

Reliance Nippon Life Asset Management Ltd

Reliance Nippon Life Asset Management Ltd (RNAM) is the third largest Asset Management Company (AMC) in terms of quarterly average AUM (QAAUM) with 11.4% market share and is ranked second most profitable AMC. RNAM managed ₹3,84,061cr as on August 2017, which includes Mutual Fund (₹2,28,329cr), Managed Account (₹1,53,509cr) and offshore funds & advisory mandates (₹2,223cr). It is also the second largest AMC among retail investors (market share of 13.6%), having 7.01 million investor folios, of which 6.72 million retail folios.

Huge potential for growth (Industry) in Mutual Fund AUM: In the past three years, equity assets under management for Indian MF industry have increased three-fold, from ₹ 2 lakh cr to ₹7 lakh cr. Overall AUM has nearly doubled from ₹10 lakh cr to ₹20 lakh cr. Moreover, the industry is receiving about ₹5,000cr per month through SIP (Systematic Investment Plan). We believe that this trend would continue in the coming years owing to (1) Continuation of black money crack down; (2) Lower fixed deposit rates; (3) Increase in awareness; (4) Low penetration (AUM/GDP -13% v/s. +50% in developed market).

Wide distribution network with strong focus on retail investors: RNAM has a pan-India network of 171 branches, of which 132 branches are located in B15 (Beyond top 15 Cities) locations. Distributors contributed 54% and Direct 46% of monthly average AUM on June 2017. Retail contribution to total AAAUM has increased by 1600bps to 26.5% from FY2013 to FY2017. Its MF AUM has grown at healthy CAGR of 26% over FY2013-17. PAN India presence & superior fund performance would continue to help them to garner big chunk of new flow.

Healthy financials to support higher dividend payout: Revenue/EBITDA has grown at healthy CAGR of 21%/28% over FY2013-17. Return on equity (ROE) for FY2017 was 21.3% and last 5 years average ROE was 20%. For FY2017, RNAM made dividend payout of 61% and it has maintain dividend payout of 55% on an average for last 5 years.

Outlook & Valuation: At the upper end of the IPO price band it is offered at 37x its FY2017 EPS and 8x its FY2017 book value (Pre-IPO), demanding ₹15,442cr market cap, which is 6.8% of the MF AUM (₹2,28,329cr for the month of August 2017). Considering that RNAM is the third largest AMC coupled with huge potential of MF industry to grow, strong return ratios, asset light business, higher dividend payout ratio and track record of superior investment performance, **we are positive on this IPO and rate it as SUBSCRIBE.**

Key Financials

Y/E March (` cr)	FY13	FY14	FY15	FY16	FY17
Net Sales	609	676	847	1,200	1,307
% chg		11.0	25.4	41.6	9.0
Net Profit	230	271	354	396	403
% chg		17.5	31.0	11.8	1.6
EBITDA (%)	29	36	43	34	36
EPS (Rs)	4	5	6	7	7
P/E (x)	64	55	42	37	37
P/BV (x)	10	10	10	8	8
ROE (%)	16	17	23	22	21
ROA (%)	15	16	21	21	20

Source: RHP, Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

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Issue Open: Oct 25, 2017
 Issue Close: Oct 27, 2017

Issue Details

Face Value: ₹10
Present Eq. Paid up Capital: ₹41.5cr
Offer for Sale: **3.67cr Shares
Fresh issue: ₹617cr
Post Eq. Paid up Capital: ₹66cr
Issue size (amount): *₹1,512cr - **1,542 cr
Price Band: ₹247 - 252
Lot Size: 59 shares and in multiple thereafter
Post-issue implied mkt. cap: *₹15,116cr - **₹15,422cr
Promoters holding Pre-Issue: 96%
Promoters holding Post-Issue: 86%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	86%
Others	14%

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Company background

Reliance Nippon Life Asset Management Ltd is a joint venture between Reliance ADAG and Nippon Life of Japan (formerly Reliance Capital Asset Management Limited). It began mutual fund operations in 1995 as the asset manager for Reliance Mutual Fund, managed QAAUM of ₹2,22,964cr and 7.01 million investor folios, as of June 30, 2017. It is managing 55 open-ended mutual fund schemes including 16 ETFs and 174 closed ended schemes for Reliance Mutual Fund as of June 30, 2017. RNAM has a pan-India network of 171 branches and approximately 58,000 distributors including banks, financial institutions, national distributors and independent financial advisors (“IFAs”), as of June 30, 2017.

