



Asset Management in India: Revenue, Cost, and Profitability

India's asset management industry has enjoyed strong asset growth over the past few years, but has also had to deal with runaway costs. Has this asset growth translated to higher profits, and how profitable are asset managers operating in India?

Drawing on Cerulli's previous studies of the Indian asset management industry, this focused report puts the spotlight on asset manager margin and profitability.



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INSIDE LOOK:

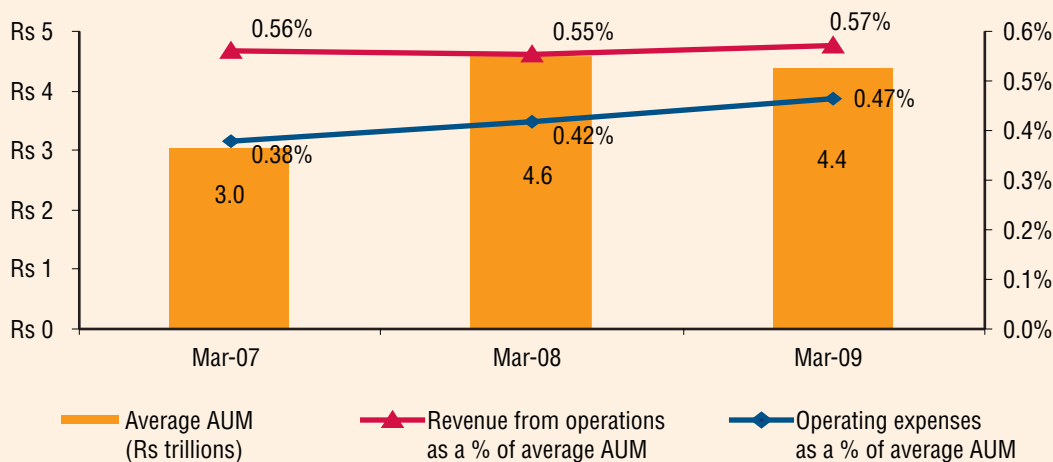
Key Findings:

- The Indian mutual fund industry is recovering slowly, and continues to be dominated by institutional investors.
- Indian private sector managers have outperformed their foreign counterparts in assets, revenues, and profitability.
- Average asset manager revenues from operations rose to 57.1 bps and operating expenses rose to 46.6 bps in FY09, the highest in three years.
- There are indications that many global and domestic firms are set to join the 36 mutual fund managers currently operating in India.

Exclusive data in this report:

- Asset manager revenue and operating expenses
- Operating profits and margins
- Mutual fund assets under management and projections through 2013
- Proprietary survey findings from asset managers

Sample Report Exhibit: Operating Revenue and Expenses as a Percentage of Assets Under Management, March 2007–March 2009



Source: Cerulli Associates

This report helps asset managers and distributors:

- Assess which Indian market entry strategies are most successful
- Analyze the cost of doing business in India
- Understand expected revenue
- Understand the changing distribution landscape in India
- Evaluate the implications of banning of front-end loads

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Table of contents, exhibit list, user examples, and sample pages are attached

REPORT ROADMAP

1. Overview
2. Mutual Fund Indicators
3. Revenue and Cost Analysis
4. SEBI's Directive on Front-end Fees
5. Future of India's Asset Management Industry



Asset Management in India: Revenue, Cost, and Profitability

USER SCENARIOS:

The following are examples of how this report can be applied to business planning and strategic decision-making:

Scenario 1: A U.S.-based asset management firm is interested in the Indian marketplace. Before they make any serious commitments of senior management time, they need an assessment of the size of the market, product opportunities, and primary buyers of mutual funds in India. **Cerulli Report: Asset Management in India: Revenue, Cost, and Profitability** provides insight into the following questions:

- How big is India's mutual fund marketplace and how fast its expected to grow? (Exhibits 5, 28)
- How volatile is the market in India, and what is the asset allocation for mutual funds? (Exhibits 6, 8, 15, 16)
- What is the source of new assets? (Exhibits 9-11, 17)

