

Banking Sector Outlook & Reliance Banking Fund

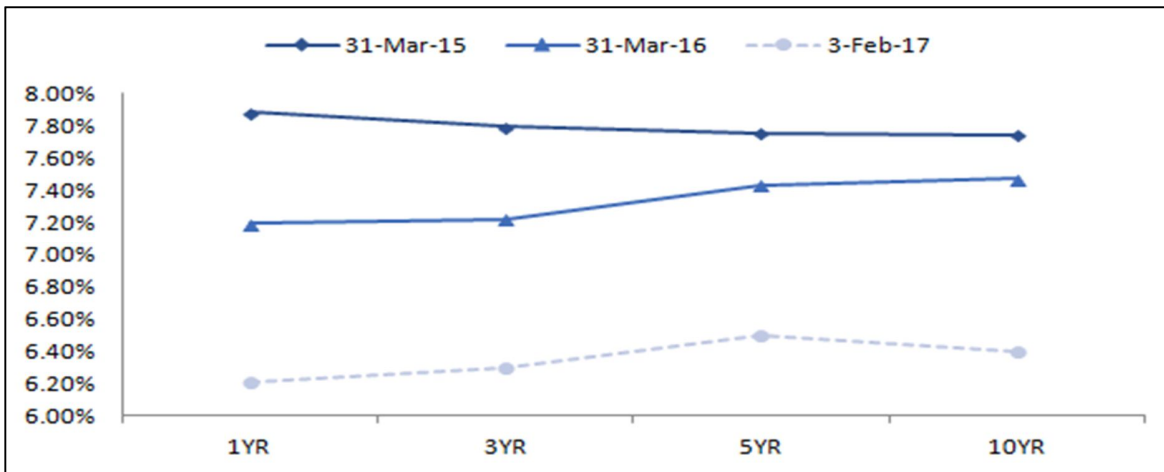
Banking sector – Story so far

- Over the last 1 year, Bank Nifty has outperformed Nifty 50



Note: Past Performance may or may not be sustained in future. Source: Google Finance

- Interest rates have fallen significantly



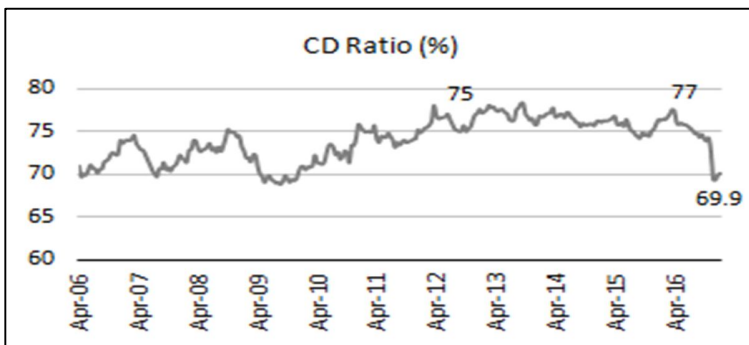
Note: Past Performance may or may not be sustained in future. In the above graph, Benchmark G-Sec Yields for respective tenures has been considered. Source: Bloomberg

- **Key Banking Reforms thus far:**
 - **Insolvency and Bankruptcy Code** – This will provide with single unified law, subsumes multiple provisions and bestows voting rights on all types of lenders thus enabling faster recovery process.

- **Sustainable Structuring of Stressed Assets** is largely a superset of the strategic debt restructuring scheme (SDR) – conversion of ~50% debt getting sustainable and remaining converted to convertible preference shares/debentures

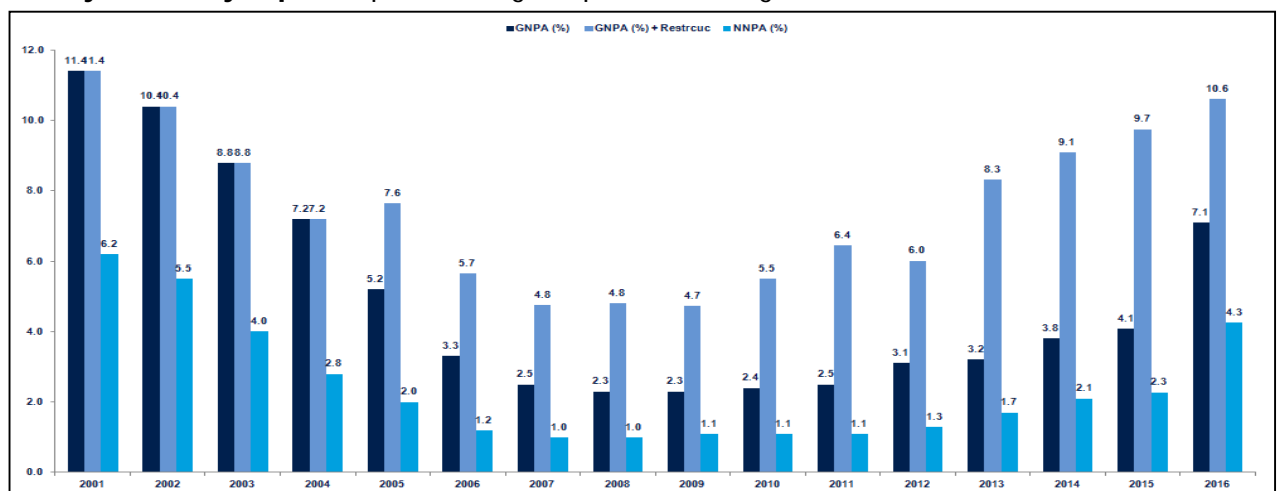
Going forward – Positive Tailwinds

- **Fiscal Deficit target at 3.2% of GDP** v/s 3.5% in FY17– interest rates will continue to remain benign in the medium term - Positive for asset quality and credit growth outlook
- **Currently, Credit Deposit (CD) ratio at all time lows** – If credit growth revives (currently Non-food credit growth is at 5.2%), banks can benefit from significant operating leverage