The company is involved in managing

- Mutual Funds (Including EFTs)
- Managed account, including portfolio management services (PMS), alternative investment funds (AIF) and Pension funds
- Offshore funds and advisory mandates

Exhibit 1: fund wise information on mutual fund AUM

	2015		2016		2017		Q1FY18	
	₹ in Cr	% of total QAAUM	₹ in Cr	% of total QAAUM	₹ in Cr	% of total QAAUM	₹ in Cr	% of total QAAUM
Debt	5,74,936	46	70,151	46	93,888	50	1,02,840	46
Equity	3,59,510	29	48,981	32	53,360	28	64,410	29
Debt - Liquid	2,90,011	23	32,299	21	36,216	19	41,564	19
Gold	17,232	1	1,369	1	1,953	1	2,674	1
ETF	3,379	0.3	453	0.3	3,744	2	11,475	5
	12,45,068	100	1,53,251	100	1,89,161	100	2,22,964	100

Source: RHP

Issue details

The IPO of Reliance Nippon Life AMC, a joint venture of Reliance group (ADAG) and Japan's Nippon Life, aims to raise ₹1,542cr through mix of Offer for sale and fresh issue. The issue would constitute fresh issue worth of ₹617cr and Offer for sale worth of ₹925cr. The company would divest 10% of its shareholding. While Nippon Life would divest 5%, Reliance Capital will divest 1.5%, the balance being issue of fresh shares.

Exhibit 2: Exhibit 2: Pre and Post-IPO shareholding pattern

	No of shares (Pre-issue)	%	No of shares (Post-issue)	%
Promoter	56,15,10,000	96	52,47,90,000	86
Investor/Public	2,60,10,000	4	8,72,10,000	14
	58,75,20,000	100	61,20,00,000	100

Source: RHP, Note: Calculated on upper price band

Objects of the offer

- Setting up new branches and relocating certain existing branches (₹38.3cr)
- Upgrading the IT system (₹40.6cr)
- Advertising, marketing and brand building activities (₹72cr)
- Lending to our Subsidiary (Reliance AIF) for investment as continuing interest in the new AIF schemes managed by Reliance AIF (₹125cr)
- Investing towards our continuing interest in new mutual fund schemes managed by us (₹100)
- Funding inorganic growth and other strategic initiatives (₹165)
- Meeting expenses towards general corporate purposes

Key Management

- **Mr. Sundeep Sikka**, is an Executive Director and Chief Executive Officer of the Company (a nominee of Reliance Capital). He holds a Master's degree in Business Administration from the University of Pune. Prior to joining the Company, he had also worked with ICICI Bank Ltd for more than four years.
- **Mr. Prateek Jain** is the Chief Financial Officer of the Company. He cleared the final examinations held by ICWAI in 1994 and by ICAI and ICSI in 1996. He has, in the past, also worked with Pine Bridge Investments Asset Management Company Private Ltd as CFO & Head – Risk Management.
- **Mr. Manish Gunwani** is the CIO – Equity Investments of the Company. He has been associated with the Company since September 5, 2017. He holds a bachelor's degree in technology from IIT, Madras and a post-graduate diploma in management from IIM, Bangalore. Prior to joining the Company, he had also worked with ICICI Prudential Asset Management Company Limited.

Investment Rationale

Huge potential for growth in (Industry) MF AUM: In the past three years, equity assets under management (AUM) for the Indian MF industry have increased three-fold from ₹2 lakh cr to ₹7 lakh cr. Overall AUM has nearly doubled from ₹10 lakh cr to ₹ 20 lakh cr. The AUM has grown from ₹3.26 lakh cr as on 31st March, 2007 to ₹20 lakh cr as on 30th September, 2017, more than six-fold increase in a span of about 10 and half years. Moreover, the industry is receiving about ₹5,000cr per month through SIP (Systematic Investment plan).

We believe this trend would continue in the coming years owing to (1) Continuation of black money crack down; (2) Lower fixed deposit rate; (3) Increase in awareness; (4) Low penetration (AUM/GDP -13% V/s +50% in developed market).

