NIRMA UNIVERSITY
INSTITUTE OF MANAGEMENT
NAAC ACCREDITED 'A' GRADE

Summer Internship Assignment

April 2019 – June 2019

kotak Securities

Submitted to:

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Table of Content

1. Details of the Report

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Prepared For:	Institute of Management, Nirma University
Submitted To:	Prof. P. K. Yadav
Organizational Guide	Mr. Rusmik Oza

2. Acknowledgement

The satisfaction and euphoria that accompany the successful completion of any work would be incomplete without mentioning few people who made it possible, whose constant guidance and encouragement crowned our efforts put in into success.

I sincerely thank Prof. P.K. Yadav, Institute of Management, Nirma University and Kotak Securities Ltd. for providing me with an opportunity to carry out this Summer Internship Assignment. I would also like to thank Mr. Rusmik Oza (Project Guide), who despite his busy schedule provided me with his guidance and support during the summer internship.

3. Executive Summary

This report provides details 3 aspects of the internship i.e. about the company under which the summer internship assignment was undertaken, the details of the assignment and key learnings from the assignment.

The summer internship assignment was provided by Kotak Securities Ltd., a fully owned subsidiary of Kotak Mahindra Bank Ltd., a part of multi-billion dollar Kotak Group. Kotak Securities is a full service broker engaged in providing a range of services to its customers which include stock broking, portfolio management, depository services, equity research etc. The report provides details regarding the competitive framework in the stock broking industry as well as various financial and strategic details related to Kotak Securities Ltd.

The report further provides details regarding the summer internship assignment which was regarding the analysis of the Asset Management Sector in India. For the assignment the asset management sector in India was analysed based on competitive and regulatory framework. Further the listed players in the space were analysed on the basis of both quantitative and qualitative parameters and then were compared with their global counterparts on the basis of various valuation benchmarks.

Finally the third part provides details regarding the key learnings from the summer internship assignment.

4. Part – A: Profile of the Organization

4.1 About Kotak Securities

Kotak Securities Ltd. was established in 1994 as a subsidiary of Kotak Mahindra Bank and toady is one of the largest stockbrokers in India with a client base of over 17 lakh customers across 393 cities. The company executes more than 8 lakh trades per day through a national footprint of more than 1500 branches, franchisees and satellite offices.

The company offers a wide range of services to its customers which include stock broking, portfolio management, depository services, equity research etc. The company is a member of two of the largest exchanges in India i.e. Bombay Stock Exchange and National Stock exchange. The company also operates as a depository participant of Central Depository Service Ltd. and National Securities Depository Ltd.

Business Organization

Kotak Securities Ltd. is a wholly owned subsidiary of Kotak Mahindra Bank Ltd. The company's top management includes Mr. Jaydeep Hansraj as the MD and CEO of the company and Mr. Narayana SA as the chairman of the company. The company operates as a full-service broker and provides its clients with a wide range of service to its clients that include research and advice, tax planning, retirement planning, depository services etc.

The company (Kotak Securities) also has a fully owned subsidiary named 'Kotak Mahindra Financial Services Ltd.'

<u>About Kotak Mahindra Group</u>

Kotak Securities is a part of the multi-billion-dollar Kotak Mahindra Group which is one of India's leading financial services conglomerate. The group as business that include banking, insurance, asset management, mortgage finance, investment banking and stock broking to name a few. The group has global presence through its subsidies in USA, Singapore, Gulf Region, UK and Mauritius. The flagship company of the group Kotak Mahindra Bank has a national footprint with 1539 branches and 2447 ATMs across the country.

Landmarks

Key Landmarks achieved by the company are as follows.

1994
- Incorporation

2000
- Started providing derivatives trading to its clients.

2001-11
- Best Brokerage Firm in India by Asiamoney in 2009, 2008, 2007 & 2006
- UTI MF - CNBC TV18 Financial Advisor Awards - Best Performing Equity Broker (National), 2009
- Best Broker in India by FinanceAsia for 2010 & 2009

2012
- Reached client base of 1 million
- Best Broker in India by FinanceAsia 2012
- The Best Equity House in India by FinanceAsia for the year, 2012
- Fastest growing Equity Broking House by BSE IPF - D&B Equity Broking Awards for the year, 2012

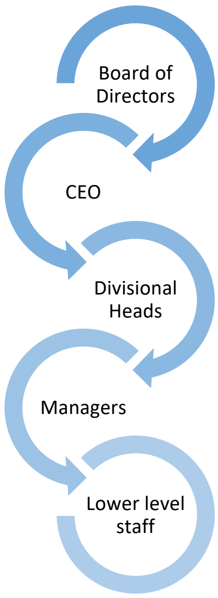
2013-16
- Best Broker in India, FinanceAsia Country Awards for Achievement 2015 & 2014
- Best Local Brokerage and Best Overall Country Research, 2016 by Asia Money Brokers Poll
- NSDL Star Performer Award in category “Top Performer in New Accounts Opened – (Non- Bank) – 1st Position 2015, 2016.

2017
- Became Indias Most profitable brokerage house
- NSDL Star Performer Award in category “Top Performer in New Accounts Opened – (Non- Bank) – 1st Position

2018-19
- Award for Highest AUM in ETF category awarded by Kotak AMC
- Silver at ACEF for Data driven marketing & successful of technology
- Gold at ACEF for Email marketing & successful use of technology
- Best Broker by FinanceAsia Country Awards, 2019

Organizational Structure

The organizational structure at Kotak Securities is as follows.



In terms of population India is the second largest country in the world with a population of approximately 1.3 billion people. Despite of the size majority of the population of India is outside the coverage of the financial system. This interpenetration of financial products in the country provides a huge opportunity to companies like Kotak Securities that operate in the financial sector. Thus, the scope of business is huge in a country like India for stockbrokers like Kotak Securities.

Products

Kotak Securities has a wide range of products for its customers. Following table provides a brief description of the company's products.

Products	Features
Trinity account	Trinity account is an investment platform that integrates a savings account, a demat account and an online trading account into one service.
2-in-1 account	The 2-in-1 trading account provides a dual benefit of a share trading account and a demat account rolled into one account.
Demat account	A demat account is a facility that allows customers to hold shares in an electronic format.
Equity trading account	Equity trading account allows you to invest in equity, initial public offerings or IPOs, mutual funds, equity and currency derivatives instruments.
Linked account	A linked account is essentially, a 3-in-1 trading account that links an existing savings and demat account with the partner bank and trading account at Kotak Securities.
NRI account	NRI account as the name suggests is for Non-Resident Indians that provides the benefits of a savings account, a demat account and a trading account all in one place.
Qualified Foreign Investors (QFI)	It is an account specially designed for foreign investor who intend to invest in India.
RGESS	The Rajiv Gandhi Equity Savings Scheme or the RGESS is an investment option that allows investors to enjoy the

	benefits of equity investments along with tax exemptions up to Rs. 25,000.
Portfolio Management Service	Portfolio Management Service (PMS) is a special service for those investors who wish for an expert to help manage their investments. Here experts manage the account on behalf of the client.

Table 1: Products of Kotak Securities

Customers

The customer base of the company includes retail investors, High Net worth Individuals (HNIs) and institutional clients. The retail investors base of the company includes those individuals that invest small sums of money, while HNIs are those clients that have a considerably large amount of money invested in the equity markets (approximately more than $ 1 million). Institutional clients include large companies that invest huge amount of money through brokers. All of these categories of investors cumulatively form about 17 lakh clients of the company spread across 393 cities across India. s

The company provides service to these customers primarily through 2 modes which are as follows.

1. Branch Network of more than 1500 branches and franchisees across the country.
2. Through digital mediums such as website and apps.

Competitors

Major competitors of Kotak Securities include Zerodha, ICICI Securities, HDFC Securities, Sharekhan, Axis Securities, Motilal Oswal Financial Services to name a few. Zerodha specializes in discount brokerage and is the largest stock broking firm in India in terms of number of active clients standing at more than 9 lakh clients. All other firms mentioned above are full-service brokers providing near similar service to that of Kotak Securities.

Financials

Kotak Securities in the financial year 2019 earned revenues of Rs. 1725.57 crores and a net profit of Rs. 407.59 crores. The breakup of the financials is given in the table below.

(Rs. in Crores)

Particulars	FY19	FY18	Growth (%)
Total Income	1725.57	1654.54	4.29
Profit before Interest, Tax and Depreciation	781.27	891.86	-12.40
Finance Cost	126.20	105.71	19.38
Profit before Tax and Depreciation	655.07	786.15	-16.67
Depreciation	22.65	23.36	-3.04
Profit before Tax	632.43	762.79	-17.09
Tax	224.82	264.20	-14.91
Net Profit	407.59	498.58	-18.25
Other Comprehensive Income	(4.85)	(8.87)	-45.32
Total Comprehensive Income	402.75	489.72	-17.76

Table 2: Key Financials of Kotak Securities Ltd.

The company in FY19 did not announce any dividend as the board had proposed to employ surplus cash to augment firm's capital requirement and consolidate the company's position.

4.2 Indian Brokerage Industry

The brokerage industry in India is a fragmented industry comprising of thousands of small, medium and large brokers spread across the length and breadth of the country. The industry is regulated by the Securities and Exchange board of India under the Stockbrokers and Sub-Brokers regulations 1992.

The industry comprises of participants with varied business models form those engaged primarily in capital market activities to those providing other financial services like lending and asset management.

Traditionally the majority of the stockbrokers in India were full-service brokers divided primarily into two categories i.e. bank led broker and non-bank led brokers. But as stock markets tend to be extremely volatile at times, brokers in order to counter volatility started distribution of various financial products like mutual funds and insurance and then later on also got engaged into new line of business spanning from asset management to credit disbursement.

In the most recent times, the brokerage industry has seen the entry of a new category of brokers – discount brokers that offer a basic transactional service at a fixed cost per transaction regardless of the size of the transaction. These brokers have gained a lot of traction in the recent times due to its low-cost model and has also threated business viability of the traditional full-service brokers.

In the recent times the industry has witnessed traction with a rise in the market share of the top 10 brokers from 22% in FY14 to 37% in FY19. The industry has also seen a strong rise in the average daily turnover from about 1.5 lakh crores in FY13 to about 9.6 lakh crore in FY19.

Regulatory Environment

In the recent times SEBI has tightened the grip over the stockbrokers. In the circular of June 2019 SEBI tightened the rules regarding the usage of client funds by the brokers. According to the new guidelines the broker must transfer the securities to the clients account within 1 day of receiving the payment and in case the client defaults the broker must hold the securities up to five days post which they can liquidate the position. SEBI has also mandated that the brokers cannot use the securities held with them due to the non-receipt of payment from the client as collateral for any loan availed by them.

This announcement comes in reaction to the recent Karvy Stock broking scam whereby the broker had misused the client securities by pledging them with financial institutions for availing a loan. The securities were estimated to be worth Rs. 2800 crores.

Digital Technologies

Digital technologies have changed the way the brokerage industry functions. Today more and more consumers are shifting to online trading platforms that provide them with the flexibility to execute the trades on real time basis on their mobile devices. This has led to the brokerage houses investing huge sums of money in creating a digital infrastructure to facilitate the trades. These digital technologies have led to the rise of discount brokers like zerodha that generate significant amount of its revenues through this medium.

4.3 Growth of Kotak Securities

Kotak Securities was incorporated in the year 1994 as a full-service broker providing a whole host of services to its clients. Being incorporated as subsidiary of Kotak Mahindra Finance Ltd. (Now Kotak Mahindra Bank) the company quickly gained its name in the market.

In the year 2000, soon after SEBI allowed trading of securities in the derivatives market, Kotak Securities started allowing its consumers to trade in the derivates market. Being promoted by Kotak Mahindra Bank promoted by veteran banker Uday Kotak, Kotak Securities started gaining trust of the investor community and in the year 2012 achieved a client base of 1 million clients.

Kotak Securities has over the years received many awards for the remarkable service in the brokerage space by some of the most reputed institutions like Finance Asia, NSE, NSDL, Asiamoney and Kotak AMC to name a few.

The strong brand positioning and extraordinary service provided by the company led it to become the most profitable brokerage house in India since 2017.

Organization Culture and Value System

On the basis of the secondary data available on various digital platform the average employee rating stands at 4/5 on indeed and 3.7/5 on Glassdoor. The most common comments on the positive side were related to work culture and the working environment while that on the negative side were related to lower amount of salary as compared to other players.

The company considers its employees as its biggest asset. In order value the contribution of the employees the company has taken many steps that include active participation of the employees in the decision-making process, ensured that employees have a proper work- life balance and also has ensured that the working environment in the organization is harmonious.

The company also feels that a satisfied client base is the key reason behind it being the most profitable brokerage firm in the country and therefore it makes continuous attempt to satisfy the rising client demands by offering innovative products and services.

Comparative Performance with other Industry Players

The following table shows the comparison of Kotak Securities with other industry players on key industry matrices.

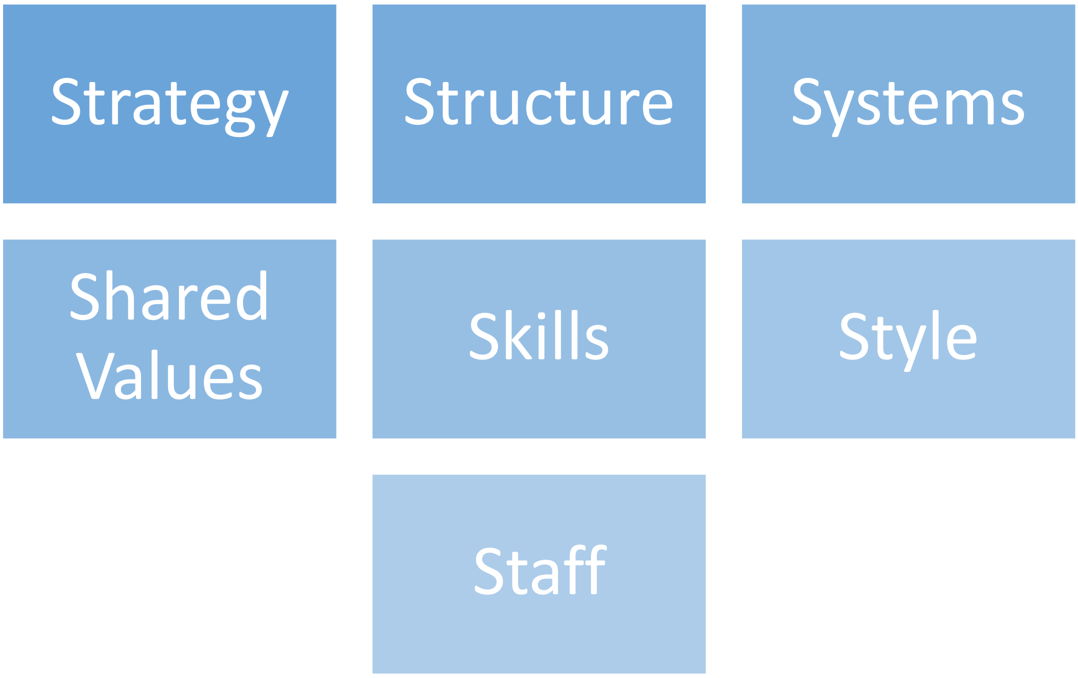
Rs. in Crores

Particulars	Kotak Securities	HDFC Securities	Axis Securities	Motilal Oswal	JM Financial	Zerodha
Revenue form Ops.	1708	782	190	1120	343	880
Broking Income	868	526	160	668	121	290
Revenue Mix Ex Interest Income	1236	702	172	1045	298	712
Revenue Ex Interest Income/ Total Revenue	72%	90%	91%	86%	87%	81%
Total Expense	1093	287	142	750	315	320
PAT	403	330	73	173	23	400
Total Clients (in Lakhs)	13.6	21.0	N.A.	12.6	N.A.	15.0

Table 3: Comparative Financial Performance of Industry Players

From the above table it can be seen that Kotak Securities is the best performer in majority of the key matrices mentioned above. Despite having a smaller number of clients then other brokerages it has been able to clock highest amount of revenues and profits as compared to other players. This shows that Kotak Securities has a concentration of large sized clients in its client portfolio. Also, Kotak Securities generates around 28% of its revenues from interest income of margin funding which is significantly higher as compared to others signifying that it is a preferred broker for the margin traders. Thus, on the basis of key industry matrices Kotak Securities is a standout performer.

4.4 7S Framework Analysis



1. **Strategy**

The company currently operates as a full-service broker by providing its customers with a wide range of service to its clients that include research and advice, tax planning, retirement planning, depository services etc.

Going ahead the company is planning to focus on 2 areas of growth. The first area of focus includes ramping up of its discount brokerage business and defending its market share in front of companies like Zerodha that are rapidly gaining market share. The second focus area includes creating a strong footprint in the rural areas and thus getting benefit of rapid financialization in these areas.

2. **Structure**

The structure of the company is hierarchical in nature. On the top of the hierarchy are the board of directors followed by Chief Executive Officer, followed by divisional heads, followed by managers and finally the lower level staff. The structure is designed in keeping in mind the organizational requirement (as the company functions in different areas it is required that there are different functional departments for each of these areas along with other functional staff).

3. **Systems**

In terms of the systems the company uses a couple of different software's for different tasks. For trading the company uses Refinitiv Eikon a trading software by Reuters. For research the company uses a couple of software including Bloomberg terminal, YCharts and S&P Capital IQ Platform. Information about other systems and software used by the company was not revealed.

4. **Shared Values**

As the company is an Indian born success story, Indian values such as service before self, brotherhood, work ethics and treating customers as king are deeply rooted in the work culture of the company. The company has a belief that employees are key to their success and therefore it promotes the ideas of teamwork and work life balance to maintain the morale of the employees. In addition to this the company also has an open-door policy and conducts various games in order to maintain harmony among the employees. In addition to all of these the company values innovation and creative thinking and helps the employees learn any new skill or undergo any training program.

5. **Skills**

The employees of the company possess different set of skills as per the functional areas in which they work e.g. A person working in technical analysis area has a set of skill in data analytics, chart analysis etc. As the person specializes in a specific domain area it helps the company in minimizing the errors and improving the efficiency. In addition to this the employees of the company are well trained, and the company also supports its employees to learn any new skill set so as they can add more value to the company.

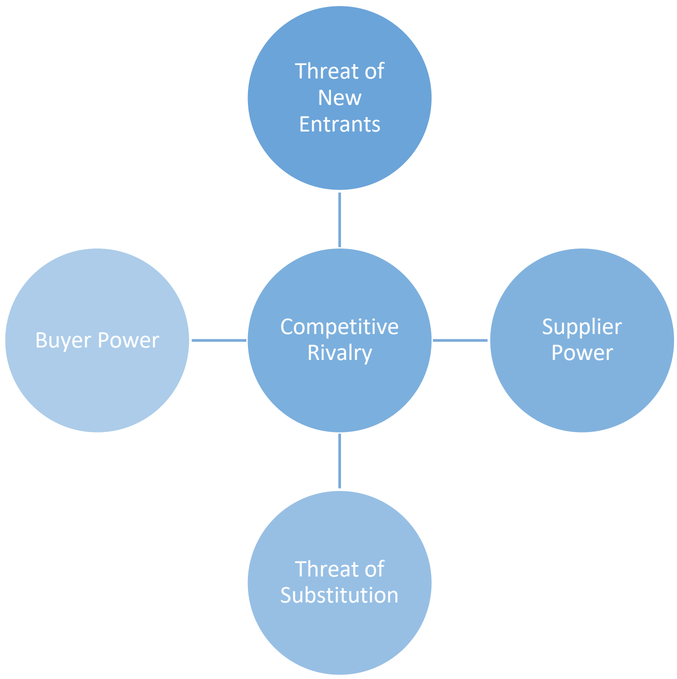
6. **Style**

The company has adopted a participative style of leadership. Leaders/managers invite their subordinates to participate in the decision-making process. This helps the company execute the plans better as the staff feels a sense of responsibility towards their work and also helps to boost the morale of the employees. The company also has an open-door policy which shows that the company believes in a free flow of information among the employees without any bias and prejudice and also shows that the culture in the company is quite informal. The company also plans various activities like games and other events in order to ensure that the work culture is not formalized, and employees build on the relationship among themselves and there is a harmonious culture in the organization.