Scenario 2: A large multinational asset management firm has had a joint venture operation in India for the past two years. As part of a strategic review of all international operations, the global head of strategic planning needs to undertake a benchmarking exercise. **Cerulli Report: Asset Management in India: Revenue, Cost, and Profitability** provides the following data metrics and Cerulli assessment:

- A comparative and competitive assessment of the joint venture in India by revenue, expenses, profits and margins. (Exhibit 54-71)
- A comparative and competitive assessment of all foreign-owned asset management firms operating in India by revenue, expenses, profits and margins. (Exhibit 45-53)
- Updates on the latest regulatory changes that are likely to impact the future role of asset managers operating in India. (Exhibit 86)

Scenario 3: A large European mutual fund platform distributor has been approached by an Indian national distribution company interested in establishing a joint venture. **Cerulli Report: Asset Management in India: Revenue, Cost, and Profitability 2009** provides the following insights into the distribution landscape of the Indian mutual fund marketplace:

- A detailed understanding of the key distribution channels in the Indian asset management marketplace. (Exhibits 7, 19, 21, 22)
- An examination of the distribution charges in India. (Exhibit 20)
- An assessment of the impact of SEBI's directive on front-end fees. (Chapter 4)

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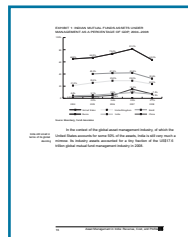
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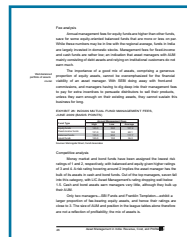
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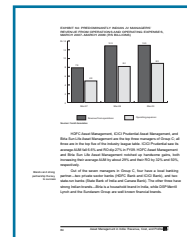
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METHODOLOGY

Asset Management in India: Revenue, Cost, and Profitability is a special report that examines the revenue and cost trends in a marketplace that has seen remarkable growth rates from 2004 to 2007. This report follows our 2008 report, *The Cerulli Quantitative Update: Asset Management Opportunities in India 2008*, and builds on Cerulli Associates' ongoing analyses of fund management industries throughout the Asia-Pacific region. Our firm believes that, in the long term, Asia will most likely emerge as the largest asset management region in the world outside of the United States.

India's asset management industry has enjoyed strong asset growth over the past few years, but has also grappled with rampant cost rises. Has this asset growth translated to higher profits? Are India-based asset managers profitable? With 19 foreign/joint venture firms and 16 local firms operating in the Indian market, Cerulli Associates puts revenue and cost trends under the microscope at a point in time when growth at any cost is no longer an option. Drawing on Cerulli's previous studies of the Indian asset management industry, this focused report puts the spotlight on foreign asset manager margins and profitability.

Cerulli has sought to sort through the anecdotes and has assembled more actionable data in two forms:

- *Consultative qualitative information* designed to help readers of this report understand the peculiarities of the Indian marketplace and the opportunities it presents. This also includes explanations that highlight regulations, key developments, and industry trends in India.
- *Granular quantitative information* that provides a clear picture of the cost structures and revenues prevalent in the industry. Financial statements of asset managers were examined in detail to provide an assessment of their performances and the reasons for the same.

In 2005, Cerulli became one of the first international research firms to conduct proprietary surveys of Indian asset management firms, and our coverage has increased every year. Cerulli is one of the few research houses anywhere in the world to have conducted proprietary surveys of asset

managers, banks, and insurance companies in all of the main asset management markets in Asia ex-Japan.

Information in this report was obtained from public and non-confidential sources, as well as proprietary surveys. Cerulli believes that the data herein is reliable and has made every reasonable effort to verify statistics presented; however, Cerulli does not guarantee its accuracy or completeness. All data in this report is calculated and presented in local currency or U.S. dollars, which allows for comparative analysis. Exchange rates from June 2009 have been used.