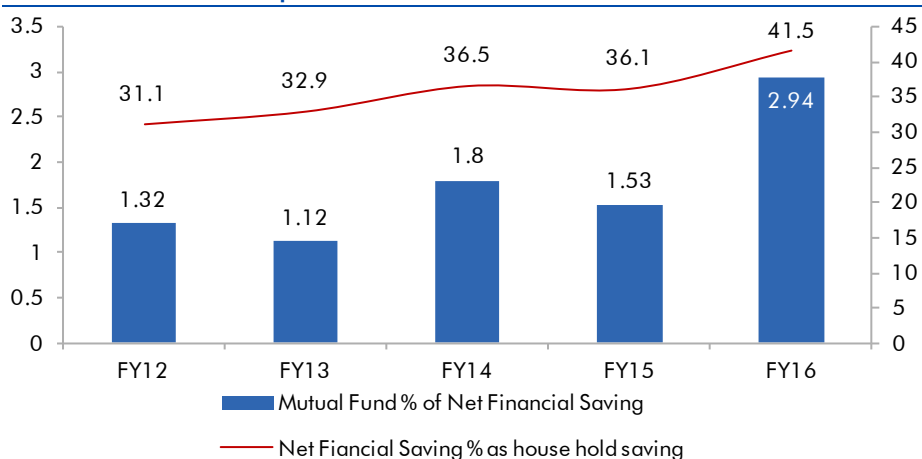
Exhibit 3: Trend in AUM/GDP across economies

	Equity AUM to GDP	Debt AUM to GDP	Total AUM/GDP
Australia	51	85	136
USA	66	38	104
Germany	35	24	59
Brazil	14	42	56
Global	30	25	55
UK	29	25	54
South Africa	12	34	46
India	7	3	10

Source: RHP, FY16 Data

Mutual Fund industry in India still has very huge potential to grow. Mutual fund's AUM/GDP in the US is around 104%, 59% in Germany, above 55% in Brazil, while in India it is still around 11%. Despite the increase, the share of mutual fund savings continues to remain a small proportion. As on FY2016, mutual fund as % of net financial savings was just 2.94%. This clearly indicates the penetration level is very low.

