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Union Asset Management's Lofty Goals in India's Growing Wealth Management Market

G Pradeepkumar, CEO of Union Asset Management Company (UAMC), is a man with a reinvigorated mission to boost the firm into the top echelons of fund management houses in India. UAMC in 2018 enjoyed the arrival of Japanese giant Dai-ichi Life as joint-venture partner alongside state-owned Union Bank of India, replacing the former Belgian bank partner, KBC Participations Renta. This has inspired a new chapter at UAMC, one in which Pradeepkumar plans to boost Assets Under Management (AUM) from a little over USD600 million equivalent to more than USD7 billion in the next five years. He met with Hubbis in Mumbai recently to explain why and how he aims to achieve this goal.

PRADEEPKUMAR BEGINS BY EXPLAINING THAT UAMC is co-sponsored by Union Bank of India, one of the large state-controlled Indian banks, and Dai-ichi Life of Japan. Dai-ichi Life and Union Bank also have a joint venture on the insurance side, Star Union Dai-ichi. UAMC manages the assets of Union Mutual Fund (UMF), which has a range of products across asset classes, both equity and fixed income, through a variety of open-ended, closed-end, capital protection, balanced and other types of funds. UAMC is at the smaller end, with a little over USD600 million of AUM.

Untapped potential

Pradeepkumar notes that the market has enormous untapped potential. Mutual fund assets in India as a percentage of bank deposits have risen to 19% today, five years back the figure used to be 12%, he reports, but that figure is still far below the developed markets such as United States, where the ratio is whopping 183%. Also mutual funds as a percentage of GDP are similarly low, he estimates. For instance, India ranks seventh in terms of size of its GDP behind US, China, Japan, Germany, UK & France. Mutual fund AUM to GDP ratio for India stands at a meagre 12% against average of 60% for the top six countries mentioned above. This leaves enormous scope for the industry to grow.

"Yes, we offer a number of advantages starting with the extremely robust regulatory regime that we have in India," Pradeepkumar comments. "Mutual funds are cheap to buy into, their expense ratios are capped, there is no upfront fee, no entry load. Moreover, they are very transparent, and NAVs are available daily, all the open-ended funds provide daily liquidity, while closed-end funds are becoming less popular after the regulatory changes."

Expanding the reach

Pradeepkumar sees the core challenges as distribution across the vast and populous country, and appropriate advice to make sure the right products are offered to each investor. "As an industry, we must really put our force behind this, to reach out, spread the word and make sure the right products are being sold to the investors."

Digital is a growing a growing channel although Pradeepkumar also believes the power of personalised advice will still be required given the complexity of investors' needs and the complexity of the funds on offer, and the range, with more than 1900 in the market. "Digital is more for the execution side," as we see it," he reports. "We have advanced digital channel with Union Bank ATMs offering the ability to transact in our funds, including subscription, redemption, switches etc. And of course, we offer online and mobile app access, which is the most popular channel."

Key Priorities

Pradeepkumar closes the discussion by focusing on his core objectives for the coming several years.

"My first mission is to shift from the reliance on Union Bank for distribution and balance that out roughly 50-50 with IFA distribution within two years," Pradeepkumar reports.

Secondly, the firm wants to launch new avenues of revenue generation. For example, Pradeepkumar reports that UAMC is at the final stages of starting an offshore fund with the support of Dai-ichi. "With the kind of investment process that we have put in place this will be appreciated more by sophisticated international investors, and we are certainly targeting the offshore fund business. And other key areas for expansion of the product line include the pension fund business and alternative investment trusts. The overall mission is to expand into other related businesses."

His third and equally important priority is, armed with these two expansionary moves, to build AUM to roughly USD7 billion equivalent within five years, which means a more than tenfold rise from the current roughly USD600 million figure. "But it is not simply seeking scale for the sake of scale that motivates us," he adds, "we are bottom-line driven, our goal is to become more profitable in a sustainable way."

G PRADEEPKUMAR
Union Asset Management Company

New missions, new avenues

Currently, Pradeepkumar estimates that around 75% of UAMC's distribution is through Union Bank but that is changing. "Dai-ichi actually replaced a European shareholder, KBC Bank from Belgium," he reports, "and we then switched away from reliance on our own bank distribution and for the past 18 months or so we have been actively engaging with the IFA community in particular, with a considerable part of our management time and our marketing efforts spent engaging with the IFAs, educating them, training them, and generally boosting our relationships and business with them. Moreover, I can observe that the quality of sales process of IFAs across India has already improved significantly and is certainly on the rise."