7. Staff

Kotak Securities believes that manpower is the key to its success and therefore has an increased focus on attracting and retaining the best talent in the industry. Being in the brokerage industry it requires employees that have specialized skills and knowledge and therefore while hiring the company does a thorough background check and about the education, skills and interest areas of the person. The company also supports the intensions of the employees to undertake any skill development courses or training programs.

4.5 Competitive Position in the Stock Broking Industry (Porters Five Force)



Threat of New Entrants

In the stock broking industry, the threat of new entrant is high. This is because of low entry barriers in the industry. Firms require very low level of investments for starting a stock broking firm. Also, there are no other barriers in terms of technology, intellectual property, regulatory requirements etc. leading to more and more firms entering into the market.

Threat of Substitution

In the stock broking industry, the threat of substitution is medium. This is because a part of the industry i.e. share brokerage faces low level of threat of substitution as most of the market participants (traders, investors etc.) transact on the exchanges through these brokers but for the mutual funds the share of direct channel is increasing thus leading to them facing high threat of substitution.

Buyer Power

The bargaining power of buyer in the stock broking industry is high as due to low entry barriers there are a lot of firms in the market offering nearly identical products and services.

Also, the switching costs are low leading to buyers having high amount of bargaining power in the industry.

Supplier Power

The bargaining power of suppliers in the case of stock broking industry is high because of small number of suppliers (Exchanges and mutual fund companies), with switching cost (may not be present in all cases because of lack of alternative) is very high. Thus, in the stock broking industry suppliers have a dominant position over the companies operating in the industry.

Competitive Rivalry

As there are a large number of players in the industry offering nearly identical products and services the competitive rivalry in the industry is very high. Companies are adopting innovative techniques like discount broking, lower margins for trades etc. to attract a greater number of customers in the highly competitive stock broking industry.

Thus, from the above points it can be said that Kotak Securities is operating in a highly competitive market.

4.6 Possible Problem Areas in the Future

The following are the three problems that company could face in the coming years.

a. **Shift of consumer preference from a full service broker to a discount brokers.**

Problem: - Consumers are increasingly shifting towards discount brokers from full service brokers due to the high pricing structure of full service brokers. This is leading to a huge revenue loss for companies like Kotak Securities that are engaged in providing full service brokerage to their clients.

Solution: - Creating presence in the discount brokerage space so that the customer base can be retained by the company.

b. **Mutual fund companies shifting their focus towards direct plans leading to loss of revenue for the stock brokers like Kotak Securities.**

Problem: - Mutual fund companies are increasingly shifting towards direct plans as they get higher yields on such plans (as they do not have to pay commission to the stock brokers). This shift towards direct plans will lead to a significant loss to the stock brokers who sell the mutual fund products to their clients.

Solution: - Diversification of the revenue stream by creation of new avenues from where the company can generate income.

c. **Major part of the clients are from T30 cities. This high concentration of clients represents a significant challenge to the future growth of the company.**

Problem: - More than 60% of the clients of the company are from the top 30 cities of the country. This high concentration of clients is a significant risk to the future growth of the company.

Solution: - The company can concentrate its efforts to build a strong network of branches in the rural areas and attract more clients in these areas and thus reduce the concentration of clients.

5. Part – B: Project Work – Research Based Project

5.1 Introduction

Often, we hear people about how they lost a huge sum of money be chasing high returns in the equity markets. Of course, equity markets provide investors with high amount of returns but there are certain caveats to this like risk, time horizon of the investment etc. It is due to this caveats that investment in financial markets requires adequate knowledge and discipline. It is therefore important for market participants who cannot devote their time to the financial markets to take help of a set of people or organization to help them navigate through the volatility and help them in generating handsome amount of returns.

To help such investors generate alpha for their investment portfolio many of the brokerage houses publish a set of reports that cover investment ideas for their clients to invest in. These reports are based on fundamental analysis that include past performance and future expectations about a particular sector and companies within that sector.

5.2 Methodology

- All the data regarding the project has been collected from secondary sources. The data collected for the study is both qualitative and quantitative in nature.
- The data has been collected from various authenticate sources like Annual Reports of the companies, Investor Presentation, Conference Calls, Government Publications, Websites of Industry Body (AMFI) and publications by various research organizations like Crisil, Care etc.
- For the purpose of the project no sampling has been undertaken.
- The analysis of the data was done using Microsoft Excel.

5.3 Context of the Industry Problem

Retail investors are always tempted to invest in companies who are witnessing a rise in the prices of their shares as they are interested in residing the tide to make money for themselves. But majority of time they land up in troubled situation due to either their timing of the investment (they enter the stock at a time when the rally is at the ending stage and the stock sees a correction thereafter) or lack of research (as either these stocks may be of pump and dump category). Similar is the case on the reverse side (i.e. when the price of a stock falls significantly) when a price of stock corrects investors feel that the stock is available cheap and they can benefit from it by buying at lower prices, the problem here is that they may not be aware of the reasons due to which the stock may be falling and may end up losing money as the stock may correct there on. Thus, it is due to lack of awareness and research that retail investors end up losing money in the market. Thus, in order to help these investors, take informed decisions this report has been created. The report has been made from an unbiased point of view as far as possible and provides investors with an in-depth view of the sector and the companies there-of.

5.4 Presentation and Analysis of the Data

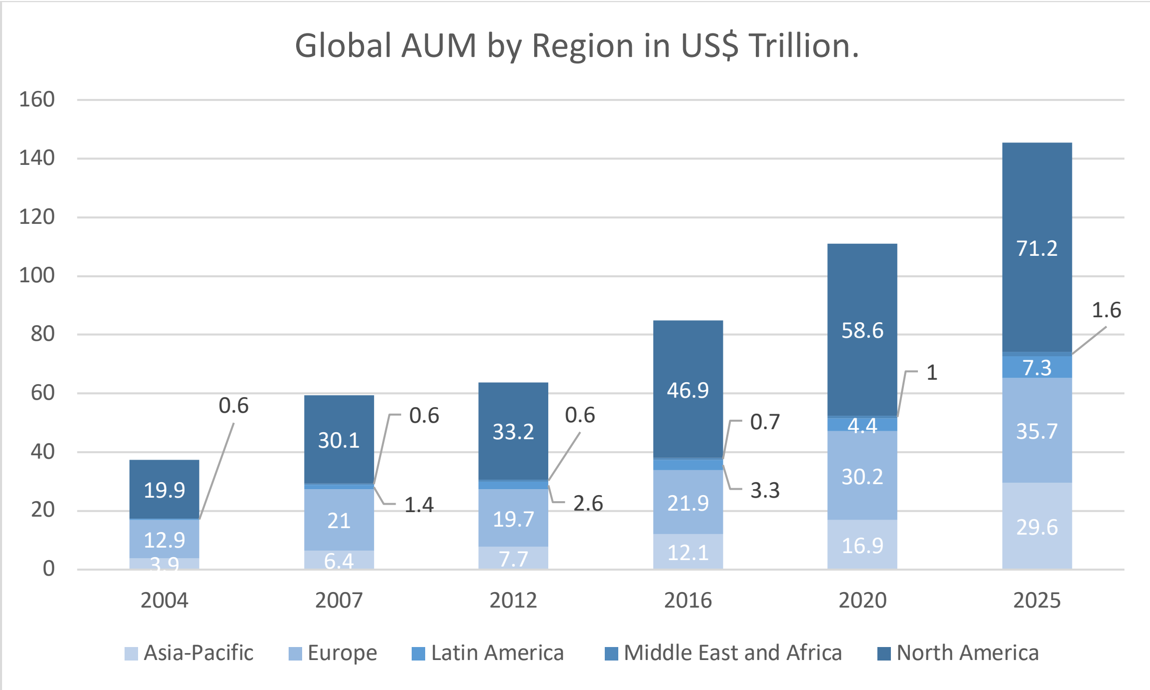
5.4.1 Introduction to the Asset and Wealth Management Sector

Asset Management Industry is a sector that involves providing the clients with the products and services that will help them achieve their financial goals. They provide products such as mutual funds, alternative investment funds, other structured products and services. The origins of this Industry dates back to 1770s when the first mutual fund was established in Holland. Since the establishment the Asset and Wealth Management Industry has seen phenomenal growth with the Asset Under Management across the world touching almost US$ 85 trillion as of 2016.

5.4.2 Global Asset and Wealth Management Industry

Globally the Asset and Wealth Management (AWM) industry has been seeing a significant growth since the start of the 20th century. The global asset under management for the AWM has been seeing a steady rise since the start of 20th century with the asset under management rising to a staggering US$ 84.9 trillion in 2016 up from 37.3 billion in 2004 translating into a compounded annual growth rate of 7.09% over the 12-year period.

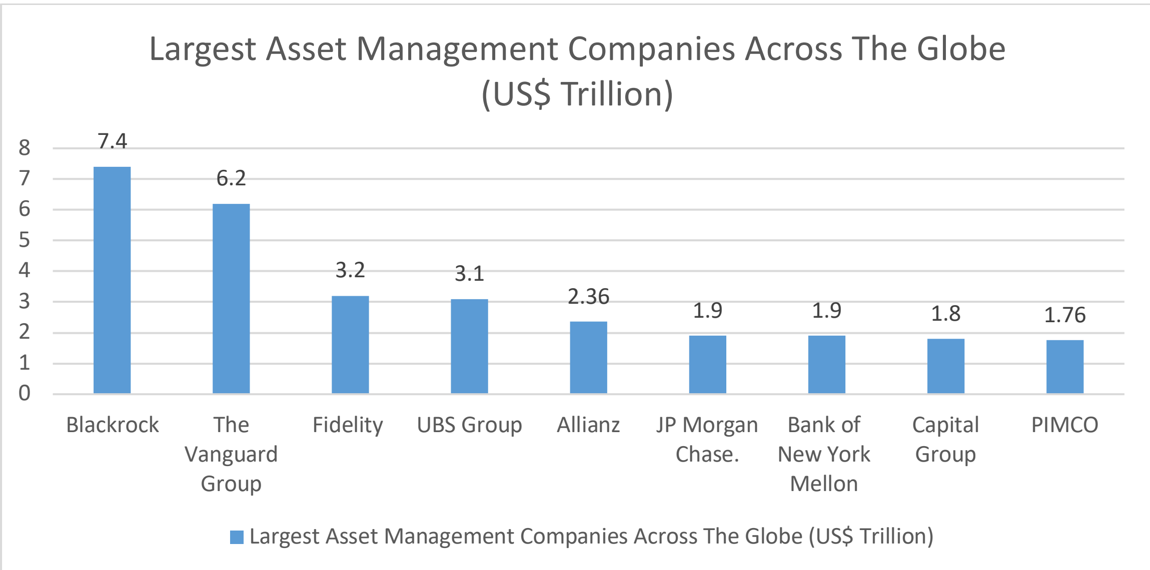
Among the regions across the globe North America tops the charts with a total asset under management of US$ 46.9 trillion as of 2016 a growth of almost 136% as compared to 2004 when the AUM stood at US$ 19.9 trillion. Europe stood at the second position with an Asset Under Management of US$ 21.9 trillion a growth of almost 70% as compared to 2004 when the asset under management stood at US$ 12.9 trillion. The third, fourth and fifth positions were occupied by Asia, Latin America and Middle East respectively with Asset under management of US$ 12.1 trillion, US$ 3.3 trillion and US$ 0.7 trillion respectively as of 2016.



Source: PWC Report

5.4.3 Major Global Players

The following chart shows the major global players in the industry and their AUM.

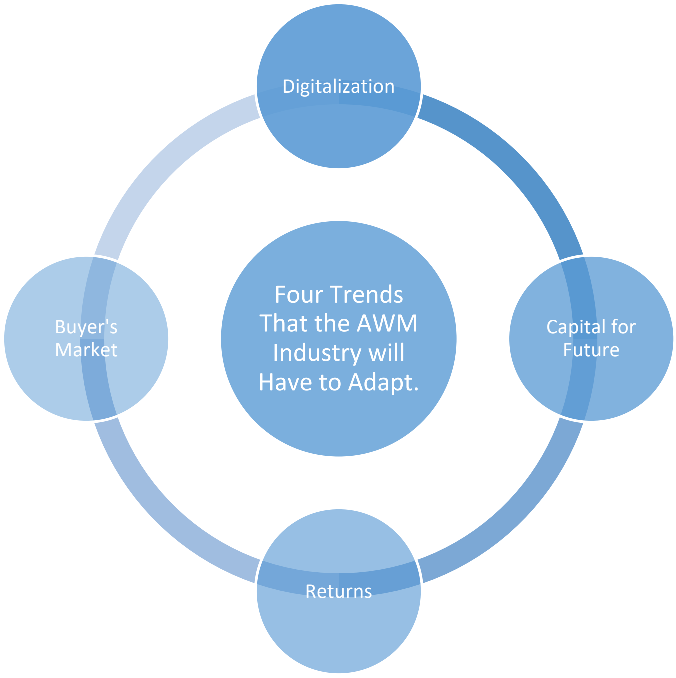


Source: Bloomberg

Blackrock is the largest fund manager with an Asset Under Management of US$ 6.84 trillion followed by The Vanguard Group with asset under management of US$ 6.2 trillion. The other large asset management companies that includes various marquee names like JP Morgan Chase, UBS Group, Fidelity Investments, Allianz Group etc. manage funds of around US$ 2-4 trillion.

5.4.4 Recent Trends Across the Globe

Asset and Wealth Management industry is passing through a phase of rapid transformation since the Global Financial Crisis (GFC). Although over the years the fundamentals of the industry have remained largely intact this trend is set to change in the coming years as the industry adapts to the following 4 trends.



Digitalization

Over the years the Asset and Wealth Management Industry has been a laggard in terms of technological advancements. This trend is set to change in the coming times with the companies increasingly adopting digital platforms and services for client acquisitions, research and portfolio management, back end processes and distribution and client engagement. Asset Management companies will have to increasingly adapt to these changes or be ready to die.

Capital for Future

The Asset and Wealth Management Industry has been financing the funding gaps by providing capital to the areas that are short of funding's due to the complex regulatory requirements and capital limitations of the banking system.

Buyer's Market

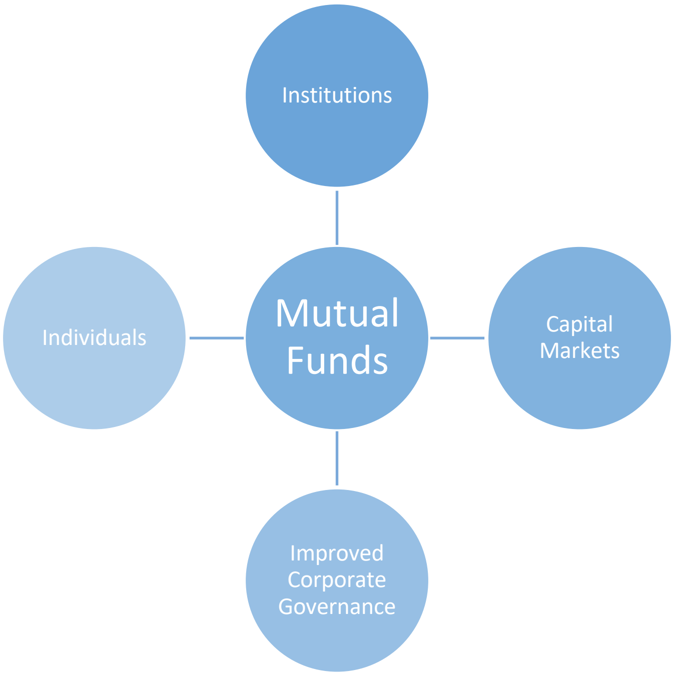
The asset and wealth management industry are increasingly turning into a buyer's market with the investors, competitors and regulators increasingly pushing the fees charged by the asset managers down.

Returns

At the end what matters is returns. Investors are increasingly demanding tailor-made solutions for their specific investment needs. At the time when the demand for active funds is slowing and investors are increasingly shifting towards low cost passive funds it becomes increasingly important for Asset Management Companies to generate alpha for the investors.

5.4.5 Asset Management Industry in India

Indian Asset Management industry consists of 44 Asset Management Companies that manage about INR 24 Trillion worth of assets in mutual funds. In terms of penetration marked by the ratio of Asset Under Management to GDP, India ranks 17th globally surpassing China. Over the years the asset management industry has become an integral part of the Indian financial system by helping the following different segments of economy.



Supporting the Growth of 'Individuals'

Mutual funds have played an important role in re-financialization of the savings. The share financial savings that stood at 52% in 2008 declined to 36% in 2012 due to tepid market returns and global financial crisis. But since the last 6 years it has been on a rising spree with the share of financial savings reaching a high of 60% in FY 18. This increase can be largely attributed to mutual funds that saw a Compounded Annual Growth Rate of 31% between FY14 and FY18. This has resulted in the share of mutual funds in financial savings rising to 6% in FY18 from 3% in FY14.

Supporting the Growth of 'Institutions'

Mutual Funds have also been instrumental in providing growth capital to the corporates over the last decade. An analysis of top 1000 companies listed on BSE reveal that mutual funds own more than 5% stake in more than 50% of the companies. This is across categories i.e. small cap, mid cap and large cap. In the bond markets too, mutual funds have helped corporates raise money. As of FY18 the share of mutual funds in the bond market participation has been around 16%. In addition to the equity and bond markets mutual funds have also helped the corporates by helping them better utilize their ideal short-term liquidity by investing them into short term liquid funds and thus generating better returns than various traditional instruments like short term fixed deposits.