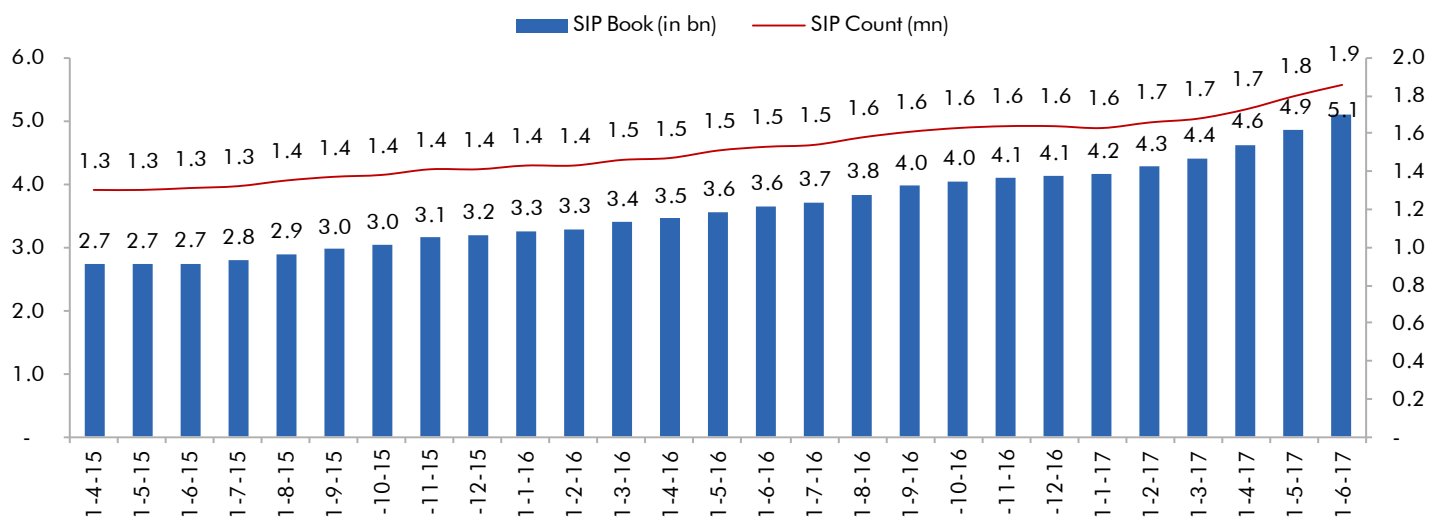
Exhibit 4: Mutual fund penetration



Source: RHP

Wide distribution network with strong focus on retail investors: RNAM has a pan-India network of 171 branches, of which 132 branches are located in B15 locations. Distributors contributed 54% and Direct 46% of monthly average AUM on June 2017. Retail contribution to total AAAUM has increased by 1600bps to 26.5% from FY2013 to FY2017. Its MF AUM has grown at healthy CAGR of 26% over FY2013-17. PAN India presence & superior fund performance would continue to garner big chunk of new flow.

Exhibit 5: RNAM's growing SIP Book



Source: RHP

SIP Highlights

- RNAM is sourcing **INR 5.1 Bn** of monthly flow through **1.86 mn** SIP accounts (as of Jun'17)

In the last 2 years:

- Total SIP count and monthly inflow have increased by **43%** and **86%** respectively
- Incremental (New) SIP count has **doubled** and New SIP Book amount (inflow) has almost **tripled (3x)**
- Average Ticket Size has increased from **~INR 2,102** (June 2015) to **INR 2,745** (June 2017)
- As of June 30, 2017, **77%** of new SIPs have a tenure of **over 5 years**
- High tenure implies **continuity and sustainability in inflows**

Robust Investment Process

The company has very strong team consisting of 28 senior members having an average investment management experience of approximately 19 years. Equity team is headed by Mr. Manish Gunwani and Debt team is headed by Mr. Amit Tripathi. Reliance growth fund/ Reliance equity opportunity fund has given stellar return of 23.75%/18.82% since inception.

Exhibit 6: Investment (Equity Scheme) performance

Equity Funds	MAAUM as of August 31, 2017 (₹ in cr)	Compounded Annual Yield Period Ended August 31, 2017 (%)			
		Since Inception	1 year	3 Years	5 years
Reliance Equity Opportunities	9,715	18.82	12.33	10.56	17.7
S&P BSE 100		14	14.34	8.76	14.45
S&P BSE Sensex		13.58	11.52	5.98	12.72
Reliance Tax Saver (ELSS)	8,914	16.24	20.58	14.95	23.43
S&P BSE 100		12.17	14.34	8.76	14.45
S&P BSE Sensex		11.67	11.52	5.98	12.72
Reliance Regular Savings Fund (Balanced)	8,159	14.53	17.95	14.25	18.35
S&P BSE Sensex		13.33	11.52	5.98	12.72
Reliance Growth Fund	6,538	23.75	18.91	16.78	20.5
S&P BSE Sensex		10.4	11.52	5.98	12.72
Reliance Top 200 Fund*	4,148	11.6	17.47	13.49	19.15
S&P BSE 200		8.71	15.02	10.22	15.32
S&P BSE Sensex		7.51	11.52	5.98	12.72

Source: RHP

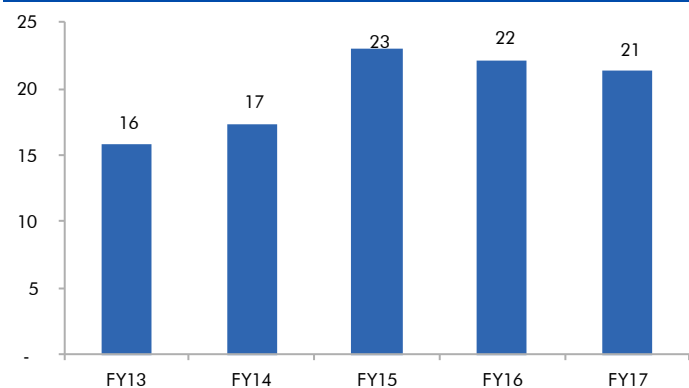
Growth Strategy

For next stage of growth, apart from MF, the company is developing alternative investment fund and is open for inorganic growth through strategic acquisitions. Reliance AIF launched its first AIF in 2014 and is currently managing six schemes of which, four are closed for subscription. As of June 30, 2017, Reliance AIF was raising funds in three alternative investment schemes across asset classes in categories including long only equity, sector agnostic credit and high yield real estate structured debt. The total capital commitment raised across these schemes as of June 30, 2017 was ₹13,36.7cr. Reliance AIF intends to introduce and launch various offerings to capitalize on market opportunities.