Source: RBI

- **Demonetization benefits:**
 - Banks have got windfall cheap deposits
 - Banks being the largest distributor of financial products and services – benefits significantly with informal money getting into the formal channel
- **NPA cycle already at peak** – provisioning will peak with a lag



Source: RBI

- **Resolutions underway, with leveraged players in de-leveraging mode:**
 - Jaypee Group – Ultratech – sale of non-core assets (Economic Times, July' 16)
 - Essar Oil – Rosneft deal - sale of business (Economic Times, Dec' 16)
 - HCC – restructuring of debt under S4A scheme (BSE, Dec' 16)
 - JSPL – sale of assets (Business Standard, Feb'17)
 - Essar Steel – deep restructuring of debt and bringing in external investors (Mint, Feb'17)

Investment Rationale:

- **Back Bone** of any economy - Sector is Beneficiary & Catalyst for any economy.
- **Improvement in Key variables which influences the Sector** - **Fiscal deficit** is improving, **CAD** has improved significantly, **Strong Balance of Payments & currency** well in control (gradual depreciation).
- **Lower Interest rate cycle** - The RBI eased the policy rates by 175 bps from the peak since Jan 2015.
- **RBI Support** - The Central Bank has been extremely supportive of the sector on several fronts (providing adequate liquidity, reducing volatility in currency, clear framework towards inflation / interest rates, recognition of asset quality problems, etc)
- **Loan impairments will reduce** - Cyclical recovery will help as loan impairments would reduce going forward led by better regulatory framework led by Reserve Bank of India, better policy framework by Government of India (like coal auctions, gas pooling, remove bottlenecks for existing projects, de-leveraging, against corporate cronyism, UID, Pension Schemes, Predictable Oil subsidy mechanism).
- **Participation in Business** - Strong Franchise on both asset and liability side, Risk if well managed then the Banking Business is available at reasonable valuations.

Reliance Banking Fund - Strategy

- Reliance Banking fund offers an efficient play on the Indian Financial space with a well diversified portfolio across all key segments like - Private Banks (59%), PSU Banks (12%), NBFC (11%), Old Generation Pvt. Banks (5), Pure Insurance Plays (5%), Housing Finance Cos (3%)
- Extremely focused on Assessment of risk by Managements. Higher allocations to investments where the asset quality risk is low (cannot completely avoid asset quality risk).
- Continuity of Management, Strong Franchise, Current Account- Savings Account (CASA) (%), Assessment of risk, Fee based income, Control on costs and focus on ROA, ROE and Growth important investment parameters.
- Focused on generating superior risk adjusted return.
- Risk frame work - Fairly diversified portfolio, have an eye on overall retail consumption exposure in the portfolio.

Top 10 Holdings (Jan 31, 2017)

Top 10 Holdings	% Wt
HDFC Bank Limited	24.76
ICICI Bank Limited	13.89
YES Bank Limited	9.61
State Bank of India	8.58
IndusInd Bank Limited	5.32
Reliance Capital Limited	4.79
Axis Bank Limited	3.60
The Federal Bank Limited	3.10
Bank of Baroda	2.48
Power Finance Corporation Limited	2.18

Note: For complete portfolio, please refer website www.reliancemutual.com

Common Source: MFI Explorer, Bloomberg, RMF Internal Research

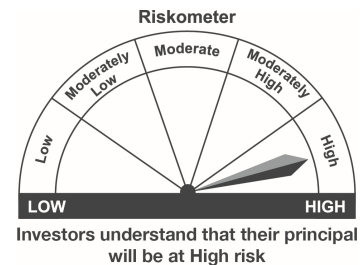
Data as on Jan 31, 2017

PRODUCT LABEL

Reliance Banking Fund (An open ended Banking Sector Scheme) is suitable for investors who are seeking*:

- long term capital growth
- investment in equity and equity related securities of companies in banking sector and companies engaged in allied activities related to banking sector

*Investors should consult their financial advisors if in doubt about whether the product is suitable for them.



Scheme Specific Risk Factors: Trading volumes and settlement periods may restrict liquidity in equity and debt investments. Investment in Debt is subject to price, credit, and interest rate risk. The NAV of the Scheme may be affected, inter alia, by changes in the market conditions, interest rates, trading volumes, settlement periods and transfer procedures. The NAV may also be subjected to risk associated with investment in derivatives, foreign securities or script lending as may be permissible by the Scheme Information Document. For further details, please refer Scheme Information Document (SID).

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The logo for Reliance Mutual Fund, featuring the word "RELIANCE" in white capital letters on a dark blue rectangular background. A small red triangle is positioned above the letter "I".

MUTUAL
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