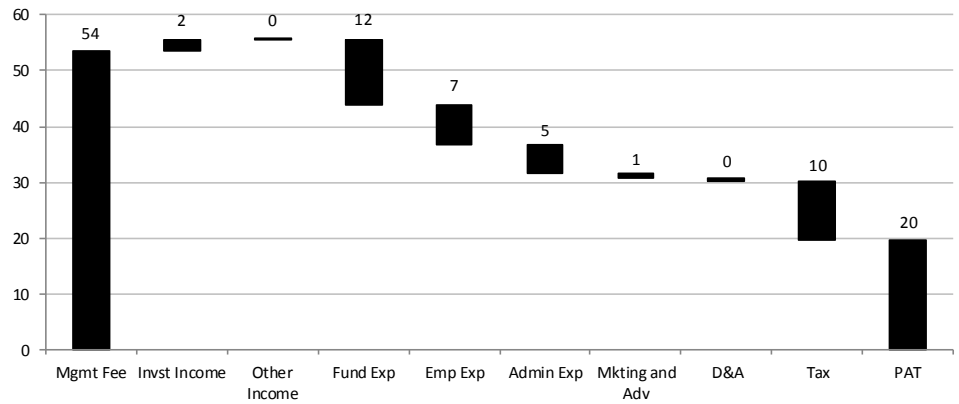
Revenue and Cost Breakdown for India's Leading Mutual Funds

HDFC AM Revenue and Costs (%AAUM) (FY3/17)



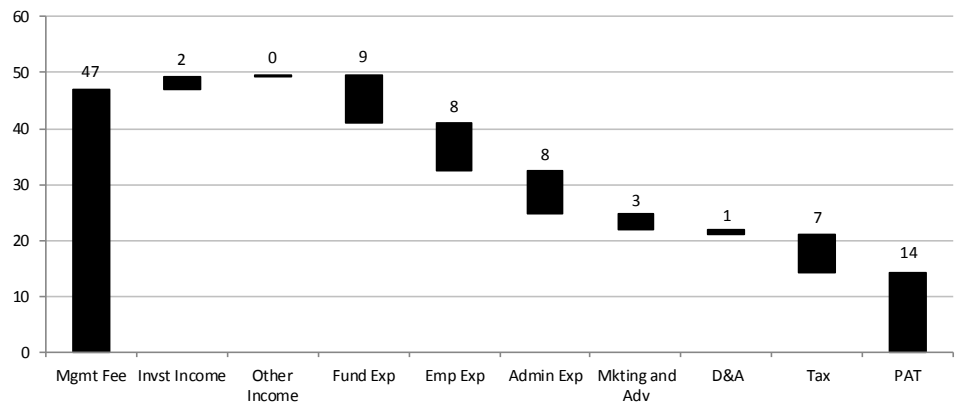
Source: Company data

IPRU AM Revenue and Costs (% AAUM) (FY3/17)



Source: Company data

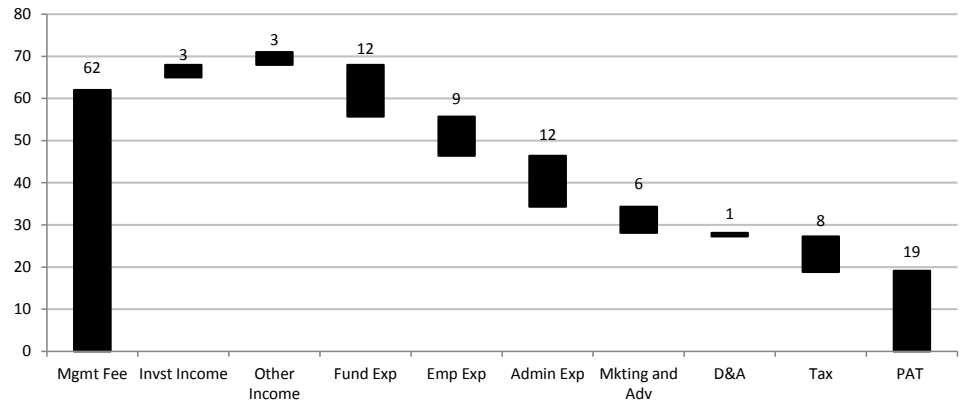
SBI AM Revenue and Costs (%AAUM) (FY3/17)