Reliance AIF intends to launch 6 to 10 new schemes (Category II and Category III) over the next three financial years ("Proposed Schemes") and utilize ₹1,25cr from the net proceeds towards such continuing interest at or above the minimum level prescribed by law for the Proposed Schemes.

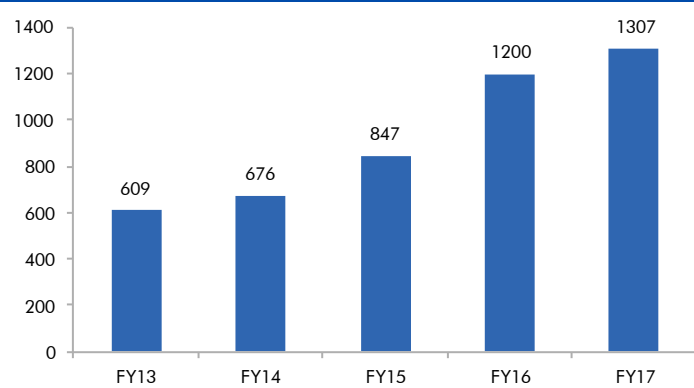
Healthy financials to support higher dividend payout: Revenue/EBITDA has grown at healthy CAGR of 21%/28% over FY2013-17. Return on equity (ROE) for FY2017 was 21.3% and last 5 years average ROE was 20%. For FY2017, RNAM had made dividend payout of 61% and it has maintained dividend payout of 55% on an average for last 5 years.

Exhibit 7: ROE trend (%)



Source: RHP

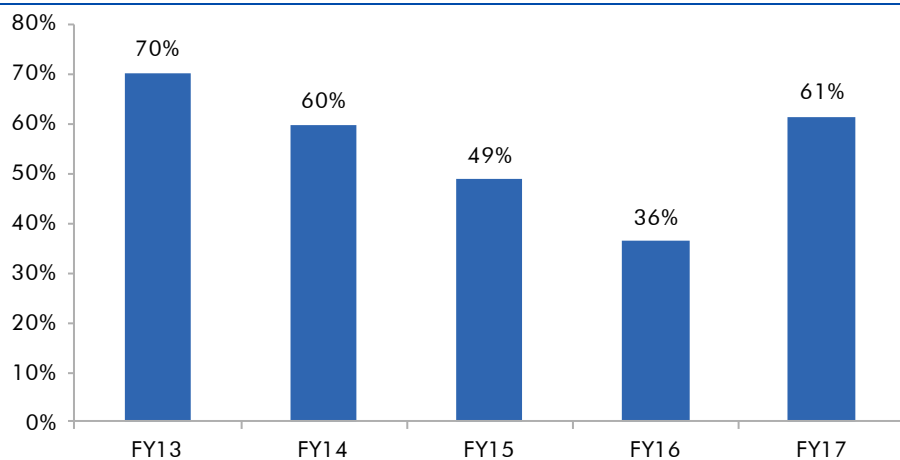
Exhibit 8: Revenue trend (₹in cr)



Source: RHP

At upper end of the IPO price band dividend yield is 1.7%. We believe RNAM would continue to maintain higher dividend payout ratio. As AMC business is capital light business and company is debt free, so company would remain with healthy free cash flow to distribute as dividend to the shareholder of the company.

Exhibit 9: History of dividend payout ratio (%)



Source: RHP

Outlook & Valuation: At the upper end of the IPO price band it is offered at 37x its FY2017 EPS and 8x its FY2017 book value (Pre-IPO), demanding ₹15,442cr market cap, which is 6.8% of the MF AUM (₹2,28,329cr for the month of August 2017). Considering that RNAM is the third largest AMC coupled with huge potential of MF industry to grow, strong return ratios, asset light business, higher dividend payout ratio and track record of superior investment performance, **we are positive on this IPO and rate it as SUBSCRIBE.**

Key Risk

- Overall underperformance of investment would adversely affect new investment flow and could lead to redemption of exiting investment.
- Correction in the stock market would impact revenue and profitability of the company.
- Any step taken by SEBI to further reduce management fees would impact revenue very sharply.