Providing Sustainability to Capital Markets

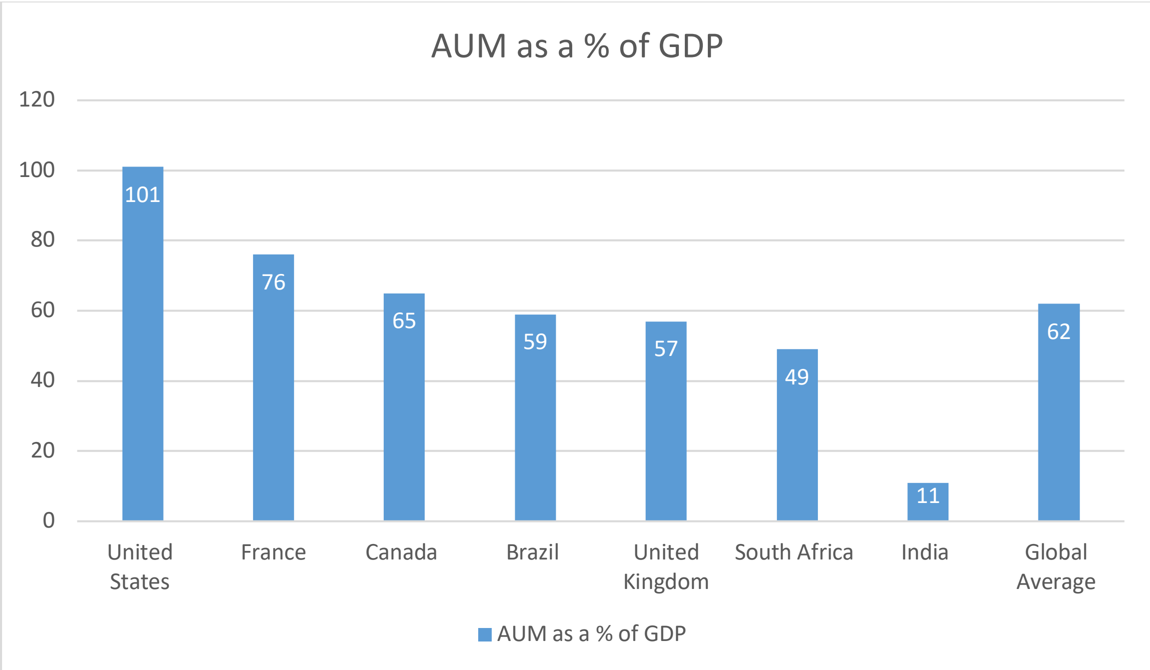
In addition to Individuals and Institutions mutual funds have also worked to provide stability to the capital markets. In the past Indian Capital Markets have for long been dependent on foreign fund flows that have largely been fluctuating. This had in the past caused a lot of volatility. But with the rapid growth of mutual fund industry they have been able to counterbalance the variability in the foreign flows and thus has been able to provide the much-needed stability to the domestic capital markets.

Improved Corporate Governance

As mentioned earlier mutual funds own more than 5% stake in more than 50% of the top 1000 listed companies on BSE. This allows them to play a pivotal role in the corporate governance framework of the country. Regulatory requirement of disclosure of voting patterns has led to increased participation in the management decisions. This step led to the increase in the percentage of resolution in which mutual fund companies voted from 49% in 2013 to 87% in 2018.

5.4.6 Penetration of Mutual Funds in India

The level of penetration of mutual funds that is measured in terms of the ratio of AUM to GDP in India stands at 11%. This figure is quite low when compared with global averages and many other developed and developing economies. As shown in the below graph the global average of the penetration as of December 2019 stands at 55%. Penetration levels in developed economies like US and Canada stood at 101% and 65% respectively while in developing economies like Brazil and South Africa the ratio stood at 59% and 49% respectively.



Source: The Financial Express and AMFI

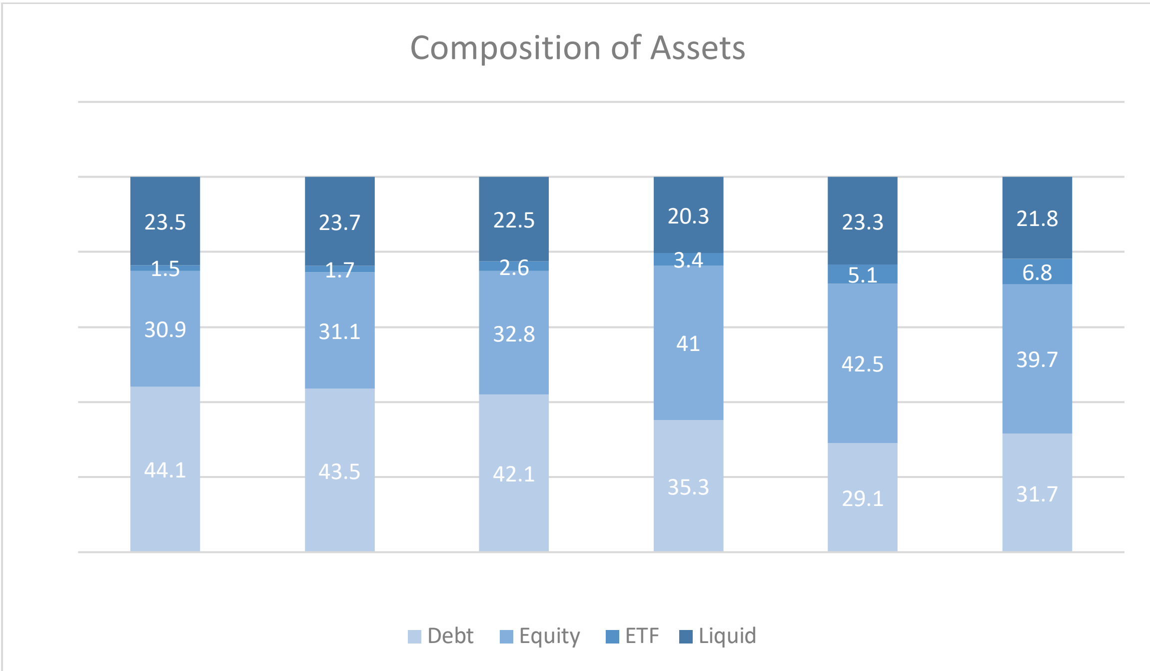
5.4.7 Growth Drivers

Since 2003, the Gross Domestic Product (GDP) of India has seen a CAGR of 10.5% in the 15 years period till 2018. In the same period the AUM of the mutual fund industry has risen at a CAGR of 24.54% outperforming the economic growth significantly. With the Prime Minister's target to achieve a $5 trillion economy by 2025 along with the shift from physical savings to financial savings this trend is expected to continue at an accelerated pace in the future. Also, a shift from investment in bank deposits towards high yielding avenues such as mutual funds will also contribute towards this growth.

Traditionally India has been a savings driven economy. As a result of this the gross savings rate and the household savings rate are high despite lower level of per capita income. The net financial savings of the household sector has been in the range of 6.5% to 8% of the gross national disposable income since FY12. Although the household savings as a percentage of GDP has seen a decline from the levels of about 24% in FY12 to 17% in FY18. Despite this fall the household investment in financial assets has increased at a CAGR of 9.6% From FY12 to FY18 rising from 31% to 42%.

5.4.8 Asset Classes

Assets of Mutual Funds can be divided into 4 broad categories i.e. Equity Oriented Schemes, Debt Oriented Schemes, ETFs and Liquid Schemes. Following data shows the scheme wise composition of assets for the past six years from March 2015 to March 2020.



Source: AMFI Industry Trends

From the above data it can be seen that over the years the proportion of debt assets has reduced by nearly 12 percentage points while that of liquid funds has reduced by nearly 2 percentage points. This loss in the debt schemes and liquid schemes has been made up by rise in the asset base of Equity Schemes and Exchange Traded Funds which saw a rise of 8.8 percentage points and 5.3 percentage points respectively.

5.4.9 New Era of Investing – SIPs

Systematic Investment Plans (SIPs) has been the buzz world in the mutual funds industry in the recent times. Systematic Investment Plan (SIP) is an investment plan (methodology) offered by Mutual Funds wherein one could invest a fixed amount in a mutual fund scheme periodically, at fixed intervals – say once a month, instead of making a lump-sum investment. SIPs are of particular importance to the salaried class as they earn their income at a periodic interval of time.

SIPs over the recent time has played an important role in bringing small investors to invest in mutual funds. It has also helped mutual funds to mop up funds from the B15 (beyond top 15) cities and bring about stability to the markets through a continuous flow of funds.

But why are SIPs becoming so popular?

Following are some of the reasons for the same.

- **Lackluster performance by other investment avenues.**

Over the past couple of years investment avenues like Bank FDs, Real Estate and Gold have shown tepid returns and are not looking as lucrative as earlier. Bank FDs have seen a sharp decline in the interest rates with the repo rates in the country being at record lows FDs are hardly able to beat inflation. Real Estate has not seen much rise after the subprime crisis of 2008 and with Demonetization and RERA the industry doesn't seem to be doing well. At the same time gold also has seen a rater lackluster period for the last many years barring the recent rise in the gold prices.

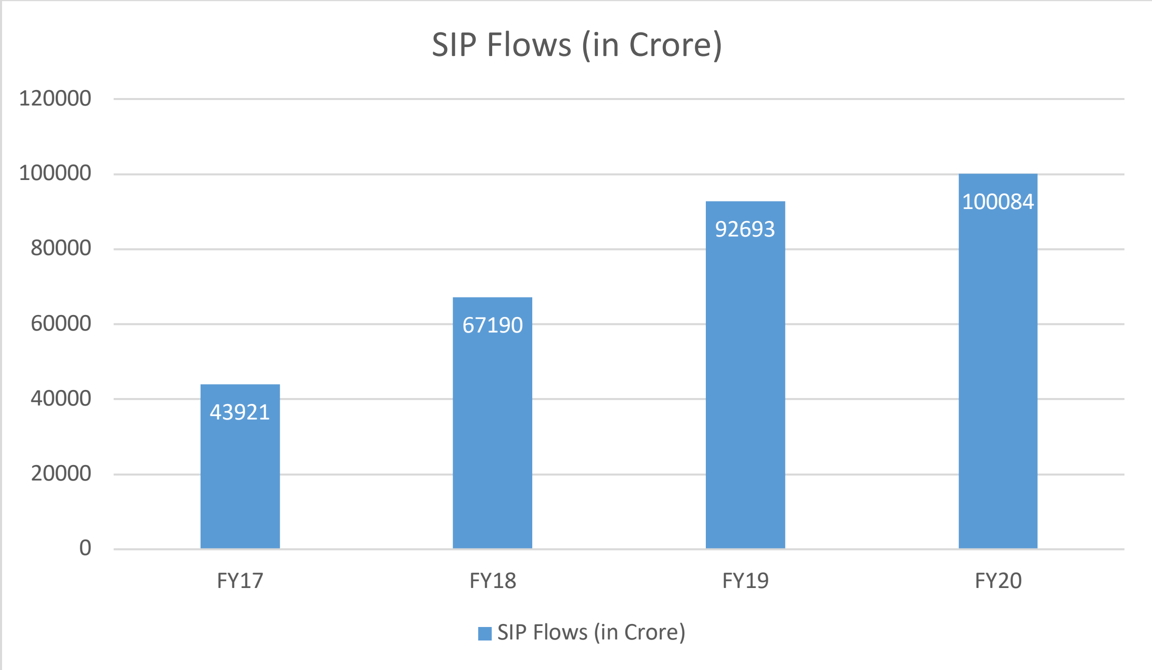
- **Demonetization**

After the government had announced demonetization in 2016 majority of the cash which was the center stage for the parallel economy got channelized into the banking system. This led to a huge amount of liquidity in the financial system. This led to massive SIP flows.

- **Tax Treatment**

Investments in SIPs are considered quite efficient in terms of tax treatment as compared to other investment avenues. The dividends received on the investments are tax free in the hands of the recipients (until AY 2020-21) and capital gains attract very low level of tax unlike other avenues where high amount of tax is charged on both capital gains and regular incomes.

All of the above factors have led to massive flows into SIPs over the years. The below graph shows the SIP flows over a span of 4 years from FY17 to FY20 which have more than doubled in this time frame.



Source: AMFI

5.4.10 Future Outlook

Going forward the rising trend in the SIP flows is expected to continue owing to a couple of factors albeit at a lower rate of growth, due to the following reasons.

- **Economic Growth and Increased Per Capita Income.**

Government of India has announced its plans to make India a five trillion economy by 2025. In order to achieve this objective, there has to be a significant rise in the government expenditure and a considerable rise in the investments within the economy (as GDP consists of C + I + G). This increased government expenditure and Investments will lead to a boost in the per capita income of the people in India and thus will aid the SIP flows.

- **Low Interest Rates**

With the current economic downturn in India the Central Bank will keep the interest rates in the economy lower in order to boost the economic activity in the economy. As a result, investment in Bank FDs will become less attractive to the investors leading to them shifting towards Mutual Funds thus aiding the SIP flows.

- **Record Levels of Real Estate Inventory.**

Real Estate sector is seeing the unsold inventory rise to a record level. This going ahead is expected to keep the real estate prices under pressure due to excess supply of inventory. Thus, making it unattractive investment opportunity.

- **Rising Awareness of SIP in B30 Cities.**

A large portion of the SIP flows come from T30 (top 30) cities of India. With the increasing awareness (due to various campaigns run by AMFI and other mutual funds) about SIPs in the B30 (Beyond 30) cities the flows in SIPs are expected to rise.

Thus, considering all of the above factors it can be said that SIPs are expected to see a phenomenal growth over the next couple of years. Although the overall flows are expected to rise the rise may not be linear considering various factors related to the economic activity and market volatility.

All in all, it can be said that SIPs are expected to be the next growth drivers for the Mutual Funds Industry.

5.4.11 Cost Structure of AMCs

AMCs derive their revenues from two broad sources i.e. Operating Revenue and Non-Operating Revenue. Revenue from Operations/Operating Revenue consists of Investment Management Fees from various Products like MFs and PMS, and Advisory Fees for providing Advice related to the portfolios to the clients. While non-operating revenue is derived from various sources which may include interest and dividends on investments, reversal of provisions made earlier etc.

The expenses of AMC can be broadly divided into 3 main parts which i.e. fees and commission paid to the distributors and other channel partners, employee benefit expenses that includes salaries, allowances and bonuses paid to the employees of the company, and various other expenses that are linked to the promotion of the products.

5.4.12 Turbulent Times – A Tough Period for Mutual Funds

The Mutual Funds industry has been facing tough times since the famous fallout of the Infrastructure Leasing and Financial Services (IL&FS) group in 2018 that triggered a liquidity crunch in the economy.

In August 2018, 2 subsidiaries of the IL&FS group defaulted on its repayment obligations of non-convertible debentures and commercial papers to the tune of approximately 1500 to 1700 crores. Many of the debt funds of marquee mutual funds like DSP Blackrock, HDFC MF had exposure to these instruments of the IL&FS subsidiaries and thus could not recover the amount on due date. As the redemption date of this funds came closer, these funds in order to meet their repayment obligations sold off the other securities that they owned at higher yields sparking a fear that other shadow lenders (NBFCs) might default on their repayment obligations. This fear led to credit lines to these companies getting halted and eventually some of the large NBFCs like Deewan Housing Finance Ltd. (DHFL) started defaulting on their repayment obligations. This event led to many of the mutual funds taking a haircut to the tune of nearly 15 to 20%.

While the industry was copping up with the IL&FS issue a new issue emerged in terms of the loan against shares that the mutual funds had given to the Zee Group when the share price of Zee Entertainment Enterprise (the company whose shares were kept as collateral) nosedived 50% in a single day leading to the limits getting triggered requiring the fund houses to sell the stock of the company. This again led to the fall in the share prices of ZEE's shares. In reaction to this the mutual funds entered into an agreement with the promoters of ZEE Ltd. of not selling the shares for a specific time period (up to September 2019) until the company finds a suitable strategic partner. This event led to mutual funds like Kotak Mahindra AMC and HDFC AMC deferring the full repayment of certain Fixed Maturity Plans (FMPs) by a specified period of time.

More recently in April 2020 the third wave of troubles hit the mutual funds industry when due to redemption pressure linked to the nation-wide lockdown due to the corona virus Franklin Templeton announced the closure of its 6 Credit Risk Schemes citing lack of liquidity in the bond market resulting into close to Rs. 28000 of investor's money getting stuck. The worst part about this was that the fund has not specified any timeline for the redemption. Looking at this event the Reserve Bank of India (RBI) came to the rescue of the mutual funds by providing them with a liquidity of 50,000 crores which they can borrow through banks by keeping the debt securities that they own as collateral or can sell the securities to banks.

But the problems of the mutual fund industry do not end here. Most of the credit risk funds in the market have exposure to AA- and below rated securities. The recent lockdown in the India due to corona virus is expected to have a significant impact on the economic activity and thus may hit the funds that have exposure to low rated securities. Also, the securities that have high rating may also present a risk to the mutual fund industry as most of these securities are rated by domestic credit rating agencies which have lost their credibility after the IL&FS crisis.

Note*: - Mutual Funds already had a provision whereby they could borrow 20% of AUM from banks to meet redemption pressure.

5.4.13 Regulatory Environment

Regulatory Structure

The primary regulator of Mutual Funds in India is Securities and Exchange Board of India (SEBI) through Securities and Exchange Board of India (Mutual Funds) regulations, 1996. Any entity who wishes to establish a mutual fund in India is required to take approval from SEBI (Banking companies that intend to become sponsors of a mutual fund company are also required to take approval from RBI). SEBI periodically issues guidelines for the mutual funds keeping in mind the market scenario and investor needs.

There are primarily 4 parties involved in the functioning of mutual funds. These parties are as follows.

1. The Sponsor
2. The AMC
3. The Trustees
4. The Custodian

The Sponsor

The sponsor is a company that establishes a mutual fund. They are like the promoters of any company. Their primary task is to appoint Trustees of the funds with the approval of SEBI and establishment of an Asset Management Company.

The Asset Management Company

An Asset Management Company is an entity that runs the mutual fund. They are responsible for the day to day functioning of the mutual funds. They launch various schemes under the mutual funds and are responsible for the appointment of fund managers for running various schemes. The Asset Management company must have an initial capital of Rs. 50 crores with the sponsor contributing at least 40% of the capital. It is to be noted that the AMC is just in a contract with the mutual fund and this contract can be terminated by the agreement of majority of trustees or by 75% of unit holders.

The Trustees

Trustees are the people who are responsible for ensuring the interest of the unit holders of the fund is protected. The key role of trustees is to enter into an investment management contract with the AMC and define its functioning.

The Custodian

The custodian is a person or entity that is responsible for holding/safeguarding the securities in which the mutual fund has invested in.

Regulatory Changes

In the recent times SEBI has issued new guidelines that have a huge impact on the mutual funds industry. These are as follows.

Sectoral Caps for Investments

SEBI in 2019 capped the exposure that a liquid fund can have to a specific sector at 25% of the AUM. It also mandated liquid funds to keep 20% of their AUM as cash or cash equivalents to meet sudden redemption pressures.

Upfronting of Trail Commission for SIPs up to 3000

In amendment to the earlier order for adaptation of full trail model of commission except for SIPs, SEBI ordered upfronting of trail commission is allowed for SIPs up to 3000 per scheme, per month for an investor who is investing for the first time in mutual funds schemes.

Reclassification

SEBI has also announced reclassification of the stocks into large, mid and small cap on the basis of market cap relative ratings (on the basis of ranks assigned i.e. top 100 stocks will be large caps next 150 will be mid cap and others small cap) rather than absolute market cap cut off. They have also prescribed 10 classifications for equity funds, 16 for debt funds and 2 each for solution and index funds wherein except for index funds mutual funds can have only one fund in each of the categories. Thus, they can only have 34 funds outside index funds.

Reduction in TER (total Expense Ratio)

SEBI in 2018 ordered that the mutual funds must reduce the expense ratios to the newly introduced caps as per the asset class, longevity of scheme and style of management. This led to an impact of anywhere between 5 to 50 bps for the mutual funds across all schemes.