Cerulli has benefited from the co-operation of a number of regulators and trade industry associations in the region, and is especially grateful for assistance from the following:

- Association of Mutual Funds in India, Mumbai
- Reserve Bank of India
- Securities and Exchange Board of India
- Pension Fund Regulatory and Development Authority, India
- Insurance Regulatory and Development Authority, India

REPORT SCOPE

Beneficiaries of this Study

The primary beneficiaries of this research are *global asset management firms* requiring high-quality information on India's asset management marketplace. In addition, this research will prove to be most useful for those international or local firms already operating in India.

Finally, data and the supporting analyses in this report will also benefit distribution firms and banks in understanding the changes that will develop in the distribution landscape.

Report Roadmap

Asset Management in India: Revenue, Cost, and Profitability has five main sections:

- **Overview** sets the stage for the rest of the report and summarizes the background of the Indian financial market and the asset management industry.
- Chapter 2 on **Mutual Fund Indicators** examines the Indian mutual fund industry in terms of market sizing, asset growth, net flows, and distribution and asset manager analyses.
- Chapter 3, which looks at **Revenue and Cost Analysis**, is the heart of the report, and minutely analyzes the financials of 22 asset managers—both local and foreign, and draws conclusions based on this in-depth exercise.
- **SEBI's Directive on Front-End Fees** is covered in chapter 4, and looks at the implications of the market regulator the Securities and Exchange Board of India's (SEBI's) ruling on the ban of front-end fees for all mutual funds effective August this year.
- Finally, chapter 5 examines **The Future of India's Asset Management Industry** and highlights key trends that will play out in the market in the future.

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SAMPLE SECTION
from
THE CERULLI REPORT

ASSET MANAGEMENT IN INDIA: REVENUE, COST AND PROFITABILITY

EXHIBIT 11: INDIAN DEBT (FIXED INCOME)-ORIENTED ASSETS UNDER MANAGEMENT BY INVESTOR TYPE, MARCH 2009

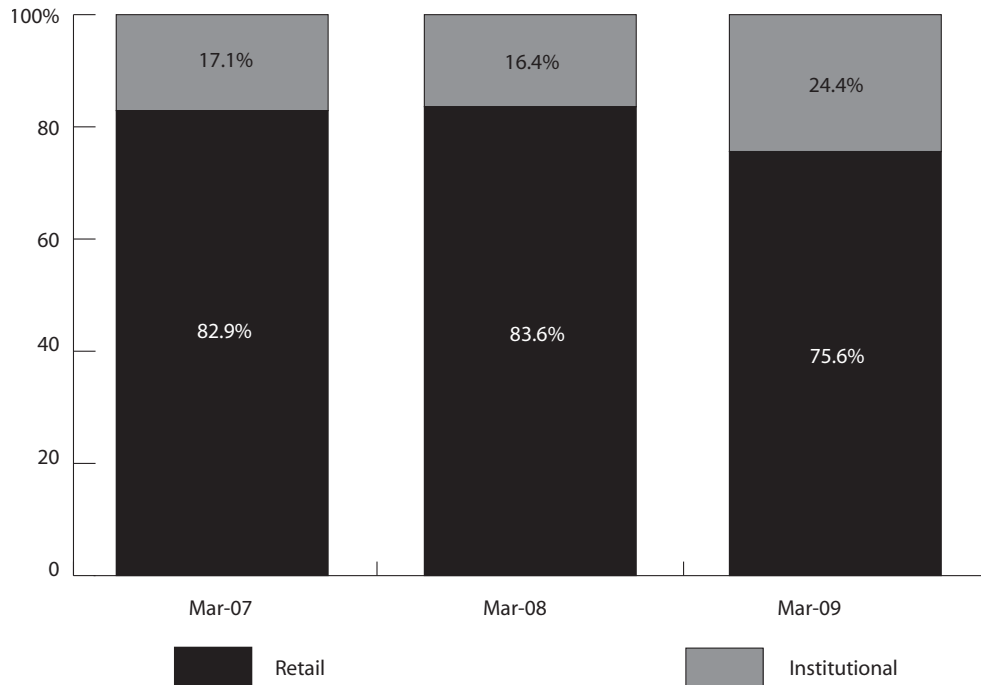
Investor Type	Percentage of AUM
Corporates	64.8%
Banks/FIs	1.4%
FIIIs	1.2%
HNWIs	28.6%
Retail	4.1%