UAMC has also been quite successful in tapping the smaller cities and towns in India. Association of Mutual Funds in India (AMFI) has classified top 30 cities by AUM, these are known as T30 cities and the rest of the cities are categorised as B30. For the Indian mutual fund industry as a whole, about 15% of the assets come from

Getting Personal

Pradeepkumar hails from Palakkad in the state of Kerala in southern India and completed his undergraduate studies in engineering there at Calicut University, before completing his postgraduate in management studies from the Indian Institute of Management in Ahmedabad, or IIM-Ahmedabad as it is better known.

He moved straight into investment management, joining the erstwhile Unit Trust of India in 1991 as one of the first set of management trainees that UTI hired from the management campus. "I was later lucky enough to be chosen to actually set up and head UTI's first overseas office, the foreign branch in London, where I was based for seven years before returning home in 2004 and was then on the fast track there, before joining IDFC, which used originally to stand for the Infrastructure Development Finance Company."

That business subsequently acquired Standard Chartered Mutual Fund and IDFC Asset Management company was formed. "I enjoyed an exciting and interesting time there and rapid expansion before being hired as CEO by Union Bank and the Belgian KBC Group who wanted to set up what we have today, that was in 2010. We built up a team, got the license and in 2011 we launched our first fund. We managed to make a small profit last year, despite tighter fees on funds and the outlook as I explained is positive."

Pradeepkumar also sits on the board of the AMFI, and was formerly deputy-chairman of AMFI.

Married with a son who recently finished his undergraduate studies at the University of Illinois, studying Applied Physics and a daughter who just completed her tenth standard IGCSE exams in Mumbai.

Leisure is at home either reading or watching an eclectic variety of local and foreign movies and TV series or travelling with family whenever time permits. "Our next trip coming up very soon,"he reports, "is to Denmark and Norway, and here in India we always enjoy Goa, as well as Kerala and of course a favourite is returning to London and driving around the UK, we love it there, the people and the countryside."

the B30 cities, while for UAMC the ratio is as high as 40%. This is a clear indication of the opportunities that the smaller cities and towns present.

Robust and rigorous

UAMC last year hired a new CIO, Vinay Paharia, who previously worked at Invesco Mutual Fund and who came with a successful track record, "Vinay has quickly incorporated a very robust investment process, and it is that we emphasise most strongly, as in all honesty, we cannot promise what the returns from our funds will be, or other factors, but we can promise that our process is sophisticated, well-defined and robust. Our analysis involves careful evaluation through a variety of filters, all the way from financial metrics to management, governance, and so forth. This means that we include today about 150 companies spread across small, medium and large-cap stocks, from which all the funds can select, with each different portfolio construction having its own rigorously defined strategy."

He explains that this is a core message UAMC is delivering to its IFA relationships around India. "We have had absolutely no deviation at all since this robust process was put in place," he reports, "and it is producing results, and we believe we will move into the top-performing category consistently in the years ahead."

Rationalisation in the market

Pradeepkumar notes that the number of NFOs - New Fund Offerings - has dropped due to SEBI's interventions, as the regulator had recognised that many houses were offering funds that were essentially similar but NFOs were playing on the predilection for Indian investors to keep buying something new. "SEBI directives essentially forced mutual funds to consolidate similar schemes, they stipulated that there would be 36 different categories and only one fund per house permitted in each of those. That has actually brought about a more level playing field, greater sanity and clarity to the market."

Nevertheless, India still has more than 1900 funds spread across roughly 40 asset management companies. "This is still a very large number," Pradeepkumar observes, "so we recommend investors sit with advisers and seek proper financial planning."

Goals to follow

He adds further insight on the planning side, noting that goals-based planning has become very popular in India in recent years. "It was always the case that investors would disappear in more difficult markets," Pradeepkumar explains, "but with the advent of the SIPs, which are systematic investment plans, investors are increasingly taking a longer-term perspective and as this has become almost like a kind of compulsory savings plan, with payments going in each month for example, people are not running away during volatility and actually this allows them to average their entry prices over time, so effectively they buy more units when prices are down and less when they are up. It works."

He estimates that roughly USD1.2 billion equivalent enters the market via SIPs each month, providing some additional stability. "If you were to remove that SIP part, for example, in the last three months the market has seen a negative flow, but adding in the SIP flows resulted in overall positive flows."

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