5.4.14 Major Players and Their Share

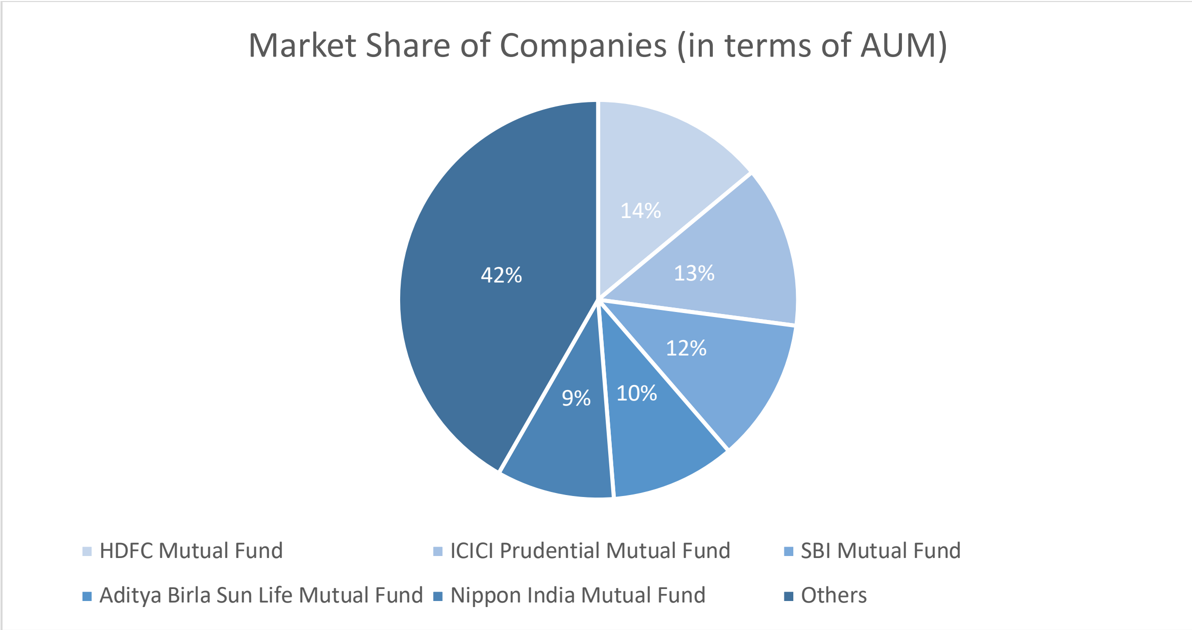
The Indian Mutual Funds industry consists of 44 AMCs comprising of privet sector companies, banks/NBFC sponsored companies and joint ventures with foreign entities. These companies together manage approximately Rs. 27 trillion worth of assets including mutual funds.

In terms of the asset under management it is a pretty concentrated market with top 5 AMCs managing approximately 58% of the total assets of the industry as of the end of FY19. Following graph shows the composition of players in the industry in terms of AUM.

Company	AUM (Rs. Crore)	Market Share
HDFC Mutual Fund	342290.58	13.98
ICICI Prudential Mutual Fund	320792.87	13.10
SBI Mutual Fund	283806.67	11.59
Aditya Birla Sun Life Mutual Fund	246479.65	10.07
Nippon India Mutual Fund	233616.82	9.54
Others	1021451.05	41.72

Source: AMFI and Company Data

Table 4: AUM & Market Share of AMCs



Source: AMFI and Company Data

From the above table and chart, it can be seen that HDFC Mutual Fund is the leader with a market share of 13.98% in terms of AUM followed by ICICI Pru MF at the second position with a market share of 13.10%. The third, fourth and fifth position were occupied by SBI MF, AB Sunlife MF and Nippon India MF respectively with market share of 11.59%, 10.07% and 9.54% respectively.

5.4.15 Revenues of Companies

In terms of Topline the companies posted a strong rise in the revenues in FY19 as compared to the previous year. ICICI prudential tooped the charts in terms of revenues with a revenue of Rs. 2004 crores.

Company	Revenue
HDFC Mutual Fund	1915.18
ICICI Prudential Mutual Fund	2004.32
SBI Mutual Fund	1558.49
Aditya Birla Sun Life Mutual Fund	1391
Nippon India Mutual Fund	1589.04

Source: Company Data

Table 5: Revenues of Top 5 AMCs

5.4.16 Profitability of Companies

In terms of Profitability/bottom-line HDFC MF topped the charts by clocking a Net Profit of Rs. 930 Crores in FY18 followed by ICICI Pru. MF with a Net Profit of 683 Crores. While other large Mutual Funds like Reliance MF, SBI MF, AB Sun Life MF and UTI MF clocked Net Profits of anywhere between 300 to 500 Crores.

Company	Profits	Net Profit Margin (%)
HDFC Mutual Fund	930.6	48.59
ICICI Prudential Mutual Fund	683.09	34.08
SBI Mutual Fund	428.98	27.52
Aditya Birla Sun Life Mutual Fund	448.86	32.27
Nippon India Mutual Fund	475.17	29.90

Source: Company Data

Table 6: Profitability of Top 5 AMCs

5.4.17 The Listed AMC Space

In India there are two AMCs listed on stock exchanges i.e. Nippon Life India Asset Management Ltd. and HDFC Asset Management Company Ltd. Following is the detailed analysis of both the companies with regards to both financial and non-financial data.

5.4.18 HDFC Asset Management Company Ltd.

About the Company

HDFC Asset Management Company (HDFC AMC) is the second largest asset management company in India with an overall (debt, equity, money market etc.) market share of 14.3% and AUM standing at approximately Rs. 3191 billion as of FY20. HDFC AMC is jointly promoted by HDFC Ltd. (which is a financial conglomerate having a dominant presence in housing finance, banking, life and non-life insurance, asset management, real estate funds and education finance.) and Standard Life Investments (which is a part of standard Life Aberdeen plc group, is one of the world's largest investment companies).

Management Team

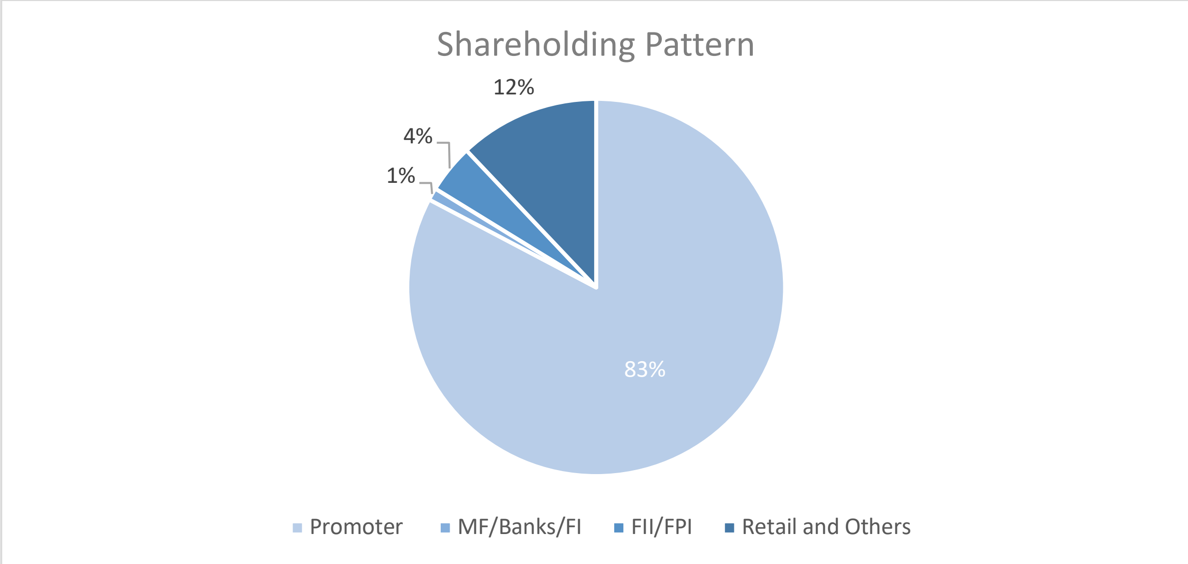
Chairman: Mr. Deepak Parekh serves as the chairman of the board. He is Chartered Accountant and serves as a board member of many of the large Indian companies across diverse sectors. He is also the chairman of HDFC Ltd. (one of the promoter of HDFC AMC) and has won several notable awarded including Padma Bhushan in 2006 and Bundesverdienstkreuz (which is Germany's Cross of the Order of Merit, being one of the highest distinction by the Federal Republic of Germany) in 2014.

MD & CEO: Milind Barve serves as the MD and CEO of the company. He has been associated with the company form 2002. Prior to HDFC AMC he has been associated with HDFC Ltd. as the general manager of the treasury operations for 14 years. He was also the head of marketing for retail deposits at HDFC Ltd. He is a member of ICAI and holds a Bachelor's Degree in Commerce.

CIO: Prashant Jain, CFA is the CIO, Fund Manager and Executive Director at HDFC AMC. He is a Chartered Financial Analyst from AIMR. Prior to this role he has been the head of Equities at HDFC AMC and was CIO, Head of Funds Management and Fund Manager at Zurich Asset Management India Private Limited. He has pursued PGDM from IIM Bangalore and B. Tech from IIT, Kanpur.

Shareholding Pattern

According to the latest annual report the shareholding pattern of the company is as follows.



Source: Company Data

As can be seen from the above chart promoters own almost 83% (52.77% held by HDFC Ltd. and 29.94% held by Standard Life) of the company with rest of the 17% being held by non-promoters which include MFs/Banks/ FIs that together own 1% stake, FIIs and FPIs own more than 4% and retail and other shareholders own 12% in the company.

The following table shows the list of the top 10 shareholders that own stake in the company.

Institution/Person	**Stake (%)**
Smallcap Fund World Inc.	1.07
KKR India World Opportunities Fund II	0.60
State Street Global Advisors	0.54
Prashant Rajendra Jain	0.42
SBI Magnum Multicao Fund	0.22
American Funds Insurance Series Global Small Cap Fund	0.21
Vanguard Total Stock International Fund	0.21
Mirae Asset India Equity Fund	0.17
Vanguard Emerging Markets Stock Index Fund	0.16
Columbia Emerging Markets Fund	0.13

Source: Company Data

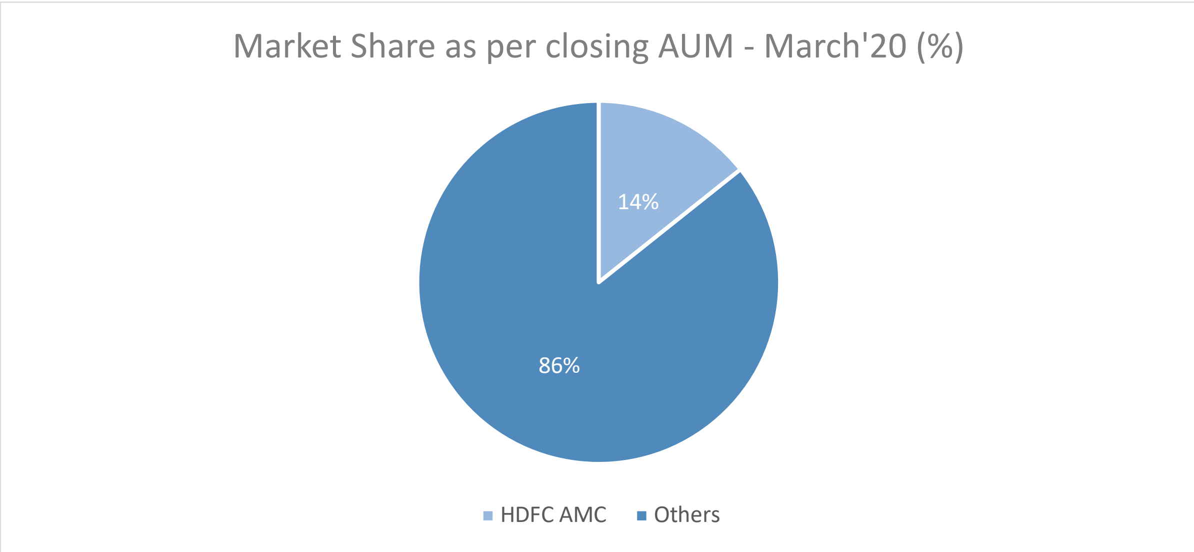
Table 7: Top 10 Shareholders of HDFC AMC

Asset Under Management

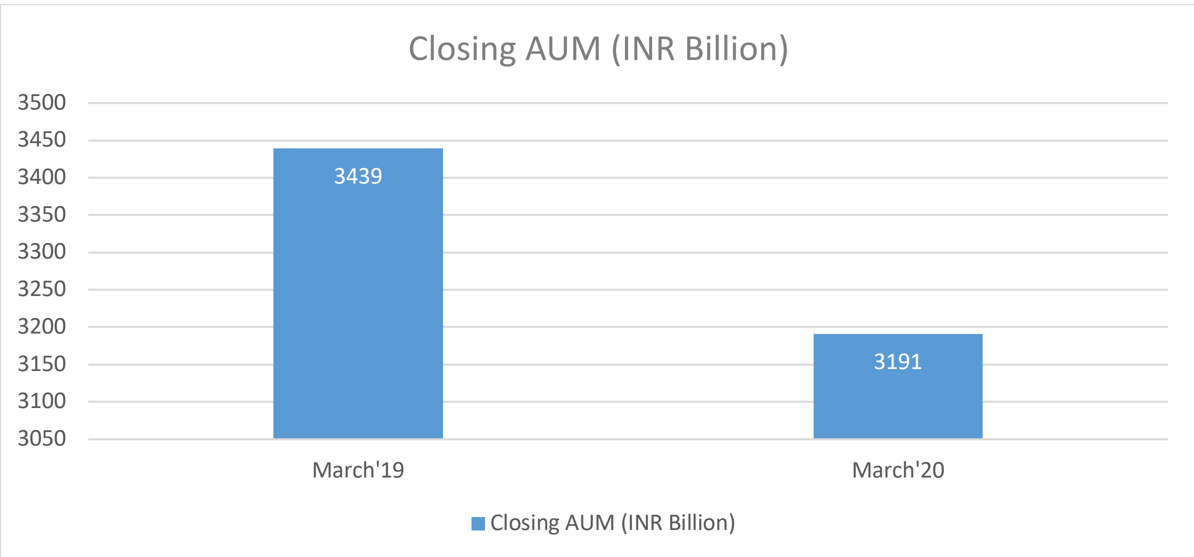
The details regarding the AUM of the company is given below.

Total AUM and Market Share

The total AUM for HDFC AMC as of March 2020 stood at Rs. 3191 billion as compared to AUM of Rs. 3439 billion as of March 2019 registering a decline of 7.2% in the one-year period. In terms of overall market share, HDFC AMC was at the second spot with a market share of 14.3% with the market share declining by 20bps over the one-year period from March'19 to March'20.



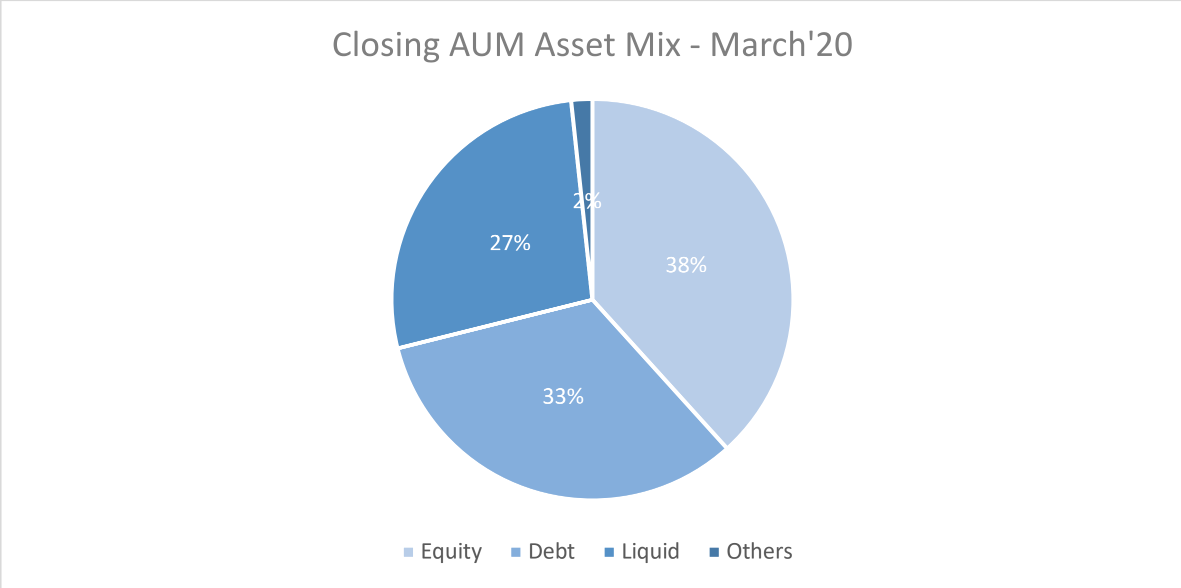
Source: Company Data



Source: Company Data

AUM Mix

The following graph shows the asset mix in the total AUM of the company.

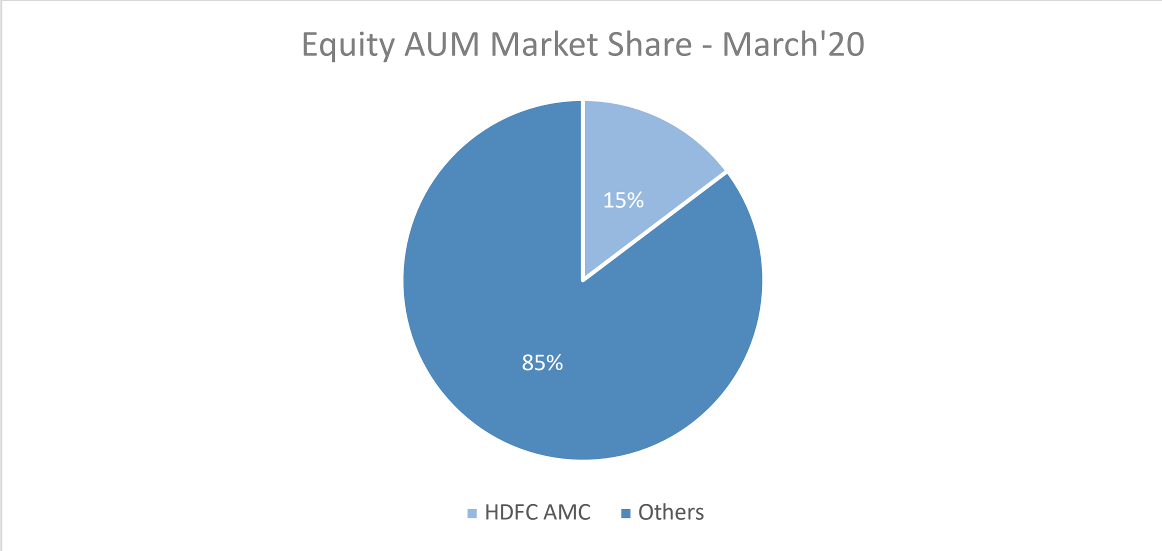


Source: Company Data

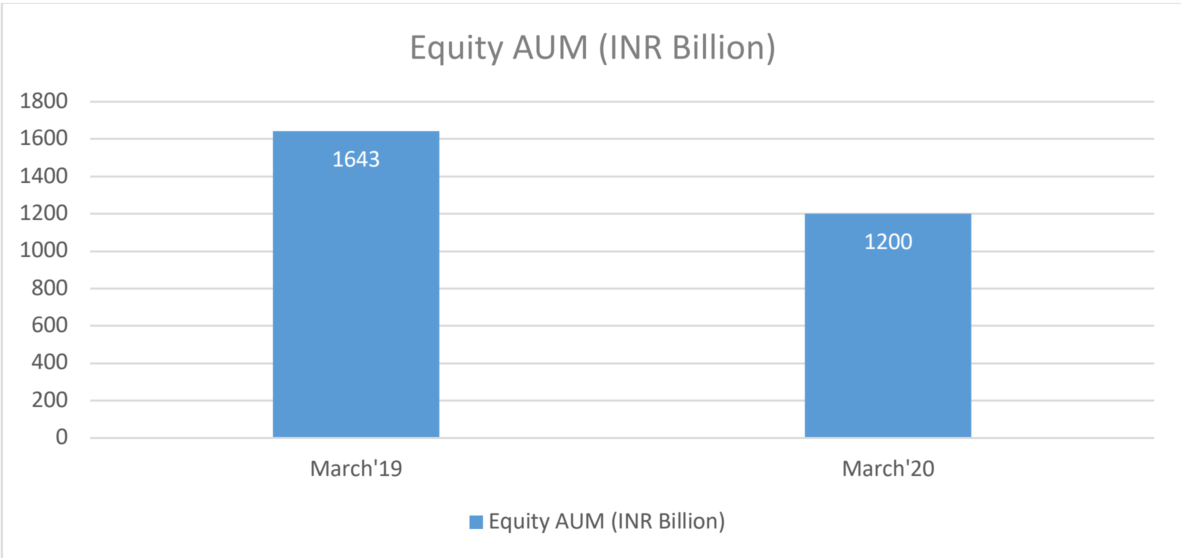
As can be seen from the above graph high yielding equity portfolio forms almost 38% of the AUM followed by 33% in debt funds, 27% in liquid funds and 2% in others. In terms of the investors, Individual investors AUM formed 15% of the total AUM. This is particularly important because individual investors invest majorly in equity schemes and have a longer time duration as compared to other investors.