Income Statement

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17
Revenues from Operations	609	676	847	1200	1307
- YoY Growth (%)		11.0	25.4	41.6	9.0
Employee Expenses	160	151	161	192	196
- YoY Growth (%)		-5.6	6.7	19.2	1.8
Other Expenses	273	283	323	595	641
- YoY Growth (%)		3.9	14.0	84.1	7.8
Total Expenses	433	435	484	787	837
- YoY Growth (%)		0.4	11.4	62.5	6.3
EBITDA	176	241	363	413	471
- YoY Growth (%)		37.1	50.4	13.8	14.0
Depreciation	9	14	7	4	18
- YoY Growth (%)		68.0	(52)	(37)	31.6
Other Income	126	103	108	114	128
- YoY Growth (%)		-18.3	4.9	5.4	12.9
Profit Before Tax	293	330	464	522	581
- YoY Growth (%)		12.5	40.6	12.6	11.3
Exceptional Items	0.0	0.0	0.0	0.0	0.0
PBT After Exceptional Item	293	330	464	522	581
Prov. for Taxation	62.8	59.1	109.4	126.0	178.6
- as a % of PBT					
PAT	230	271	354	396	403
- YoY Growth (%)		17.5	31.0	11.8	1.6

Balance sheet

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17
Share Capital	11	11	41	42	42
Reserve & Surplus	1446	1543	1495	1750	1851
Net Worth	1458	1554	1536	1792	1893
Minority Interest	3.8	3.8	8.9	8.9	0.0
Other Long Term Liabilities	2.9	2.5	3.3	7.5	11.6
Total Current Liabilities	96.6	148.5	153.4	122.5	147.1
Total Liabilities	1561	1709	1702	1931	2051
Total Fixed Assets	16.3	11.6	4.4	8.5	8.7
Total Non Current Assets	796	141	317	398	402
Investments	308	289	403	527	589
Cash & Cash equivalents	55.2	65.2	60.2	79.5	39.7
Other Current Assets	385.0	1202.9	917.5	917.7	1011.0
Total Assets	1561	1709	1702	1931	2051
Growth YoY		9.5%	-0.4%	13.5%	6.2%

Cash Flow Statement

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17
Profit before tax	293	330	464	522	581
Depreciation	9	14	7	4	18
Change in Working Capital	107	256	57	361	715
Interest / Dividend (Net)	(86)	(72)	(70)	(41)	(70)
Direct taxes paid	(59)	(79)	(99)	(143)	(158)
Others	216	272	401	485	529
Cash Flow from Operations	48	177	(42)	218	556
(Inc.)/ Dec. in Fixed Assets	(8)	(3)	(5)	(9)	(257)
(Inc.)/ Dec. in Investments	173	17	449	(19)	(37)
Cash Flow from Investing	164	14	445	(28)	(294)
Issue of Equity	-	(0)	-	-	-
Inc./(Dec.) in loans	-	-	-	-	-
Others	(187)	(189)	(404)	(174)	(300)
Cash Flow from Financing	(187)	(189)	(404)	(174)	(300)
Effect of exchange fluctuation	5	7	(3)	3	(2)
Inc./(Dec.) in Cash	30	10	(5)	19	(40)
Opening Cash balances	25	55	65	60	79
Closing Cash balances	55	65	60	79	40

Key Ratio

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17
Per Share Data					
EPS	3.9	4.6	6.0	6.7	6.9
BVPS	24.8	26.5	26.1	30.5	32.2
DPS	2.7	2.7	2.9	2.5	4.2
Valuation Ratio (x)					
P/E	64.4	54.8	41.8	37.4	36.8
P/BV	10.2	9.5	9.6	8.3	7.8
EV/EBITDA	83.9	60.6	40.0	34.9	30.7
EV/Sales	24.3	21.6	17.1	12.0	11.0
Dividend Yield (%)	1.1	1.1	1.2	1.0	1.7
Profitability Ratios (%)					
ROE	15.8	17.4	23.1	22.1	21.3
ROA	14.7	15.8	20.8	20.5	19.6
PAT/AAUM	0.25	0.26	0.25	0.25	0.19
EBITDA	28.9	35.7	42.8	34.4	36.0
PAT	37.9	40.0	41.8	33.0	30.8

Source: RHP, Note: ratios are Calculated on upper price band

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