Sources: Association of Mutual Funds in India, Cerulli Associates

Equities continue to generate asset management revenue

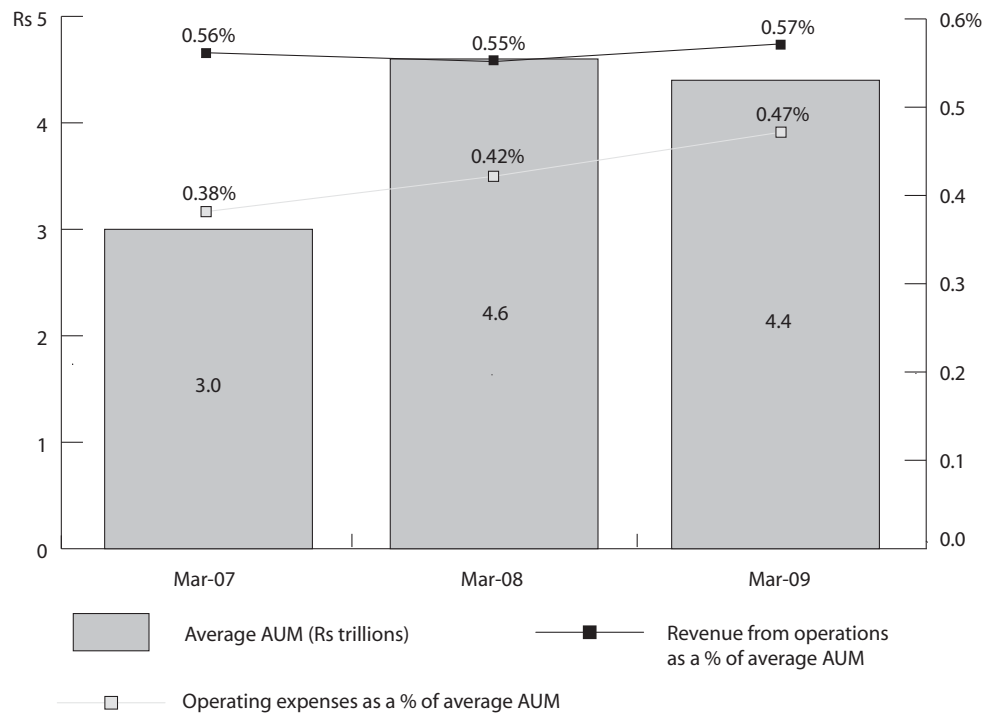
As is well-known, it is equity assets that provide asset managers the bulk of their revenue, not bond and money market assets. According to Cerulli’s proprietary asset manager survey conducted in 2009, asset managers averred that more than three quarters of their revenues come from their retail customer base. Their equity assets contribute to more than 60% of their revenues.

EXHIBIT 12: INDIAN MUTUAL FUND REVENUE BY INVESTOR TYPE, MARCH 2007–MARCH 2009



Sources: Cerulli Associates

EXHIBIT 37: REVENUE FROM OPERATIONS AND OPERATING EXPENSES AS A PERCENTAGE OF AVERAGE ASSETS UNDER MANAGEMENT, MARCH 2007–MARCH 2009



Sources: Cerulli Associates

Consolidated Operating Profits and Operating Margins results

The global average for operating profits was 11.5 bps in 2008, as per BCG estimates. The global average for operating margins over the past five years has ranged between 27% and 40%.

The overall operating profits as a percentage of average AUM for the 22 managers in our sample have been steadily falling over the past three years. This has gradually declined from 18.4bps in FY07 to 13.8 bps in FY08 and further down to 10.5 bps in FY09.

Consolidated operating margins, calculated as Operating Profits as a percentage of RO, is 18.4% in FY09, down from 24.9% in FY08 and 32.7% in FY07. As the balance sheets of asset managers have expanded, operating margins have fallen.

Operating margins fell as balance sheet assets rose