Equity AUM

In terms of equity-oriented funds, the AUM of the company stood at Rs. 1200 Billion as of March'20 as compared to Rs. 1643 Billion in March '19 registering a decline of 27% YoY owing to the fall in the equity markets due to Covid-19. The market share of the company in equity-oriented funds stood at 14.7% as of March'20 as compared to 16.2% in March'19.



Source: Company Data



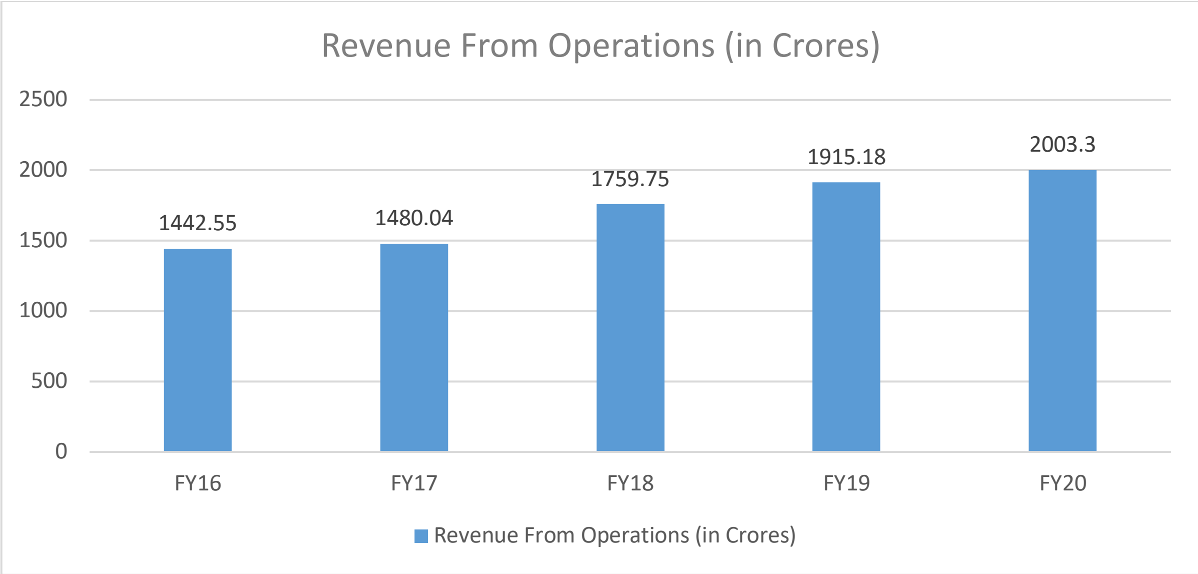
Source: Company Data

Financials

The data regarding some of the key financials of the company is mentioned below.

Revenue

The revenues from operations of HDFC AMC consists of two items i.e. investment management fees from Mutual Funds & PMS and advisory fees. The following diagram shows the revenues of the company over the period of 5 years ending FY20.



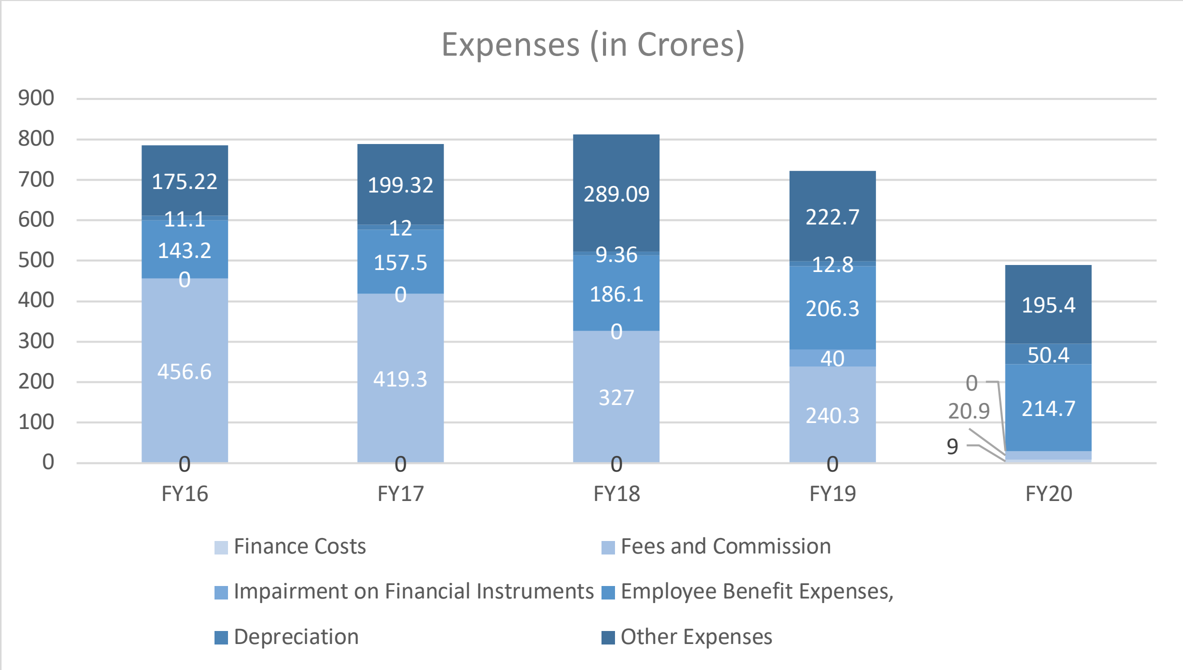
Source: Company Data

From the above chart it can be seen that the revenues of company have been consistently growing over the last five years rising from the levels of about 1442 crores in FY16 to 2003 crores in FY20 growing at a CAGR of 6.8%. The rise in the revenues over this period can be attributed to increased participation in the equity & debt markets by different sections of the Indian economy as they shift from physical assets to financial assets.

<u>Costs</u>

The costs/expenses of the company can be divided into 6 heads i.e. finance costs, fees and commission, impairment on financial instruments, employee benefit expenses, depreciation and other expenses.

The following chart shows these expenses over the period of 4 years from FY17 to FY20.



Source: Company Data

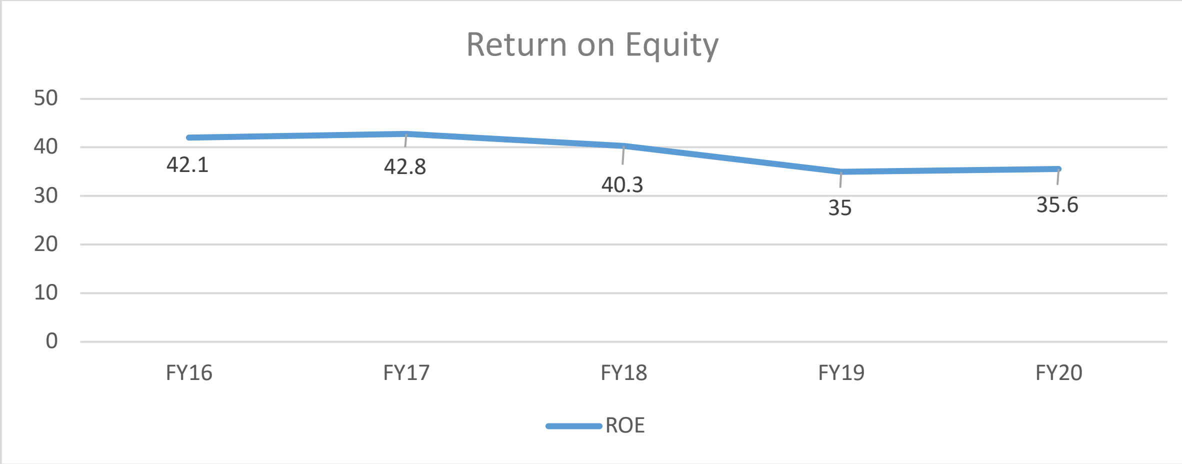
From the above data it can be seen that the overall costs of the company have reduced significantly over the 5 year period ending FY20 driven by sharp reduction in the fees and commission expense of the company part of which was driven by regulatory changes mandating the AMCs to not pay the commission form their books. Also, the other expenses have fallen at the end of the period after rising initially leading to reduction in the overall expenses. To quantify the overall costs have reduced by almost 38% from Rs. 786 crores in FY16 to Rs. 490 crores in FY20.

Ratios

The data regarding some of the key ratios and valuations of the company is given below.

1. Return on Equity

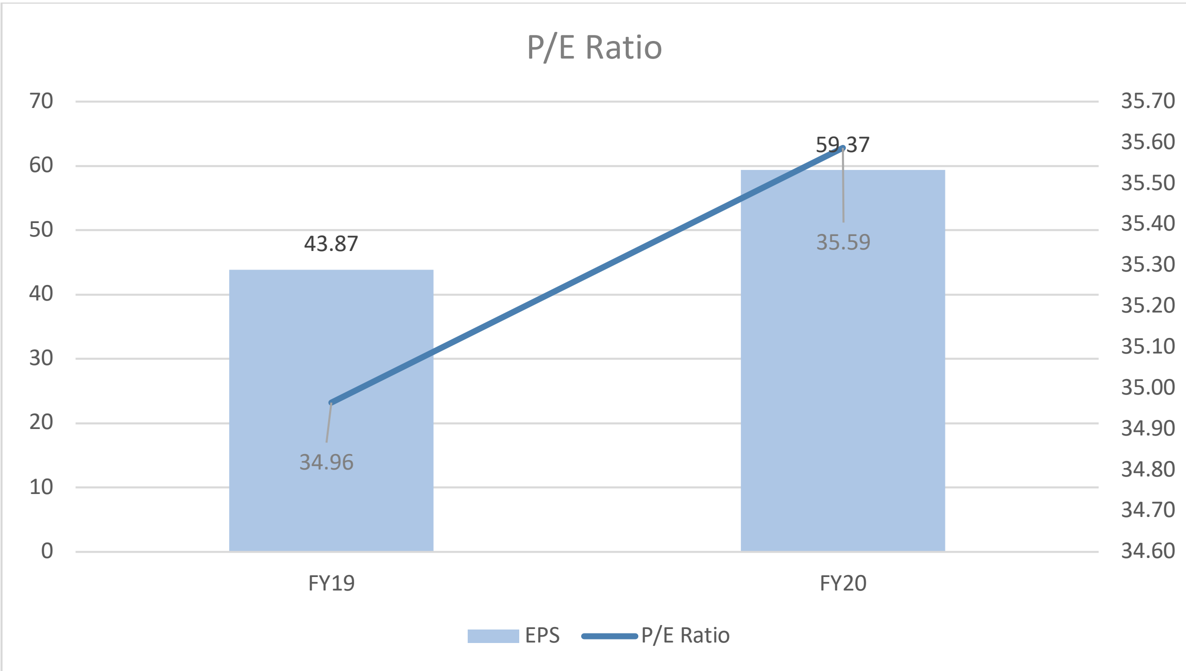
The following chart shows the ROE for the period of 5 years ending FY20. From the chart it can be seen that the ROEs of the company are quiet high at around 35 to 40%. It can also be seen that the ROEs of the company have declined lately, this fall can be largely attributed to the IPO of the company in FY19.



Source: Company Data

2. Price to Earnings

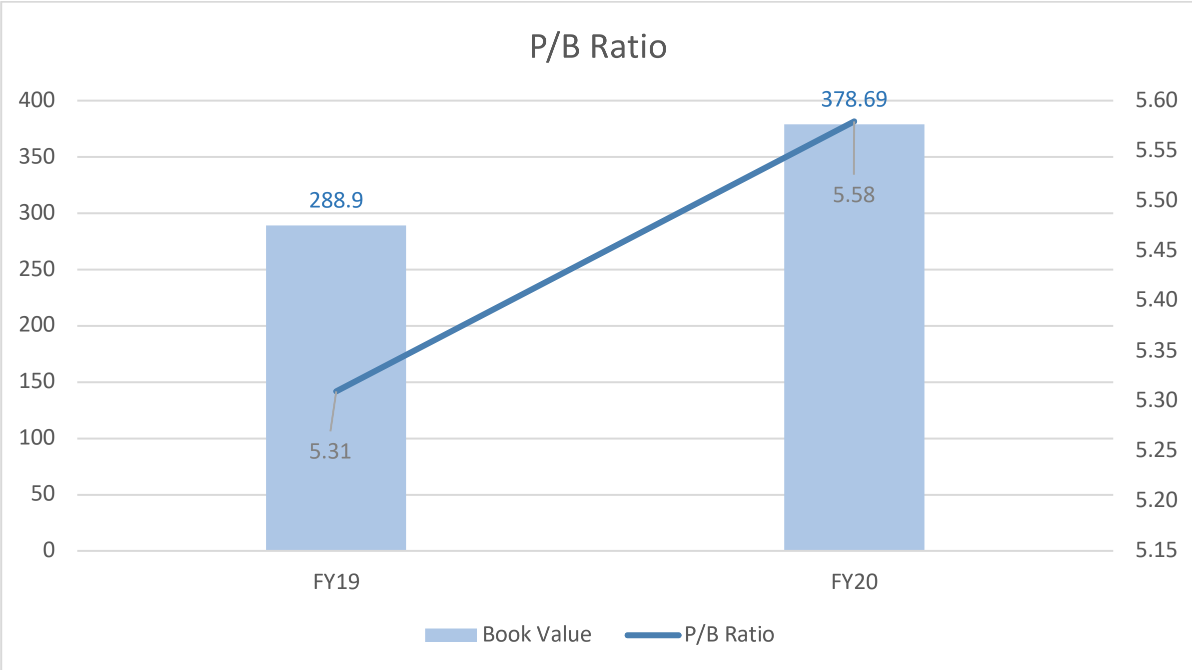
The following graph shows the P/E multiple at which the company was trading at the end of the last two financial years. From the below chart it can be seen that the P/E ratio of the company has largely been stable near the 34-35 times range, but the EPS has expanded and this has driven the rise in share price of HDFC AMC from 1534 at the end of FY19 to 2113 at the end of FY20.



Source: NSE and Company Data

3. Price to Book

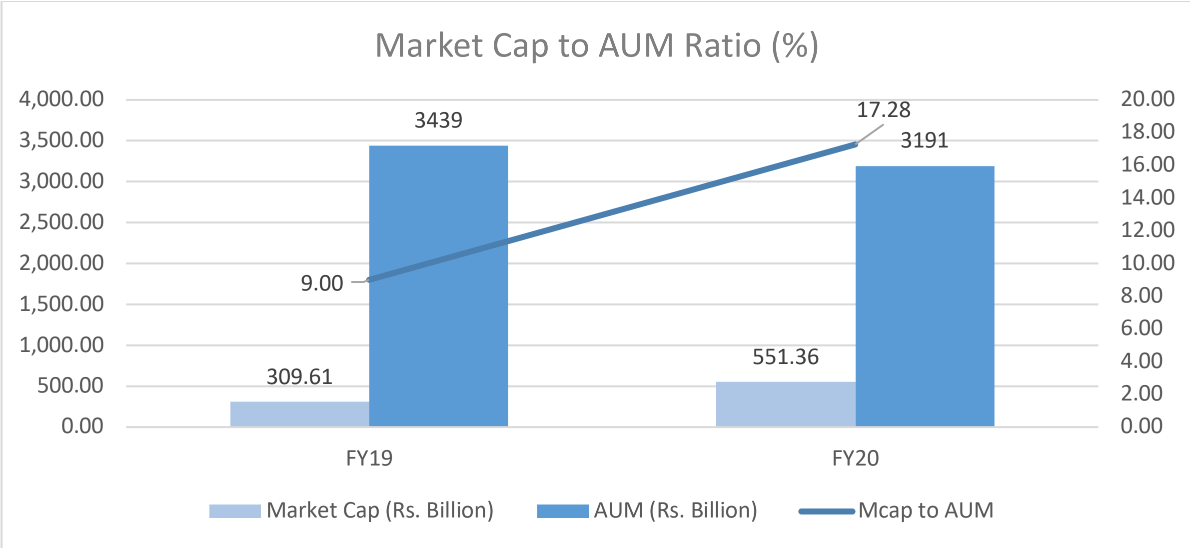
The following graph shows the P/B multiple at which the company was trading at the end of the last 2 financial years. From the chart it can be seen that the P/B multiple of the company has largely been in the range of 5-6 times over the last 2 years as both the share price and book value have risen by nearly 33% over the one-year period.



