

RELIANCE MUTUAL FUND LISTING

The MF industry is likely to sustain a 25%-plus growth for many years

First Fund IPO Offers New Way to Play Equities

ET ANALYSIS

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Mumbai: Investors are excited about the prospects of owning an asset management business as Reliance Mutual Fund readies to enter the capital markets after the board approval for a public issue on Wednesday evening.

Reliance Mutual is the third largest player in the 40-member Indian mutual fund industry and manages assets worth ₹3,58,059 crore. Of this, its mutual fund assets account for ₹2,10,891 crore with 68 lakh investors, while managed accounts (EPFO, CMPFO and PFRDA) make up ₹1,45,263 crore. During the year ended March 31, 2017, AUM increased 25% to ₹3,58,059 crore and profit before tax rose 16% to touch ₹581 crore.

While there have been deals done through mergers and acquisitions, and some strategic investors picking up a stake in the company, most of the deals have been done as a multiple of percentage of assets owned.

However, analysts believe that in addition to asset size, there are many other qualitative factors investors would have to take into consideration.

The growth prospects of the mutual fund industry are high as less than 4% of the Indian population owns mutual funds and the GDP to asset under management (AUM) ratio in India is a mere 12%, compared to USA's 104% and Brazil's 57%.

"Investors will have to look at a combination of factors such as asset mix, brand and profitability of the fund house, number of years of existence, distribution network, future growth potential, while valuing an asset man-

agement company," says Alok Ranjan, head of research at Way2Wealth.

Equity assets are more sticky and a higher proportion of these accounts in a company leads to a higher valuation.

Adding a scarcity premium, since it is the first issue, Ranjan believes the fund house could be valued anywhere between ₹14,000 and ₹16,000 crore.

The Indian mutual fund industry is still at a nascent stage of growth. Demonetisation has accelerated the shift from physical savings to financial savings and



**Reliance Cap Likely to List
General Insurance Unit**

►► ON SMART INVESTING

assets under management of the industry growing 15% from ₹16.90 lakh crore in October 2016 to ₹19.39 lakh crore in April 2017.

"The industry can easily sustain a 25%-plus growth for many years," says Amit Kumar, Partner, Boston Consulting Group. "This is one industry which can keep growing cash flows without requiring incremental growth capital," says Gautam Sinha Roy, fund manager, Motilal Oswal Asset Management. He believes companies that manage money well and serve customers in the right way, could see their profitability grow by 20%.

Reliance Capital's Likely to List General Insurance Unit, Now

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Mumbai: Reliance Capital is likely to list unit Reliance General Insurance, three people in the know of the matter said. The company could be valued at more than ₹5,000 crore.

"Reliance Capital is looking to list its general insurance business and an announcement regarding the same will be made in the coming days," one of them said.

The company did not respond until press time on Thursday to an email seeking comment.

Reliance General Insurance is a fully-owned subsidiary of Reliance Capital, the financial services holding company of the Anil Ambani-led Reliance Group. In the past, Reliance Capital was in talks to sell a stake in the unit to foreign insurers.

Reliance General does business through 129 branches and over 24,500 agents and had a market share of 3.09%, in terms of gross premium for the year ended March 31. It had a solvency margin of 1.58 against the required 1.50 as of December 31, 2016.

The company reported a profit of ₹130 crore before tax for the last fi-



ancial year, after providing for incurred, but not reported, reserves. Before the provisioning as proposed by an external panel of actuaries, the profit before tax was ₹302 crore, the company said in a statement.

Earlier this week, ICICI Lombard had announced plans to list the company, which was valued at ₹20,300 crore in a recent deal whereby Canada's Fairfax Financial Holdings sold a 12.18% stake in the company.

Anil Ambani's Reliance Group is in the process of restructuring its businesses. Last year, it decided to hive off health insurance from general insurance. The home finance business, too, will be listed. On Wednesday, the company announced its plans to list mutual fund business.

The general insurance company saw 40% growth in gross written premium to ₹3,935 crore during the last fiscal. The general insurance industry has grown 32% last financial year to ₹1.27 lakh crore. The company has a net worth of ₹1,257 crore at the end of March 31, 2017.

Several other insurance companies are also looking to list. There are talks of Star Health Insurance working on an IPO. New India Assurance and General Insurance Corporation have started the process by appointing investment bankers. Last year, ICICI Prudential Life became the first insurance company to be listed in India.

"All insurance companies that came in the first phase have matured business model and are going for IPOs," said Abizer Diwanji, head of financial services at EY. "The reasons for IPO are either monetisation or dilution."