

Listing of Asset Management Companies (AMCs) – Benefits and Challenges



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The concept of asset management or mutual funds started in India with the creation of the Unit Trust of India in 1963. The objective was to mobilise the savings of the small investors to invest into the capital markets, whereby the benefit of the growth of the capital market is passed on to the investor.

In India, Mutual Funds are regulated by the Securities & Exchange Board of

India (SEBI) under the SEBI MF Regulations. The SEBI regulations have stipulated a three tiered structure with Sponsor(s) as promoter, Trustees and Asset Management Company for carrying out different functions of a mutual fund. The Sponsors create a Trust through Trust Deed in the favour of Trustees and create an Asset Management Company under The Companies Act, 1956. Trustees then enter in an agreement with the Asset Management Company for fund management.

In India, given the growth of the capital markets and the propensity of the Indian household to save large part of their earning, a number of Banks and Industrial Houses have launched their AMCs. Similarly, International AMCs have also set up their units. As the number of AMCs increased, the competition between the AMCs to increase their Assets Under Management (AUM) has also increased manifold, leading to turf wars. Some of the sponsors tacitly supported their AMC through captive distribution, as well as funding, during times of stress. This has had a negative impact on the healthy growth of the Asset Management Industry.

However, around the world, many of the large Asset Management Companies function as independent Asset Managers and are not linked to either a Bank or a Corporate. In this manner, they can remain distinct and important pillars of the financial system, as they ensure unbiased corporate governance and resource allocation. This independence of functioning, allows these AMCs to invest their funds into assets which are best positioned to give the optimal returns to the investors. In India, as policy makers have debated on governance of Banks, perhaps there is a need for debate on the ownership and governance of asset managers and for resource allocation to be solely driven by professional decisions. This will help in the growth of a healthy financial system where we

will have an independent asset management industry, becoming a significant part of the capital market, thus strengthening and expanding it.

In India, most of the Banks, Financial Holding companies and Financial Institutions are listed. In view of the importance of Asset Management Companies and the significant role that they play in the financial sector, getting retail participation in the ownership of AMCs is an important matter which merits due consideration.

Few of these Benefits of listing of AMCs are highlighted below:

- 1. Transparency of Price** – Since, the stock prices of the AMC will get listed on a real time basis and reflect the market value of the company, it will provide a true picture of the health of the company to the investor. The prices move according to the demand and supply in the market and thus provide an independent guide on the true worth of the company.
- 2. Provides Exit to the Early Stage Investor** – The early investor who has taken a number of risks while incubating and developing the AMC, gets an opportunity to exit from the company at market price.
- 3. Liquidity for ESOP Holders** - Listing also provides an opportunity for the employees to liquidate their holdings. This allows AMC to use ESOP as a strong employee retention tool and incentivise the employee to contribute to the growth of the company.
- 4. Helps Raise Funds** – Listing provides an opportunity to the AMC to raise capital from the market to fund their projects and to take up business expansion either through organic growth or in-organic growth opportunities. Once listed, the company can raise further funds through a number of options like Rights, Preferential issues, Institutional placements, ADRs, GDRs, etc.
- 5. Market Supervision on Companies** – A listed AMC is subject to higher supervision, through the Market Regulators, Stock Exchanges as well as Institutional Investors. This will prevent the companies from using unfair means to benefit themselves. Regulators and Exchanges also insist on timely disclosure of information like Bonus and Dividends payments. All this builds confidence in the small investor regarding the company.
- 6. High Return on Equity** - Once the AMC attains a critical size, it has very limited capital requirement except for inorganic growth or in order to enter international markets. As a result, the Return on Equity (RoE) generated is quite high and can return significant cash to the investor.

ROE% of Top Listed Global Asset Management Cos. (CY 2013) are :

Blackrock	12%
Franklin Resources	22%
Invesco	11%
Legg Mason	6%
T Rowe Price	24%
AMG	16%
Alliance Bernstein	10%
Scroders PLC	16%
Federated	27%
Aberdeen	23%

Challenges for Listing

1. **Depth of the Market** – A listed AMC is likely to be a small to Mid cap player, where there could be limited investor interest. This can lead to stagnation of the stock prices.
2. **Limited Share Offering by the AMCs** – If the number of shares offered by the AMC are limited, then liquidity may be an issue in the market. Sponsors will have to ensure to offload enough shares to create liquidity.

3. **Limited breadth of Product** – Many AMCs have only mutual funds as the main product offering (except for a few AMCs like UTI AMC which has Mutual Funds and PMS as Divisions and other Subsidiary companies like International business, Alternate Assets, Retirement solutions, Venture Capital). This links the fortune of the company only to one line of business. Therefore, AMCs planning to list need to look at additional lines of business to de-risk themselves.
4. **Limited Valuation Benchmarks** – As none of the AMCs in India are listed, an AMC wanting to list may find it difficult to get a proper valuation benchmark.
5. **Creating awareness** – Only a few AMCs with well recognised brands are known across the length and breadth of the Country and have immediate brand recall. Therefore, AMCs before opting for listing will have to develop their brand in the smaller markets to get good response from the retail investors.

In conclusion, we can say that listing of Asset Management Companies, on the exchanges provide a larger number of benefits than challenges. It will lead to good corporate governance practices, better allocation of resources and unbiased distribution. Thus, it will be advantageous to the Company, Shareholders, Investors and to the general public.