Source: NSE and Company Data

4. Market Cap to AUM

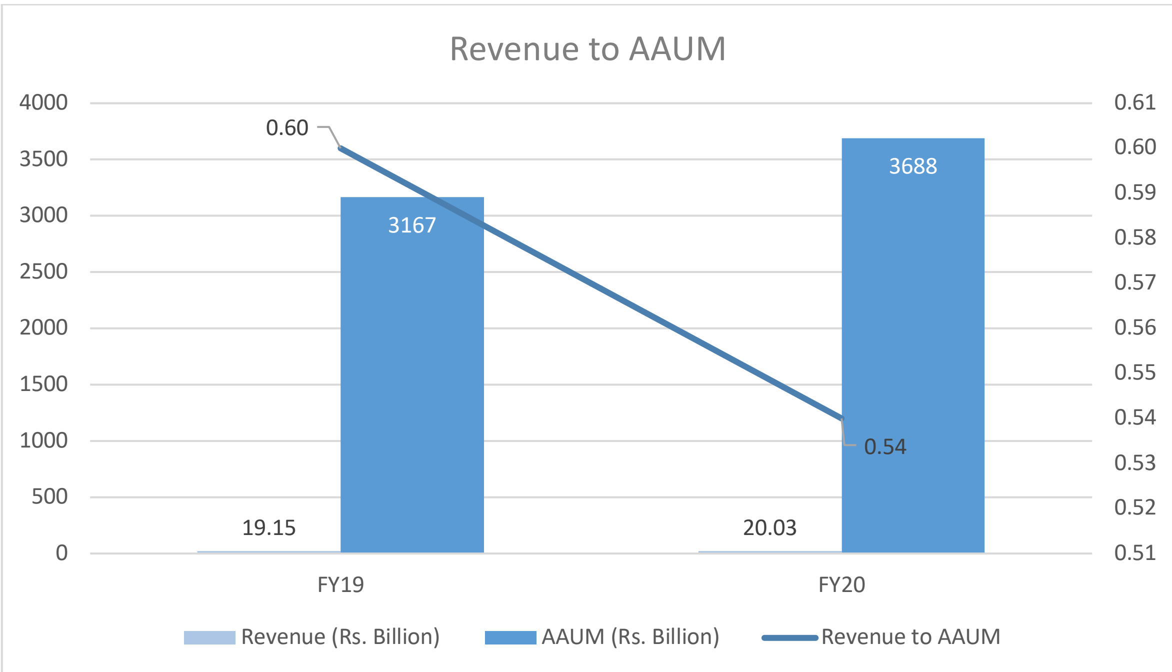
The following chart shows the Market Cap to AUM ratio of HDFC AMC for the past 2 years. The ratio has seen a considerable rise of more than 2 percentage points over the one-year period. This rise can be largely attributed to the recent fall in the AUM of the company due to the Covid – 19 pandemic and the rise in the share price of the company by 38% over the period.



Source: NSE and Company Data

5. Revenue to AAUM

The following chart shows the Revenue to AAUM ratio of HDFC AMC for the past 2 years. The ratio has seen a fall of 6 bps over the one-year period. This rise can be largely attributed to a significant rise in the average asset under management while the revenues have not risen in the same proportion.



Source: NSE and Company Data

5.4.19 Nippon Life India Asset Management (NIMF)

About the Company

Nippon Life India Asset Management (NIMF) is the fifth largest asset management company in India with an overall (debt, equity, money market etc.) market share of 7.58% and AUM standing at approximately Rs. 2049 billion as of FY20. NIMF is promoted by Nippon Life Insurance (earlier NIMF was jointly promoted by Reliance Capital – An ADAG Group Company and Nippon Life Insurance but in August Reliance Capital sold its stake to Nippon Life in order to repay the debt on its books) which is Japan's largest private life insurer and one of the world's largest life insurance companies.

Management Team

CEO: Mr. Sudeep Sikka serves as the Chief Executive Officer and Executive Director of the company. He has been associated with the company since 2003 and has played an instrumental role in building the international and domestic business of the company. Mr. Sikka has also held the positions of both Chairman and Vice – Chairman of the industrial body – AMFI.

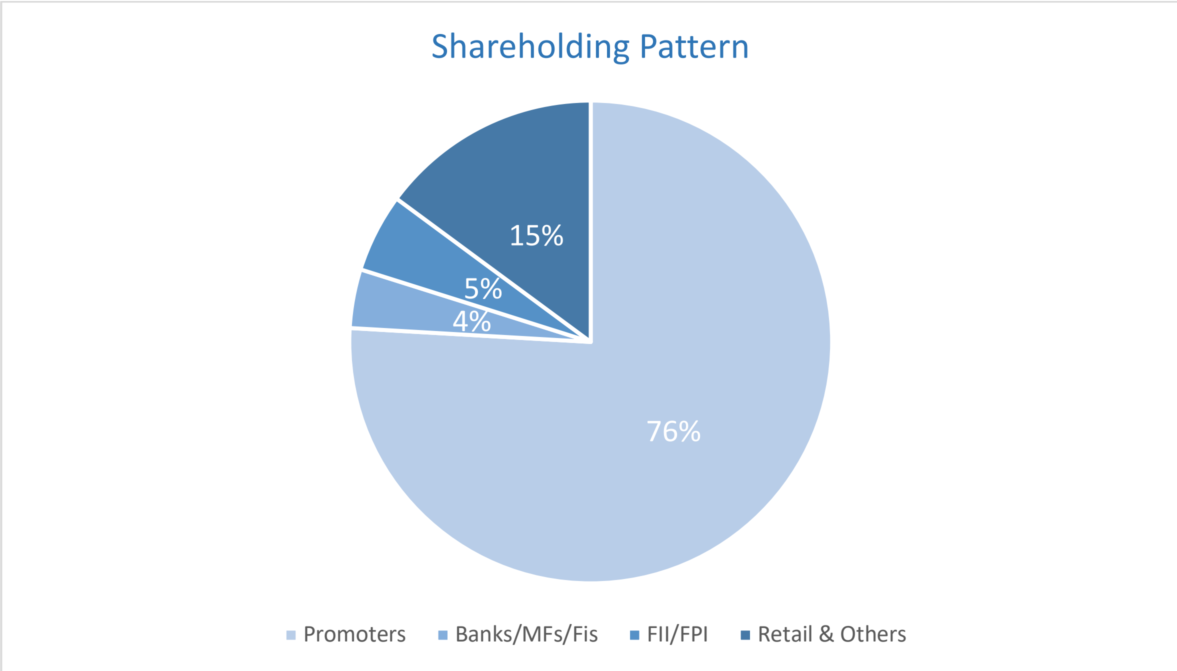
CFO: Mr. Prateek Jain serves as the Chief Financial Officer of the company. Mr. Jain has about 16 years of experience in the field of Finance and prior to this he was associated with AIG Global Asset Management Company as CFO and Head Risk Management. He has also been associated with some of the well-known companies like ICICI Lombard General Insurance Company Ltd. and Howden Insurance Brokers India Pvt. Ltd.

CIO – Equity Investments: Mr. Manish Gunwani serves as the Chief Investment Officer for Equity Investments of the company. Mr. Gunwani holds a PGDM from IIM Bangalore and a B.Tech from IIT Chennai. He as 21 years of work experience in equity markets with roles spanning in various domains like equity research and fund management.

CIO – Fixed Income: Mr. Amit Tripathi functions as the Chief Investment Officer for the fixed income products of the company. He has been associated with the company for the last 14 years. He has more than 20 years of experience in the finance industry and has worked with many large companies in different roles.

Shareholding Pattern

According to the recent regulatory disclosures the shareholding pattern of the company is as follows.



Source: Company Data

As can be seen from the above chart promoters own almost 75.92% of the company with rest of the 24% being held by non- promoters which include MFs/Banks/ FIs that together own 4% stake, FIIs and FPIs own more than 5% and retail and other shareholders own 15% in the company.

The following table shows the list of the top 10 shareholders that own stake in the company.

Institution/Person	Stake (%)
HDFC Trustee Company Limited	2.35
Valiant Mauritius Partners FDI Ltd.	1.76
IIFL Special Opportunities Funds	1.31
IIFL Special Opportunities Funds – Series 2	0.88
Steinberg India Special Opportunities Fund Limited	0.75
Abu Dhabi Investment Authority	0.56
UTI Focussed Equity Fund	0.43

Aditya Birla Sun Life Trustee Pvt. Ltd.	0.43
IIFL Special Opportunities Funds – Series 3	0.32
Valiant Mauritius Partners Offshore Ltd.	0.26

Source: Company Data

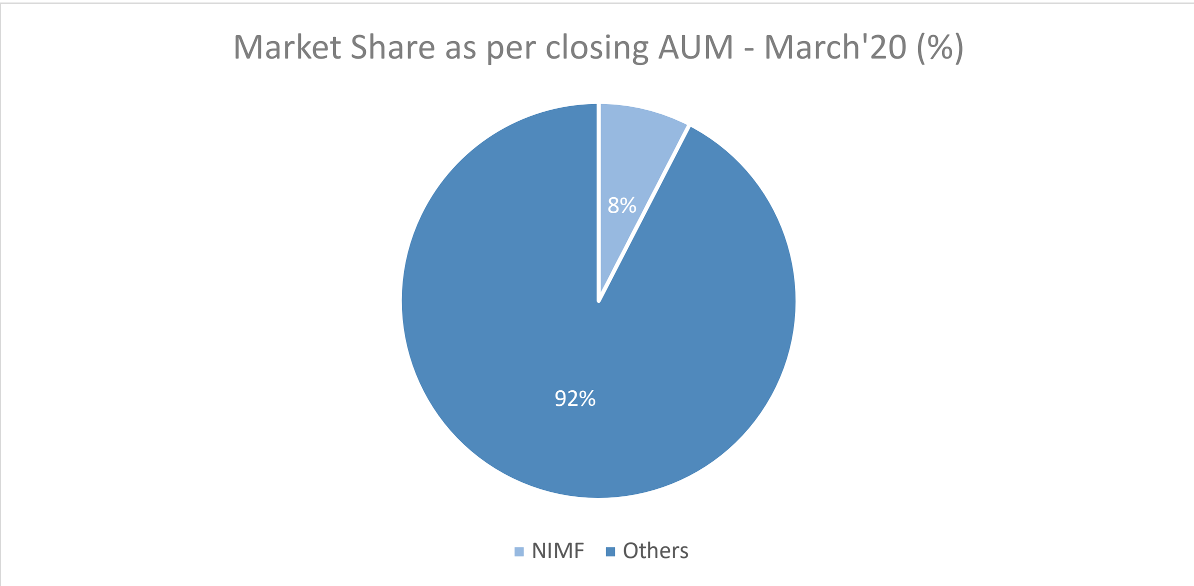
Table 8: Top 10 Shareholders of Nippon India Asset Management

Asset Under Management

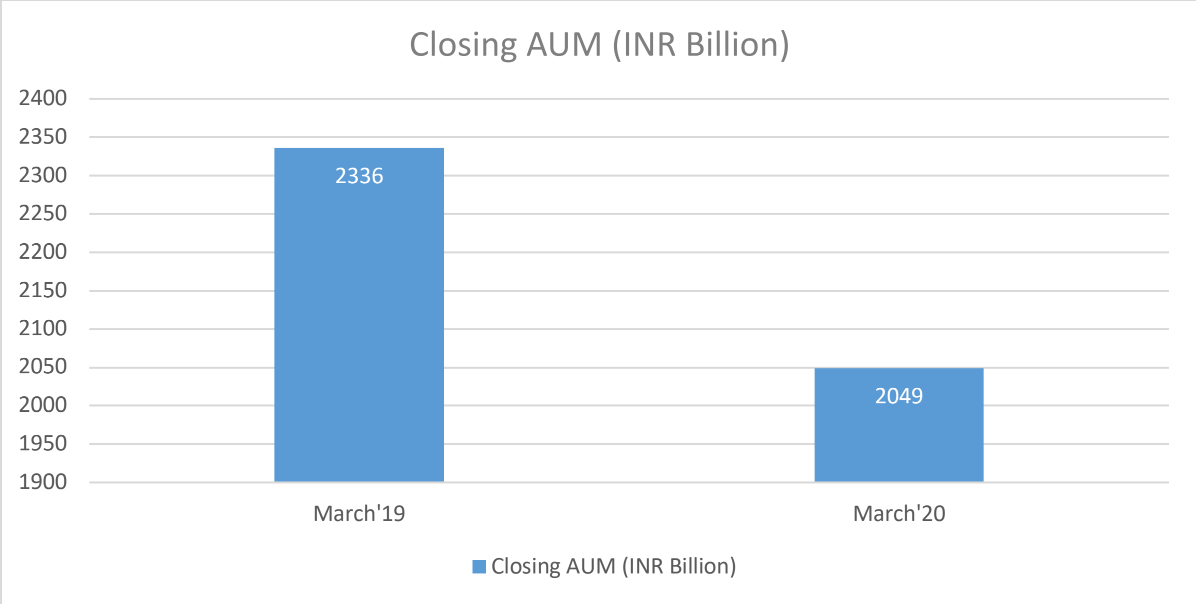
The details regarding the AUM of the company are given below.

Total AUM and Market Share

The total AUM for NIMF as of March 2020 stood at Rs. 2049 billion as compared to AUM of Rs. 2336 billion as of March 2019 registering a decline of 12.28% in the one-year period. In terms of overall market share, NIMF was at the fifth spot with a market share of 7.58% with the market share declining by 196bps over the one-year period from March'19 to March'20.



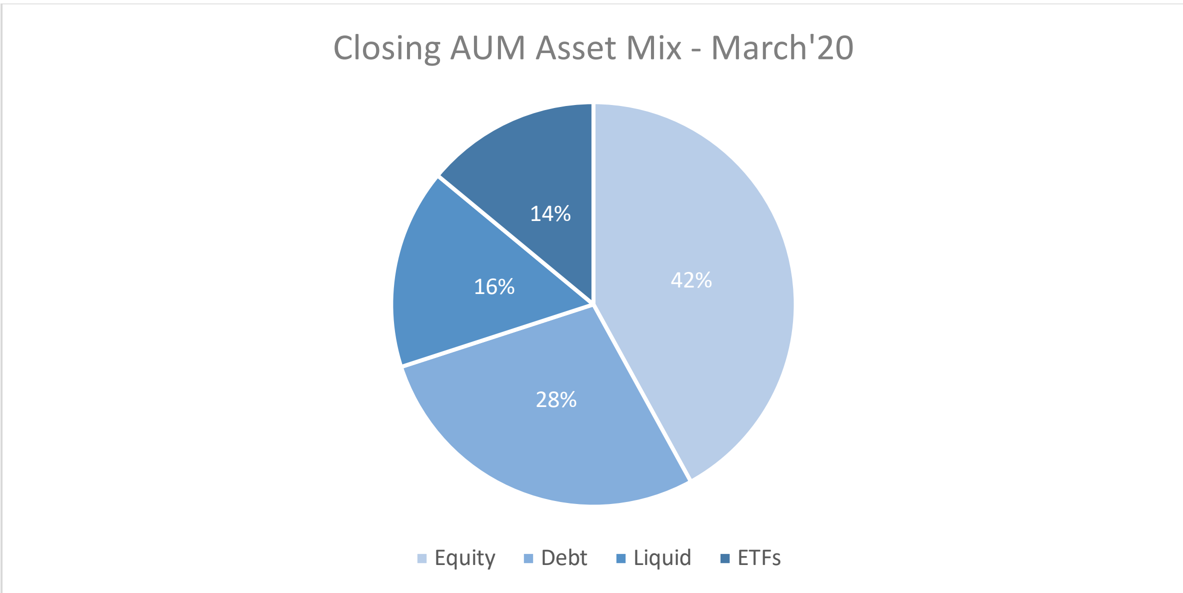
Source: Company Data



Source: Company Data

AUM Mix

The following graph shows the asset mix in the total AUM of the company.

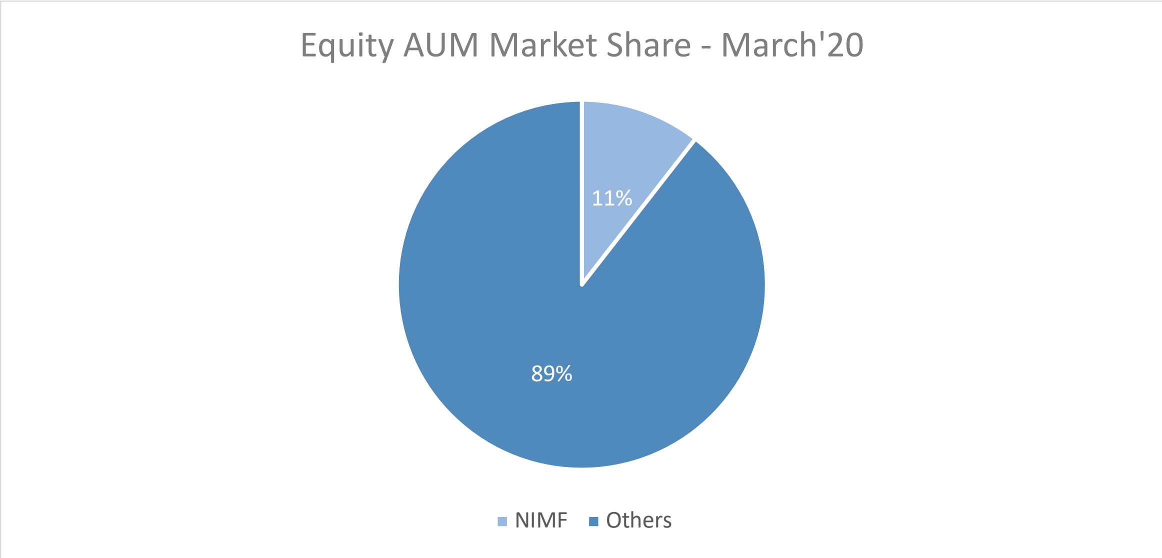


Source: Company Data

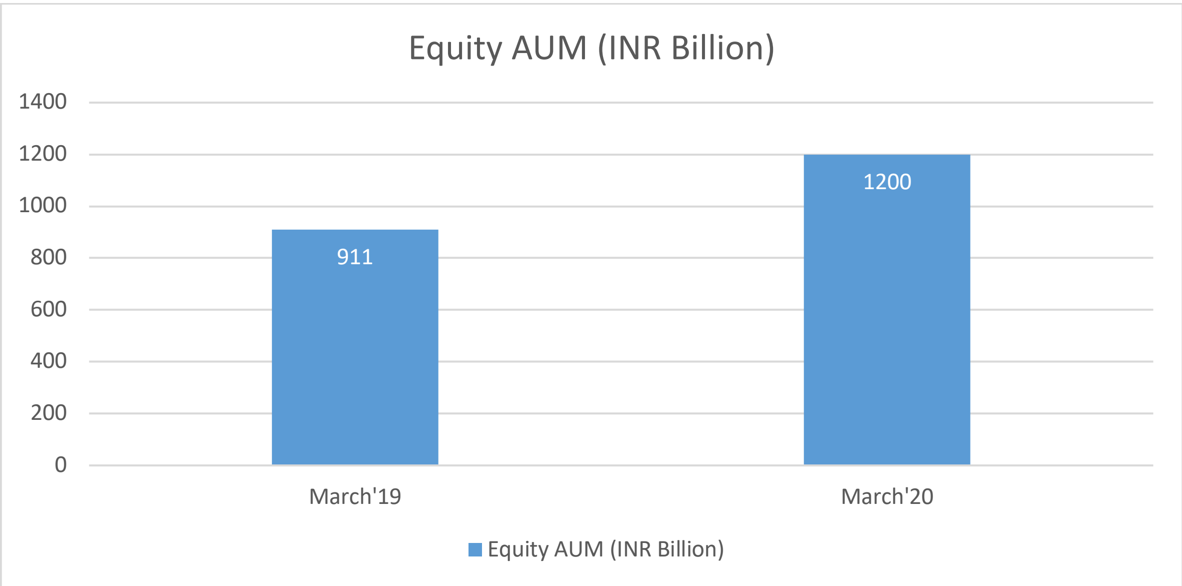
As can be seen from the above graph high yielding equity portfolio forms 42% of the AUM followed by 28% in debt funds, 16% in liquid funds and 14% in ETFs. In terms of the investors, retail investor AUM formed 24% of the total AUM. This is particularly important because retail investors invest majorly in equity schemes and have a longer time duration as compared to other investors.