Source: Company data

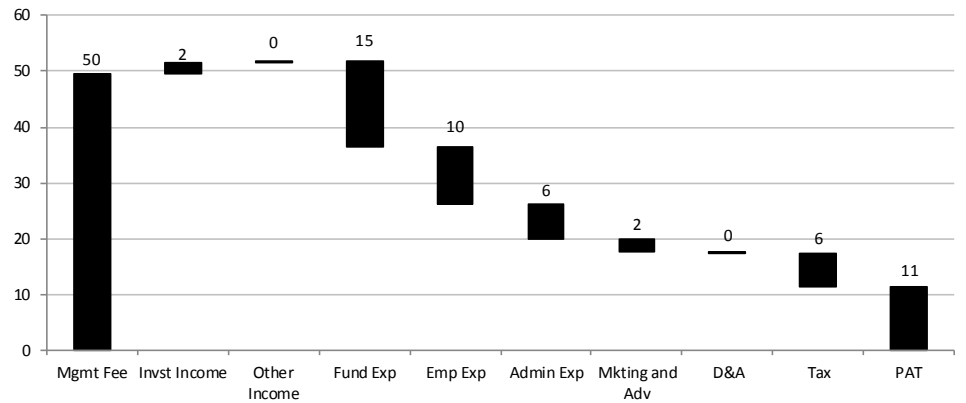
RNAM's net yield improved from 19bps in FY3/17 to 21bps in FY3/18

RNAM Revenue and Costs (%AAUM) (FY3/17)



Source: Company data

Aditya Birla AM Revenue and Costs (%AAUM) (FY3/17)



Source: Company data

APPENDIX

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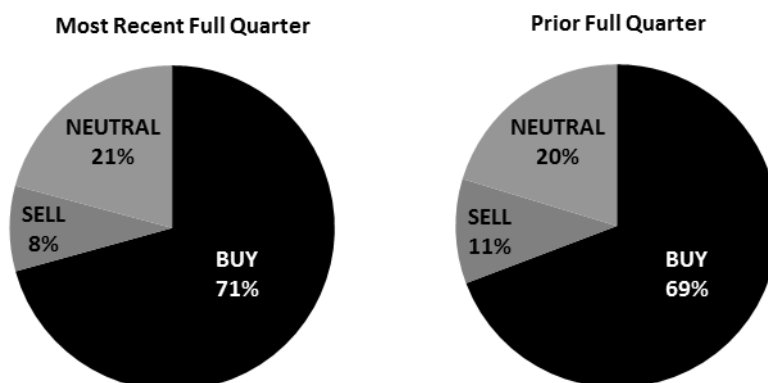
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*Percentage of investment banking clients in each rating category.

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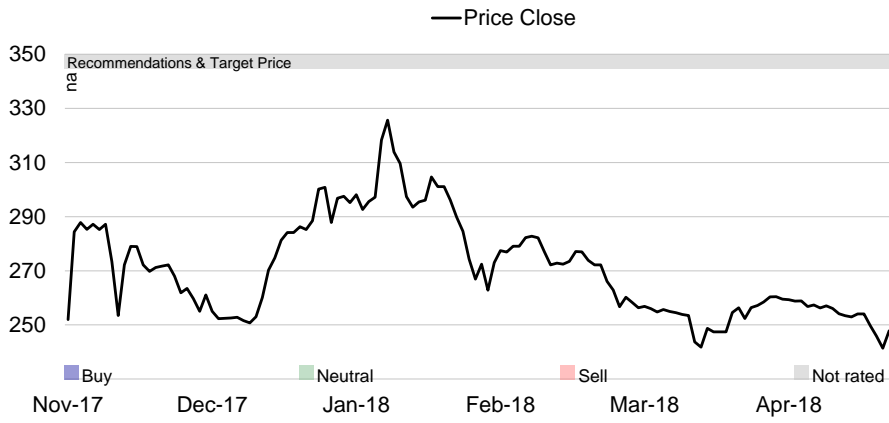
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Recommendation Chart

Reliance Nippon Life Asset Management (RNAM IN)



Date	Recommendation	Target (Rs)	Price (Rs)
2018-05-09	Buy	315.0	247.6

Source: Company data Bloomberg, HTI estimates

Note: The target price for Reliance Nippon Life Asset Management (RNAM) of Rs315.00 was derived using our dividend discount model.

The main risks to our BUY rating on RMAN and the attainment of our target price of Rs315.00 are adverse movements in the equity markets, changes in regulatory policy, and excessive reliance by the company on third-party distribution channels.