Equity AUM

In terms of equity-oriented funds, the AUM of the company stood at Rs. 860 Billion as of March'20 as compared to Rs. 911 Billion in March '19 registering a decline of 5.6% YoY owing to the fall in the equity markets due to Covid-19. The market share of the company in equity-oriented funds stood at 14.7% as of March'20 as compared to 16.2% in March'19.



Source: Company Data



Source: Company Data

Offshore Funds

Unlike other AMCs, NIMF has a presence outside India. The company has a presence in many of the large countries like UK, Singapore, Australia, Japan etc. For establishing a presence in these countries the company has either gone for strategic partnerships or local distribution. This global presence gives the company an edge over the competitors as it can hedge the cyclicity of the asset management business. Following are some of the details regarding the business.

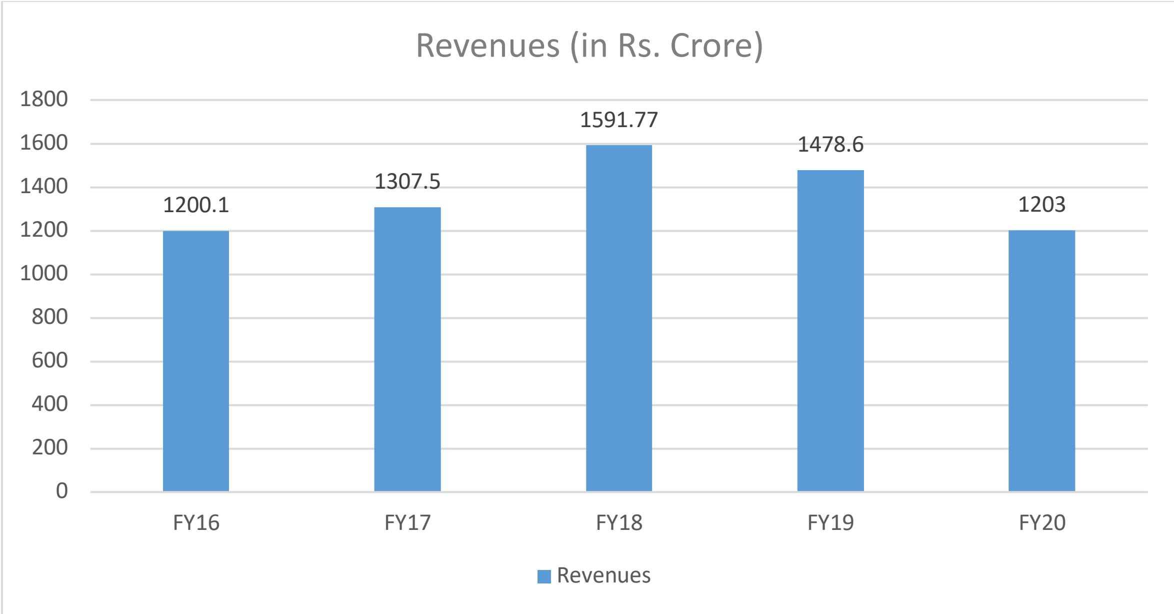
- As of March' 20 the AUM of the offshore business stood at Rs. 89 Billion. Out of this Rs. 41 billion was under the advisory services while Rs. 48 billion was under managed services.
- The company has 2 offshore subsidiaries in Mauritius and Singapore and a distribution service centre in Dubai.
- The company also is leveraging the network of Nippon Life's insurance business for promoting its products and services.

Financials

The data regarding some of the key financials of the company is mentioned below.

<u>Revenue</u>

The revenues from operations of NIMF consists of two items i.e. investment management fees from asset management activities and portfolio management fees. The following diagram shows the revenues of the company over the period of 5 years ending FY20.



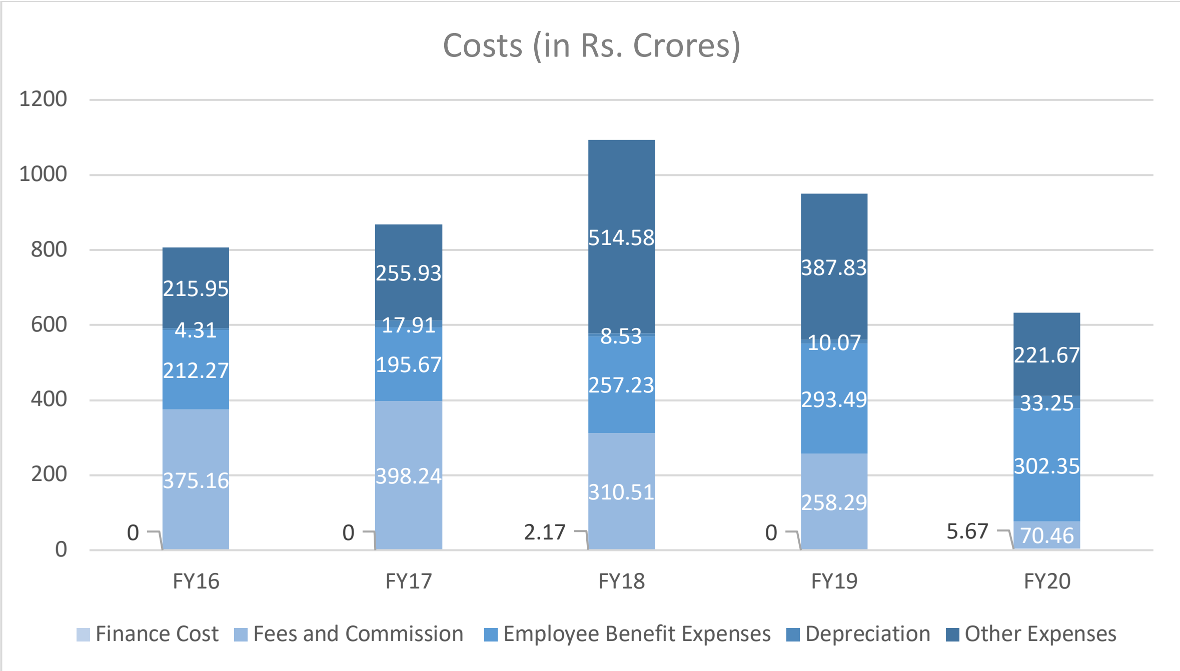
Source: Company Data

From the above chart it can be seen that the revenues of company had initially seen an increasing trend till FY18 where it was 1591 crores and in the subsequent two years have been declining to reach 1203 crores in FY20. The fall in the revenues in the last 2 financial years can be attributed to the fall in the AUM that the company had registered due to the promoter (Reliance Capital) related issues. Going forward the revenues are expected to rise as the share of equity has been on a rise for the company and also as the overall AUM of the company will see a rise after its rebranding into Nippon India Mutual Fund,

Costs

The costs/expenses of the company can be divided into 6 heads i.e. finance costs, fees and commission, impairment on financial instruments, employee benefit expenses, depreciation and other expenses.

The following chart shows these expenses over the period of 5 years from FY16 to FY20.



Source: Company Data

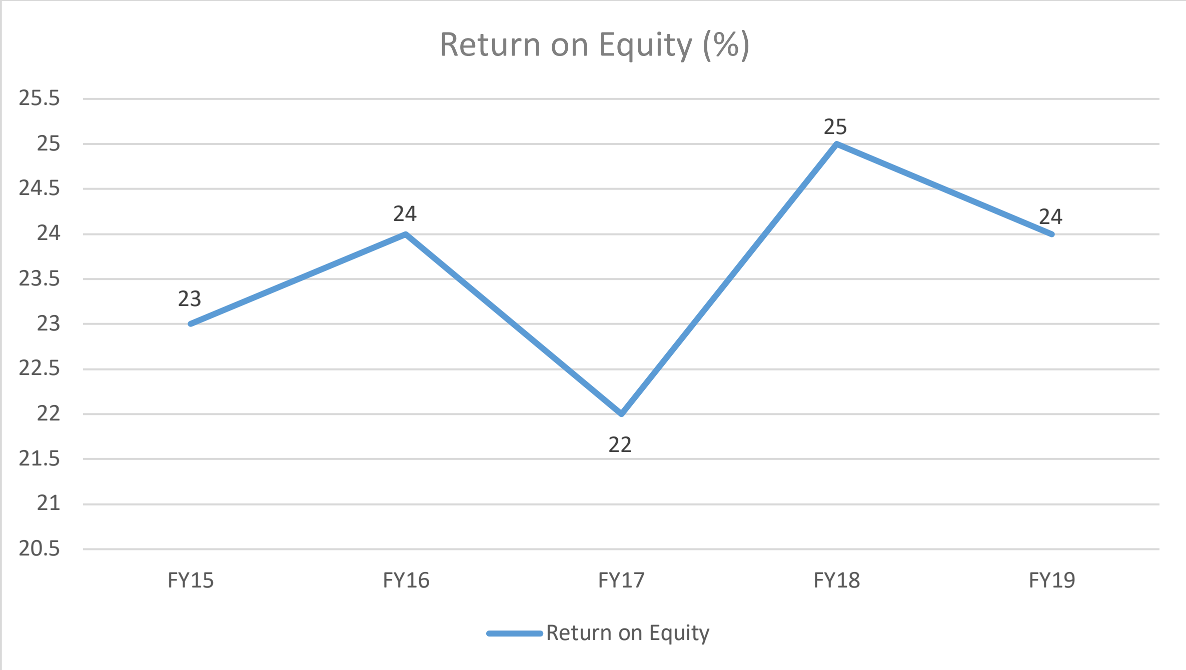
From the above data it can be seen that the overall costs of the company have reduced significantly over the 5 year period ending FY20 driven by sharp reduction in the fees and commission expense of the company part of which was driven by regulatory changes mandating the AMCs to not pay the commission form their books. Also, the other expenses have fallen at the end of the period after rising initially leading to reduction in the overall expenses. To quantify the overall costs have reduced by almost 22% from Rs. 807.69 crores in FY16 to Rs. 633.4 crores in FY20.

Ratios

The data regarding some of the key ratios and valuations of the company is given below.

1. Return on Equity

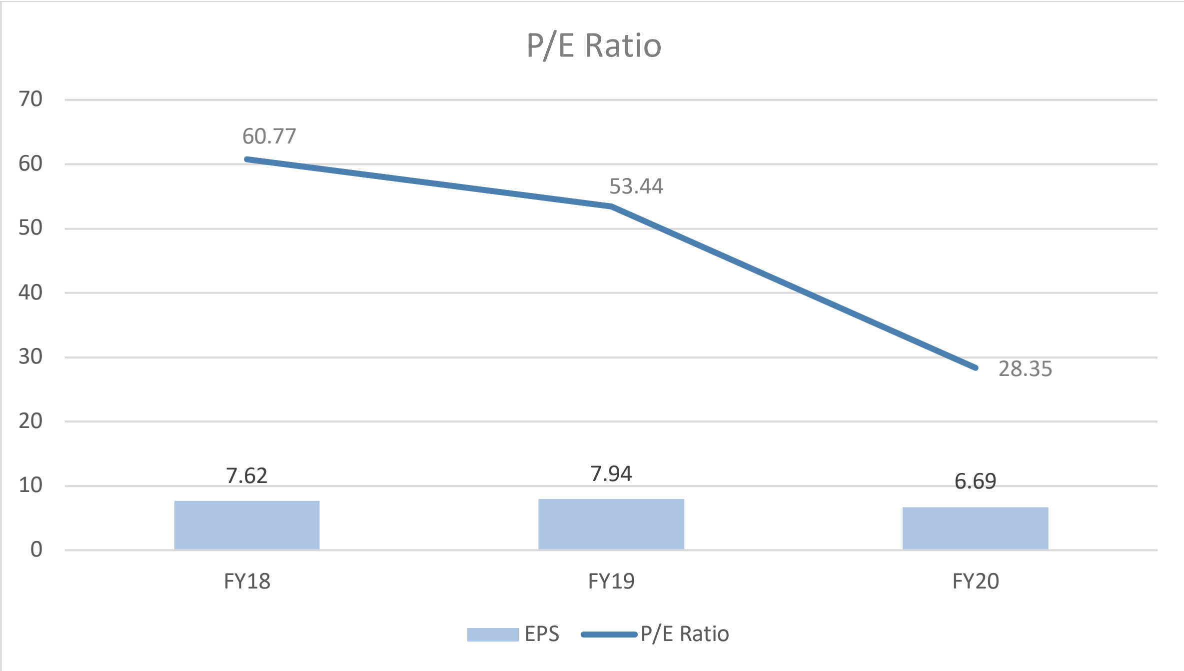
The following chart shows the ROE for the period of 5 years ending FY19. From the chart it can be seen that the ROEs of the company are quiet high at around 20 to 25%. It can also be seen that the ROEs of the company had seen a sharp fall in FY17 but recovered in the subsequent years.



Source: Company Data

2. Price to Earnings

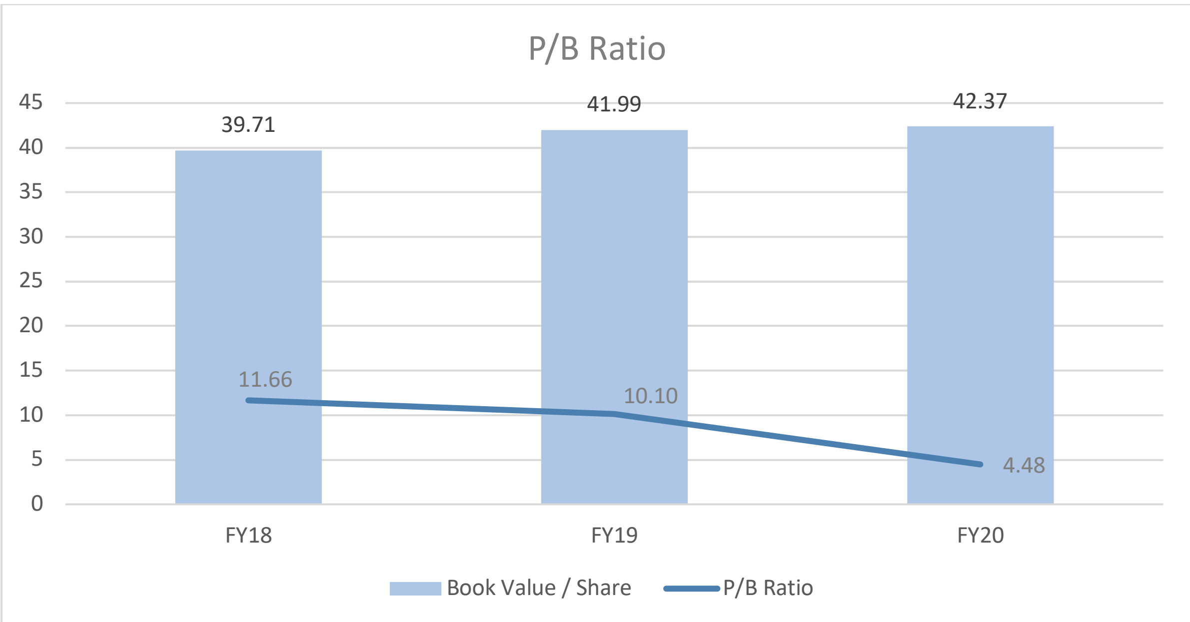
The following graph shows the P/E multiple at which the company was trading at the end of the last 3 financial years. From the below chart it can be seen that the P/E ratio of the company has been volatile. At the end of FY18 the company was trading at 61 times P/E while at the end of FY20 it was trading at around 28 times showing that the investor sentiment has weakened in the stock owing to the lack of earnings growth over the last 3 years. It is to be noted that the EPS of the company has actually declined in the three year period ending FY20.



Source: Company Data.

3. Price to Book

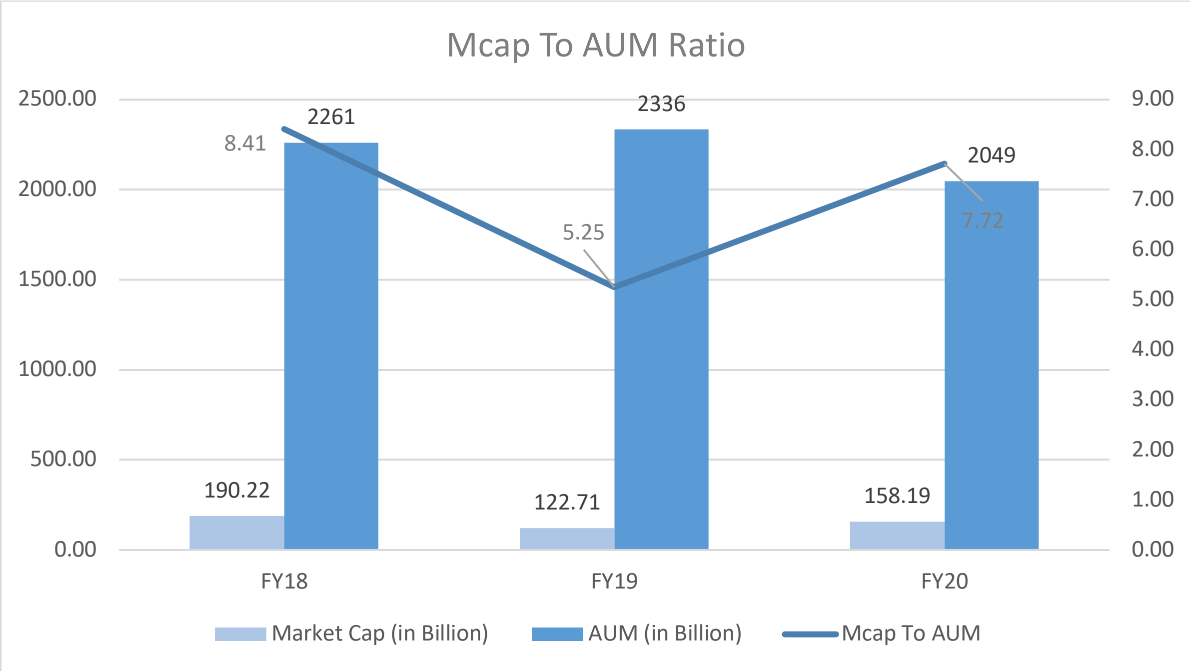
The following graph shows the P/B multiple at which the company was trading at the end of the last 3 financial years. From the chart it can be seen that the P/B multiple of the company was high in the initial two years at 10-11 times but in FY20 it corrected to 4.5 times due to a huge correction in the stock price of the company.



Source: Company Data

4. Market Cap to AUM

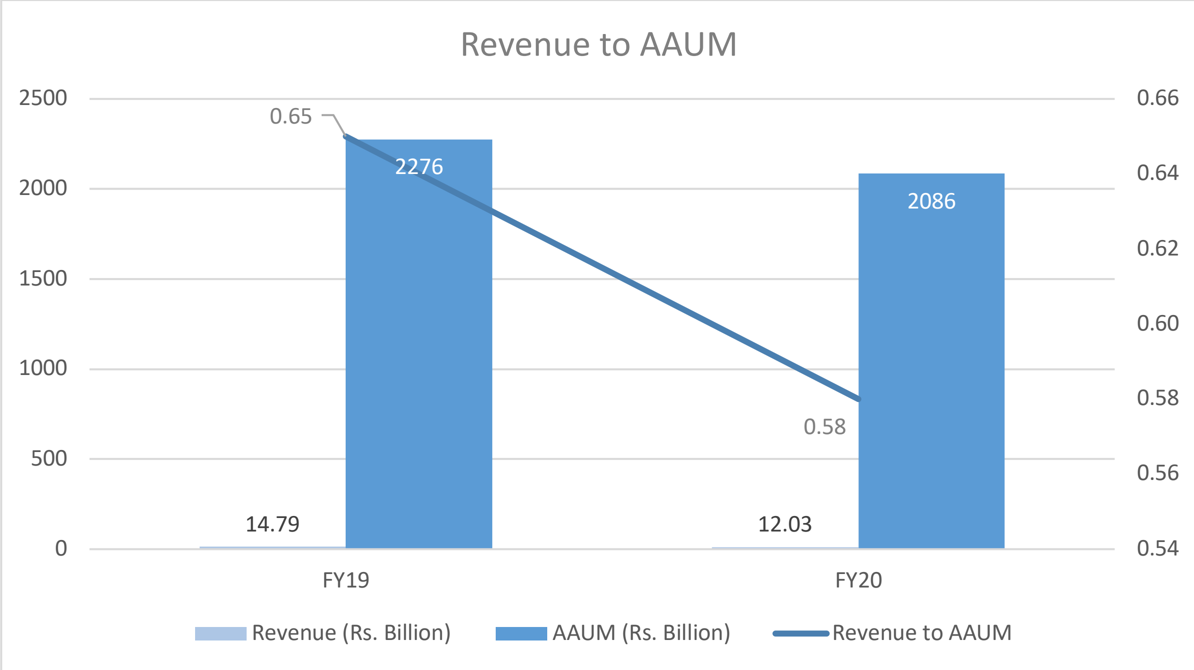
The following chart shows the Market Cap to AUM ratio of HDFC AMC for the past 3 years. The ratio has seen a considerable decline of over 7 percentage points over the two-year period. This rise can be largely attributed to a sharp fall in the stock price of the company as compared to the AUM.



Source: Company Data

5. Revenue to AAUM

The following chart shows the Revenue to AAUM ratio of NIMF for the past 2 years. The ratio has seen a fall of 7 bps over the one-year period. This rise can be largely attributed to a significant fall in the revenues while the AAUM has not fallen in the same proportion.



Source: NSE and Company Data

5.4.20 Valuations

In this section the valuation of both the listed plyers in India have been compared with their global peers on 3 valuation metrics i.e. P/E Ratio, P/B Ratio and Market Cap. To AUM Ratio.

1. P/E Ratio

The following table shows the comparison on the basis of Price – Earnings Ratio.

Company	P/E Ratio
HDFC AMC	44.5
NIMF	40.04
St. James's Place	33.89
Hargreaves Lansdown	29.5
Hamilton Lane	30.55
Tikehau Capital	15.59
Ares Management Corp.	14.8
Magellan Financial Group	26.3
Main Street Capital	14.83
Cohen and Steers	25.27

Average	**27.53**

Source: Bloomberg and Company Data

Table 9: P/E Ratios of listed AMCs

From the above table it can be seen that both the listed companies in India i.e. HDFC AMC and NIMF trade at a significantly higher valuation as compared to their global counterparts. Both the Indian Companies trade at a P/E Multiple of more than 40 times as compared to around 27 times of the global average. Although it can be said that the premium enjoyed by the Indian companies is due to the growth potential offered by the Indian market, but the current economic downturn due to Covid – 19 present a significant risk to these high multiples. One point to be considered here is that if the stock markets keep rallying driven by the huge amount of liquidity across the globe, we may see the P/E multiple expand further as the near-term earnings are expected to remain subdued.

2. **P/B Ratio**

The following table shows the comparison on the basis of Price – Book Ratio.

Company	P/B Ratio
HDFC AMC	13.94
NIMF	6.41
St. James's Place	5.21
Hargreaves Lansdown	17.45
Hamilton Lane	21.91
Tikehau Capital	1.03
Ares Management Corp.	8.71
Magellan Financial Group	10.56
Main Street Capital	1.63
Cohen and Steers	17.56
Average	**10.44**

Source: Bloomberg and Company Data

Table 10: P/B Ratios of Listed Players

It can be seen from the above graph that in terms of Price to Book ratio the valuation of the companies across the globe varies significantly. The average P/B multiple of the companies stands at 10.44 times. HDFC AMC trades at closer to 14 times which is a premium of nearly 33% to these average multiples while NIMF is trading at closer to 6.5 times which is a 39% discount to these average multiples.

3. Market Cap to AUM Ratio

The following table shows the comparison on the basis of Market Cap. – to – AUM Ratio.

Company	MCap. – to – AUM Ratio
HDFC AMC	0.18
NIMF	0.08
St. James's Place	0.04
Hargreaves Lansdown	0.08
Hamilton Lane	0.01
Tikehau Capital	0.13
Ares Management Corp.	0.09
Magellan Financial Group	0.11
Main Street Capital	0.03
Cohen and Steers	0.05
Average	**0.08**

Source: Bloomberg and Company Data

Table 11: Market Cap to AUM Ratio of Listed Players

From the above table it can be seen that HDFC AMC has the highest Market Cap. – to – AUM Ratio while that of NIMF is at par with the global averages. While it may seem looking at the numbers that HDFC AMC is very expensive on the basis of this metrics, but when we have a closer look at the AUM of HDFC AMC it can be seen that HDFC AMC has a higher share of equity Assets (around 43%) in its total AUM. Equity assets are generally high yielding in nature. Therefore, the earnings of HDFC AMC are higher even at low amount of AUM. And in the above heads we have already seen that Indian companies trade at a premium to their global counterparts in terms of P/E ratio. Thus, from the above it can be said that a major part of a high Market Cap – to – AUM ratio can be attributed to the high amount of Equity assets in the AUM of the company.

6. Part C: Learnings

Due to the ongoing pandemic situation in the country the internship was on a work from home basis. The overall internship experience was really good and what made it even better from the learning perspective was the uncertain times of Covid – 19. The uncertainty in the financial markets due to the pandemic and the subsequent lockdown hurting the earnings of the companies led to a lot of volatility and made my experience even more enriching.

Following are some of the key learnings from the Internship.

- The first and foremost thing that I learned during the internship is that staying updated with the current happenings in the business world is one of the most critical factors for success in the financial markets.
- Understanding the macro trends is critical as they have a significant impact on financial markets.
- Volatility is the rule of the market and for a successful investor it is essential that he maintains his calm during uncertain times and grabs the right opportunity that comes across him/her.
- There are times at which markets are not in sync with the Macros/Fundamentals, and in such times, one should not take any contra call, but must stay cautious.
- The internship helped me gain insights regarding how to go about analyzing a sector and also some key factors that are to be kept in mind while analyzing a sector.
- The internship also helped me learn about the sources from where one can collect authentic data regarding the economy, sectors and companies.
- The internship helped me get an understanding about how to value companies by preparing financial models.
- The internship also made me realize that I should broaden my horizons and look at things from a bigger picture, which is most important while analyzing companies.
- The internship also taught me that adaptiveness is one of the most important things for building a successful career in the financial markets.
- Lastly the internship also taught me that time management and teamwork are really important in corporate life.

Following are some of the concepts learned during the first year that helped me during my internship.

- The Financial Accounting and Reporting course learned during the first semester helped me in interpreting and analyzing the financial statements of the companies.
- The Communication for Manager course learned during the first and second semester helped me in communicating effectively with my colleagues and organizational guide.
- The Business Research Methods course learned during the third semester proved to be of great help during the internship.
- The CF – I and CF – II courses learned during the second and third semester helped me in working out and analyzing various ratios of the companies for the purpose of research.
- The Macroeconomics course learned during the second semester proved to be of great help in analyzing the macro environment and policies that have a bearing on the AMC sector and companies thereof.

To sum up, mu internship with Kotak Securities Ltd. was a wonderful experience. It helped me learn new things and concepts which I hope to apply in future, and also helped me improve my skill sets.

7. References

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8. Declaration

To Whomsoever It May Concern:

I, Jash Gandhi hereby declare that this assignment is my original work and is not copied from anyone/ anywhere. If found similar to other sources we shall take complete responsibility of the action taken thereof by the concerned faculty member.

Roll No.: 191121

Section: A

Batch: MBA – FT (2019 – 2021)

Date: 20-06-2020

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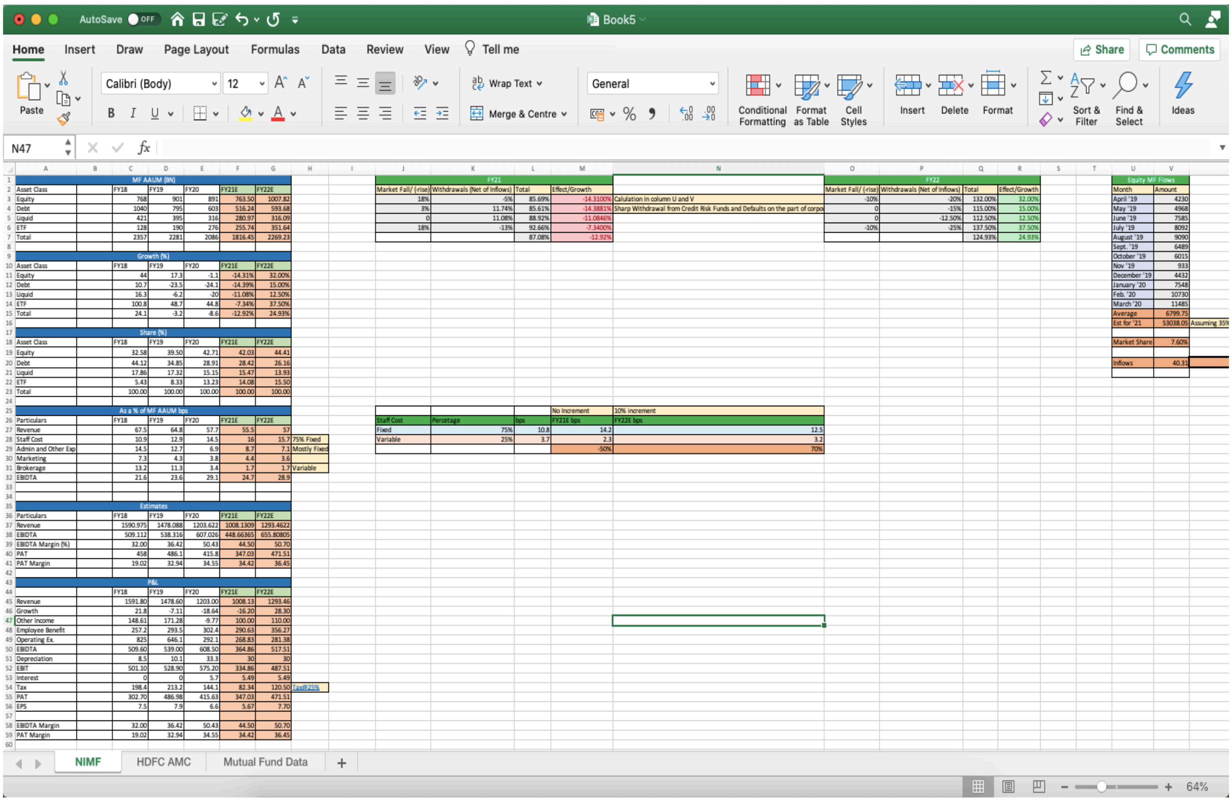
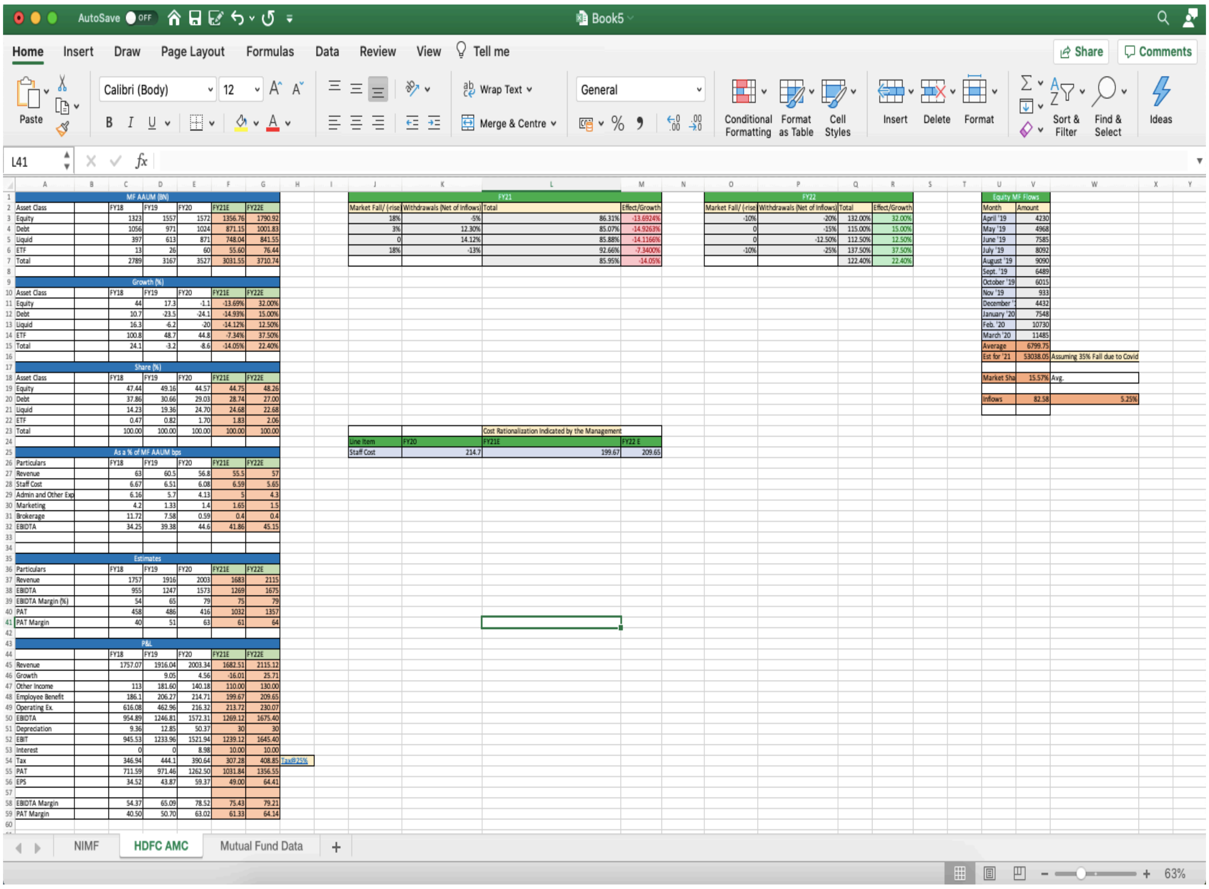
Jash Gandhi

9. Annexures

1. Screenshot of Financial Model of Nippon India Asset Management Company Ltd.



2. Screenshot of Financial Model of HDFC Asset Management Company Ltd.



MF AAUM (BN)	FY18	FY19	FY20	FY21E	FY22E
Asset Class	FY18	FY19	FY20	FY21E	FY22E
Equity	1323	1557	1572	1356.76	1790.92
Debt	1056	971	1024	871.15	1001.83
Liquid	397	613	871	748.04	841.55
ETF	13	26	60	55.60	76.44
Total	2789	3167	3527	3031.55	3710.74

Growth (%)					
Asset Class	FY18	FY19	FY20	FY21E	FY22E
Equity	44	17.3	-1.1	-13.69%	32.00%
Debt	10.7	-23.5	-24.1	-14.93%	15.00%
Liquid	16.3	-6.2	-20	-14.12%	12.50%
ETF	100.8	48.7	44.8	-7.34%	37.50%
Total	24.1	-3.2	-8.6	-14.05%	22.40%

Share (%)					
Asset Class	FY18	FY19	FY20	FY21E	FY22E
Equity	47.44	49.16	44.57	44.75	48.26
Debt	37.86	30.66	29.03	28.74	27.00
Liquid	14.23	19.36	24.70	24.68	22.68
ETF	0.47	0.82	1.70	1.83	2.06
Total	100.00	100.00	100.00	100.00	100.00

As a % of MF AAUM bps					
Particulars	FY18	FY19	FY20	FY21E	FY22E
Revenue	63	60.5	56.8	55.5	57
Staff Cost	6.67	6.51	6.08	6.59	5.65
Admin and Other Exp	6.16	5.7	4.13	5	4.3
Marketing	4.2	1.33	1.4	1.65	1.5
Brokerage	11.72	7.58	0.59	0.4	0.4
EBIDTA	34.25	39.38	44.6	41.86	45.15

Estimates					
Particulars	FY18	FY19	FY20	FY21E	FY22E
Revenue	1757	1916	2003	1683	2115
EBIDTA	955	1247	1573	1269	1675
EBIDTA Margin (%)	54	65	79	75	79
PAT	458	486	416	1032	1357
PAT Margin	40	51	63	61	64

P&L	FY18	FY19	FY20	FY21E	FY22E	
Revenue	1757.07	1916.04	2003.34	1682.51	2115.12	
Growth		9.05	4.56	-16.01	25.71	
Other Income	113	181.60	140.18	110.00	130.00	
Employee Benefit	186.1	206.27	214.71	199.67	209.65	
Operating Ex.	616.08	462.96	216.32	213.72	230.07	
EBIDTA	954.89	1246.81	1572.31	1269.12	1675.40	
Depreciation	9.36	12.85	50.37	30	30	
EBT	945.53	1233.96	1521.94	1239.12	1645.40	
Interest	0	0	8.98	10.00	10.00	
Tax	346.94	444.1	390.64	307.28	408.85	Tax@25%
PAT	711.59	971.46	1262.50	1031.84	1356.55	
EPS	34.52	43.87	59.37	49.00	64.41	
EBIDTA Margin	54.37	65.09	78.52	75.43	79.21	
PAT Margin	40.50	50.70	63.02	61.33	64.14	

FY21			
Market Fall/ (-rise)	Withdrawals (Net of Inflows)	Total	Effect/Growth
18%	-5%	86.31%	-13.6924%
3%	12.30%	85.07%	-14.9263%
0	14.12%	85.88%	-14.1166%
18%	-13%	92.66%	-7.3400%
		85.95%	-14.05%

FY22			
Market Fall/ (-rise)	Withdrawals (Net of Inflows)	Total	Effect/Growth
-10%	-20%	132.00%	32.00%
0	-15%	115.00%	15.00%
0	-12.50%	112.50%	12.50%
-10%	-25%	137.50%	37.50%
		122.40%	22.40%

		Cost Rationalization Indicated by the Management	
Line Item	FY20	FY21E	FY22 E
Staff Cost	214.7	199.67	209.65

Equity MF Flows		
Month	Amount	
April '19	4230	
May '19	4968	
June '19	7585	
July '19	8092	
August '19	9090	
Sept. '19	6489	
October '19	6015	
Nov '19	933	
December '1	4432	
January '20	7548	
Feb. '20	10730	
March '20	11485	
Average	6799.75	
Est for '21	53038.05	Assuming 35% Fall due to Covid
Market Sha	15.57%	Avg.
Inflows	82.58	5.25%